

São Paulo & Rio de Janeiro



■ AFTER THE ECONOMICALLY DIFFICULT MID-1990s, BRAZIL STAGED A SIGNIFICANT RECOVERY IN 1999 AND ESPECIALLY 2000, WITH GDP GROWING SOME 3%, INDUSTRIAL AND AGRICULTURAL OUTPUT RISING, AND UNEMPLOYMENT DROPPING TO 6.4%. THIS TREND IS SET TO CONTINUE AS PRESIDENT CARDOSO'S MASSIVE PRIVATIZATION PLAN BRINGS STABILITY TO THE NATION'S FINANCES

Brazil's ECONOMY STEPS UP A GEAR

BRAZIL HAS five times the population, three times the GDP and three times the land area of any other country in South America. It exercises such a controlling economic role that when Brazil experiences growth, so does the economic free trade alliance of the Southern Cone, Mercosur, as well as the continent as a whole.

The Brazilian economy has stabilized since January 1999's devaluation of the real against the U.S. dollar. The country ended 1999 with a 1% growth and the optimistic forecasts for the year 2000 were borne out by rising agricultural and industrial output, with an overall economic growth rate of 3%, and signs of further growth for 2001.

Unemployment dropped to 6.4% last year with inflation stable at 3-4%. The return of confidence in investment projects is sweeping through the country in a manner that is peculiar to the boom and bust personality of the Brazilian economy.



Having survived the Asian crisis of the late 90s Latin America is currently in an optimistic frame of mind, despite the slowdown of global growth rates.

Economic growth in the world's industrialized countries is now forecast at around 2% for 2001 in the wake of the September 11 terrorist bombings in the U.S. Add the recent Brazilian energy crisis to the equation, and the upbeat mood has been tempered by a tight monetary policy that reined in last year's growth. Further tightening of fiscal policy is likely following a US\$1.5 billion loan from the IMF granted in order to protect the real from the effects of the ailing Argentine economy and to prevent Brazil's huge debt burden (around 50% of the GDP) from growing further.

Brazil's massive privatization program promises to end the nation's history of boom and bust and bring a degree of stability to the country's finances. This should encourage even higher

levels of foreign investment than the US\$20 billion invested last year, largely in telecommunications and infrastructure projects. As a result, industrial growth rose 6% and manufacturing and communications showed growth of 7% and 8% respectively. Agriculture contracted as sugar production fell 26% due to dry weather. However, it is now experiencing an upsurge and re-

Brazil ranks 11th in terms of bilateral trade with the United States

establishing Brazil as the number one global sugar producer. Tourism continues to rise following the arrival of international hotel chains in the last decade.

With Brazil's economy in good shape and its foreign debt unlikely to destabilize growth, the government now faces growing pressure to redress the country's unequal income distribution and harsh urban social conditions. One third of its 170 million inhabitants still live be-

low the poverty line. Despite massive foreign investment, per capita income has barely grown in the last two decades.

The resurgence of the Workers Party and Brazilian President Fernando Cardoso's sanguine view of the year in prospect suggest that the country as a whole is keen to find ways of ensuring that some of the wealth from economic growth filters down to the general population.

Relations between Brazil and the U.S. are strong. The Bush administration is deeply committed to close relations with Latin America and U.S. companies are the top investors in the Brazilian economy. Add to this the fact that the trade balance between the two countries is evening out and Brazil is now one of the strongest commercial partners for the U.S., ranking 11th in terms of bilateral trade.

FACTS AND FIGURES

Population

▶ 172.9 million (2000 estimate).

Geography

▶ Located in eastern South America. Brazil's size, 3.3 million square miles, is slightly smaller than the United States.

Languages

▶ Portuguese (official), Spanish, English, French.

GDP

▶ US\$558.4 billion (2000 est.).

Major exports

▶ Manufactured products (57%), coffee (5%), iron ore (6%).

Major imports

▶ Raw materials/industrial (33%), capital goods (43%), petroleum and other fuels (10%), consumer goods (13%).

Currency

▶ 1 Real (R) = 100 centavos.

Exchange

▶ US\$1 = R 2.79 (September 2001).

Trading partners

▶ United States, Argentina, Japan, Germany, Italy.

Proven oil reserves

▶ 8.1 billion barrels (January 2001 estimate).

São Paulo

▶ São Paulo is Brazil's largest city and the second largest (by population) in the world, with a population of 18 million, second only to Tokyo, with about 20 million.

Rio de Janeiro

▶ Rio's population of over ten million inhabitants—six million in the city itself and four million in the surrounding areas—makes it the second largest city in Brazil.

SÃO PAULO THE DRIVING FORCE OF BRAZILIAN INDUSTRY

JUST AS Brazil keeps the Latin American economy in shape, so São Paulo, home to the region's most important stock exchange, is its beating heart. In fact, the former Secretary of Science, Technology and Economic Development for the State of São Paulo, José Anibal, says that São Paulo "can be considered the capital of Mercosur," the trading bloc of the Southern Cone countries. In terms of economic size, he adds, "the main country of Latin America is Brazil, the second is Mexico, and the third is not Argentina, it is São Paulo."

The wealth of the region is based on the production of sugar, coffee and textiles, however Brazil's recent privatization program has attracted over US\$100 billion of investment largely to the telecommunications, energy, finance and automobile sectors of the economy.

Today, the State of São Paulo is Latin America's largest industrial, commercial and financial center, responsible for over 35% of Brazil's GDP and 34.5% of the country's exports. Per capita annual income is 61% above the national average so it is hardly surprising that the city of São Paulo is Brazil's richest and the world's third most populous.

But scratch the surface and you will also find a city struggling to emerge from a legacy of social and political corruption, with a constant water shortage and a US\$9 billion dollar debt burden. Crime and homicide rates are among the highest in the world. "There is social exclusion and misery, and infrastructure has deteriorated," admits Mr. Anibal. "On the other hand we have very strong competitive advantages. We have carried out major improvements in public services. We have built 11 new hospitals. There are now schools and water available for all and the region has excellent universities. The government has programs to finance technological innovation and we also have credit guarantees in place to stimulate small, medium and micro companies."

Recent local elections suggest a population more concerned with civilized living conditions than upbeat messages. In her opening speech as newly elected Mayor of São Paulo in October 2000, Marta Suplicy declared: "My priority is to address social problems and prioritize the excluded." Her social policy, described as "business-friendly socialism," aims to invest more money in schools, hospitals and homes and promises extra help for the city's poorest inhabitants.

Elegant and cultivated, and elected for her Workers Party's reputation for honesty and efficiency in local government, Ms. Suplicy has the support of the unions and urban lower middle classes as well as the city's business base. However, even her supporters agree she will have a tough time managing the city's debt burden. "Our problem isn't that the city has no money, but that those who have managed it have misused the funds available. São Paulo has some of the best-equipped hospitals and schools but they have been

starved of cash," she says.

Ms. Suplicy's remarks foreshadow the need for São Paulo to invest some of its success in its own health. Profits from Mercosur must not only serve companies but also workers and citizens' interests," she continues. "Last year, São Paulo received 42% of all investment in Brazil so we still have a lot to offer foreign companies. São Paulo is a good partner to have."



The State of São Paulo is Latin America's largest industrial, commercial and financial center.

FOR A SECTOR that has seen the spreadsheets take some pretty wild slalom swerves in recent years, Brazilian bankers are a remarkably unruffled lot. Though the contribution of the banking and finance sector to the GDP may be sharply down from 33% in 1993 to less than 7% five years later, that has not discouraged foreign interests, as evidenced by the recent purchase of Brazil's largest privately-held institution, Banespa, by Spain's BSCH group. As matters now stand, over 42% of the US\$25.5 billion in assets held by Brazilian banks are under foreign management.

Informed, responsible risk management for clients and shareholders is the common denominator of the specialist domains into which the Banco Pactual has branched out and established a commanding position since its founding as a securities brokerage in 1983. It has since become one of Brazil's leading private investment banks, managing mostly Brazilian capital,

with its main focus on the internal Brazilian market but with a high degree of internationalization as well.

"We started out doing what we know how to do best and have always stuck to that as a guiding principle," says Pactual's chairman and CEO, Eduardo Plass. Last year, the assets managed by the bank jumped by over 25%, while it expanded into treasury asset management, and private banking for high net-worth clients. "We also do mergers and acquisitions for mid-cap companies because we have the people who do it better than anybody else," explains Mr. Plass.

Constantly improving upon its existing high level of human capital is a fundamental part of Pactual's corporate mindset. "We have a culture of partnership, trying to attract top quality people who are motivated to become partners." This business strategy, he adds, boils down to fundamentals such as "don't grow too big, stay focused, keep



Private banking groups such as Banco Pactual and Banco Itaú are developing financial services to bring in clients.

overheads down and pay everyone large bonuses."

By specializing in the development of products marketed by retail banks, Pactual has a low profile and low overhead compared to other players. Mr. Plass states that this is intentional. "We are in no hurry to change our size, our philosophy or our corporate structure, which is similar to that of Goldman Sachs, as we find that it works very

well in Brazil. I think we are going to be around for a long time to come."

While Pactual has achieved success by keeping its focus on a limited number of key market segments, at the other end of the banking spectrum you find full-scale retail institutions, like Banco Itaú. Itaú boasts the largest capitalization in all of Latin Amer-

Continued on page 2



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BRAZIL'S ECONOMY STEPS UP A GEAR

In their own WORDS

MARTA SUPLICY
Mayor of São Paulo

"Last year São Paulo received 42% of all investment in Brazil."

JOSÉ ANIBAL
Former Secretary of Science, Technology & Economic Development for São Paulo

"Cellphone use has grown from 400,000 customers in 1993 to the 24 million we have today."

ROBERTO SETÚBAL
President of Banco Itaú

"All of the big banks like Itaú have developed into comprehensive financial services conglomerates."

EDUARDO PLASS
Managing Director of Banco Pactual

"Our business strategy is: don't grow too big, keep overhead down and pay everyone large bonuses."

PAULO CELSO BERTERO
Director of Transamerica Hotels

"Our challenge is to provide the maximum of comfort and services at an affordable price."

TADEU VANI FUCCI
Managing Director of Cimcorp

"More and more the value-added services will be the key to being competitive."

SONY DOUER
Marketing Director of Doutex

"We are competitive in terms of price and we offer international-level quality."

Continued from page 1

ica and is Brazil's second largest full-service financial institution. It is involved most actively in across the board banking and finance, which includes mortgage lending, consumer loans, leasing, underwriting, insurance, corporate financing and pension fund management. Its presence on the international scene is anchored by US\$1.9 billion in capital working outside the country. "All of the big banks like Itaú have

developed into comprehensive financial services conglomerates," says the bank's president, Roberto Setúbal, "because the enabling legislation was passed some time ago. Now we have the advantage of being present in all areas of the country and all segments of the market."

Itaú knows that its key asset is its 7 million clients. In fact, the bank's customer-oriented approach has been acknowledged by a slew of awards including "Best Latin American Bank-

1999" from Latin Finance magazine, and the "Excellence Award-Best Domestic Bank in Latin America" from Euromoney magazine for the third year running. In part, these accolades are an acknowledgment of Itaú's heavy investment in state-of-the-art banking technology. "Most of this has gone toward client-oriented services," notes Mr. Setúbal, including a pioneering new venture into online banking in strategic alliance with America Online. ■

telecoms SET FOR INCREASED COMPETITION

JUST IMAGINE paying your restaurant bill with your cell phone or your doctor accessing your medical records with a simple call prior to your appointment.

Such are some of the customer-oriented advances envisaged by Telesp Celular, South America's largest cellular phone company and leader of the dynamic São Paulo market.

Telesp Celular's story is intrinsically related to that of São Paulo, as the state could not have become the driving force behind the Brazilian economy without a vibrant and constantly improving telecommunications sector.

According to Telesp Celular's president and CEO, Carlos Vasconcellos, much is owed to the Anatel regulatory body. Anatel did a "fantastic job in opening and transforming a very non-sophisticated telephone system, to say the least, into something that today, I would say, is becoming state of the art in terms of services that are offered to the customers," Mr. Vasconcellos says.

Mobile telephony services have been operating in São Paulo since 1993 but only in recent years, with privatization, have they really taken off. "Before that there were just 400,000 cellular phones, but there are today already 24 million," points out former Secretary of Science, Technology and Economic Development for São Paulo, José Anibal.

Today Telesp Celular, which is 51.8% owned by Portugal Telecom, boasts 4.7 million customers, including 1.4 million WAP users, a 63% market share and a revenue of US\$3.3 billion.

But the beauty of São Paulo for Mr. Vasconcellos is that it is still a wide-open market. "Brazil

is today the 10th largest mobile phone market in the world," he notes. "But on top of that, the

average penetration of mobile phones is extremely low. So we have a great opportunity here because we have 14% in penetration rates versus 60-70% that we are seeing in some European countries." Even São Paulo has just 20% penetration.



The talk of the town. São Paulo's wealth and hunger for new technology has contributed to a big rise in cellphone use.

Mr. Vasconcellos believes Telesp Celular's dedication to clients' needs—as evidenced by the 2,500 customer-care service operators in the state—will see a doubling of penetration over the next two years and he sees a 50% rate on the horizon.

The nature and makeup of the São Paulo state has also contributed to the greater use of cell phones. The region's enormous wealth gives it "a great appetite for the best in the world," as Mr. Vasconcellos puts it. Another factor is the Brazilian hunger for technology.

"Brazilians are very technologically driven," he says, pointing out that the country has four average penetration of mobile phones as all the rest of Latin America put together.

On a practical level, cell phones make sense for people in a bustling city and region where traffic, security, business and personal mobility are vital.

Fucci, who argues that they are what make companies stand out as products and technologies become increasingly similar.

"More and more the value-added services will be the key to being competitive," says Mr. Fucci, who founded the information technology company 11 years ago and believes the telecommunications sector's strength through privatization brought "Brazil back to the competitive market."

He predicts a near tripling of mobile telephony customers by 2005, to some 60 million.

"The investment perspectives between the year 2001 and 2005 are about US\$12 billion a year and that is what the sector needs to finance the new bands' entrance," he says.

Divided into four units, Cimcorp specializes in providing its telecommunications and energy sector customers with corporate solutions including resource structuring, technological infrastructure, integration, installation and support. ■



Carlos Vasconcellos, President and CEO of Telesp Celular.

Hotels Transamerica

TRAVEL GROUP UPGRADES QUALITY AND SERVICES

Despite a deserved reputation for sun, sand and samba, Brazil has a serious side as Latin America's top-ranking economic powerhouse. This duality is also mirrored in the hospitality sector where the business traveler is every bit as important as the vacationer.

As the head of Hotels Transamerica (HT), the largest all-Brazilian hotel chain, Paulo Celso Bertero is particularly anxious to cater to all segments of this strategic market, from senior executives booking one of his high-end suites or helipads, to a new type of roving mid-career employee that might be described as the "budget business" traveler. It is for this segment that



Hotels Transamerica has grown thanks to word of mouth.

HT is planning to substantially up its offer of self-catering "aparthotel" units in the greater São Paulo area to total 4,000 by the end of next year. "Our guest profile is changing so we have to change, too," Mr. Bertero says. "We want to please our guests but we also

have to attract the one who pays the bill, in this case, his or her company. Our challenge is to provide the maximum comfort and services at a price these companies are willing to pay."

Anyone in the hotel business knows the importance of location, location and location. The HT five-star flagship rises from an island of self-contained urban greenery smack in the heart of the downtown business district, a stroll away from companies such as Coca Cola, Microsoft, Andersen Consulting, and Lucent. In addition to over 400 fully equipped rooms and deluxe suites, the Transamerica offers convention facilities that can accommodate well over 3,000 people, in-

cluding an auditorium seating 200. Chains such as Four Seasons and Choice are on their way in to join other international brands such as Meliá and Marriott. Not that this worries Mr. Bertero. "We have always been able to leverage the fact that we are locally empowered, as a Brazilian company that knows its way around the culture and the business scene. We have a reputation for the quality of our services that allowed us to achieve the coveted ISO 9002 certification, but word of mouth in the international business community is what brings the people to an establishment that is locally owned and operated and doesn't run a big marketing operation outside the country. ■

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Itaú

A Brazilian leader.
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Brazilian Association of Software Companies (ABES)

A GROWING INTERNATIONAL PRESENCE

The service sector is seen by the government of Brazil as fulfilling a pivotal role in the diversification of the country's economy and as a growth pool for jobs to compensate for the increasingly shrinking job market in other more traditional sectors. One of the greatest potential revenue earners within the service sector is IT and its related industries, software and the internet.

For much of the 1980s, Brazil's IT industry focused on the domestic market and hardware. But, thanks in part to the efforts of the Brazilian Association of Software Companies (ABES), Brazil's software industry has carved out a growing international presence in what is a hugely competitive global business. The São Paulo-based ABES represents over 600 companies that together make up around 85% of the

Brazilian software market. Founded 15 years ago, ABES has been instrumental in encouraging Brazil's software industry to become involved in international markets, supporting local production of computer programs, sponsoring networking events and promoting IT research and copyright protection. One unfortunate but inevitable by-product of the industry's success is software piracy, which in

Brazil has become widespread. A recent study from ABES reported that more than half the software in use across Brazil last year was pirated, costing the tech industry an estimated US\$1.3 billion. ABES is leading the fight against piracy, a fight it expects to win, converting Brazil into one of the world's top five software producing and exporting countries by 2020. ■

DEFYING TIME AND DISTANCE

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CORONA

BRAZIL'S ECONOMY STEPS UP A GEAR

LUIZ EDUARDO MOREIRA CAIO
Managing Director of BSH
Continental Eletrodomesticos



BS Continental is looking for new markets to conquer with products such as its refrigerated vending machines.

GLAUCO ABDALA LIMA
Managing Director of
Kwikasair



"Kwikasair is a serious and ethical company already looking at greater growth."

TALITO ENDLER
Chairman of the Board
of Kwikasair



"I believe it is possible for Kwikasair to triple its activity in three years."

SÓCRATES NASSER
President of Açucareira
Corona



"Corona will provide the perfect conditions for foreign investors to believe in this company."

MARCIO DINIZ GOTLIB
Finance and Marketing
Director of Açucareira
Corona



"We are able to supply the U.S. market with alcohol at a cheaper price than that produced domestically."

Kwikasair

DELIVERY SERVICE OFF TO A FLYING START

"Fast delivery and even faster growth" could well be the motto of the express delivery service Kwikasair. And its quest for an ever larger clientele means that Kwikasair must be not only quick, but reliable.

To this end, the company employs an impressive array of high-tech systems to make sure that no package goes astray. Customers can even use the internet or a WAP-capable telephone to find out, at any given moment, where exactly the truck carrying a given consignment is, thanks to the GSP satellite tracking service that Kwikasair introduced in Brazil.

Sophisticated technology requires a sophisticated staff to run it, so Kwikasair has invested heavily in employee training. The company's solid performance and promising prospects caught the eye of a major U.S. insurance group, the American Interna-

tional Group (AIG), which last February bought up a very substantial stake through its private equity fund, the Brazil Special Situations Fund. Kwikasair CEO, Glauco Abdala Lima, says that AIG researched



Kwikasair has joined up with the U.S. company, AIG.

many companies before opting for Kwikasair, because it is "a serious and ethical company." Since AIG's entry, he continues, "we are already looking at greater growth."

The Chairman of the Board and previous CEO, Talito Endler, be-

lieves it is possible "to triple our activity in three years." This growth will take place, first of all, through the expansion of its customer base and its presence throughout country, with 22 branches and 45 affiliates.

Secondly, with the backing of AIG, Kwikasair will be an active player in the "consolidation of the market" that Mr. Lima sees as taking place in Brazil, where there are still some 13,000 transportation companies, most of them small, family operations. Mr. Endler also feels that consolidation will move quickly "and, as the activity is consolidating and it offers profitability, you naturally attract investors".

As competition becomes more intense, especially after the introduction in 2005 of the FTAA, the path forward for Kwikasair, Mr. Endler says, could well lie in a partnership with a strategic investor.

INDUSTRY

INNOVATION THE KEY TO CONTINUING SUCCESS

TO COMPETE successfully in today's increasingly global marketplace takes a bit of genius. The best Brazilian manufacturers know that, as Thomas Edison once commented, genius requires not only the gruelling "99% perspiration" but also that tricky "1% inspiration."

Two excellent examples are the Doutex textile company, which manufactures cutting-edge fabrics, and the Metafrío subsidiary of BS Continental (a part of the Bosch-Siemens multinational specialized in household appliances), which produces environmentally friendly refrigerated vending machines.

Doutex has had to constantly upgrade its products over 44 years in order to survive in Brazil's crowded, highly competitive textile sector, which has no fewer than 30,000 companies and employs 1.4 million workers throughout the country. The sector, which has invested US\$2 billion over the past 8 years, mostly in modernizing its equipment and technology and training its workforce, racked up around US\$22 billion in sales last year, with exports jumping 22% to US\$1.2 billion.

Doutex made sure it got its



A champion in the Brazilian textile market, Doutex is expanding operations abroad.

fair share of sales. In fact, its innovative products are so popular that the demand exceeds its production capacity. That rules out, at least for the moment, further expansion into the U.S.

As the Doutex marketing director, Sony Douer, explains: "We are selling very well here in Brazil. Our clients are absorbing all our

production, so there is no space to advance towards the American market."

Although the company does have three clients in the U.S., Mr. Douer adds, it is selling them only "the basic products. We are not offering high-tech fabric yet because the whole production has already been sold here." The strength of Doutex's

market position within Brazil means that the coming of the Free Trade Area of the Americas (FTAA) four years from now holds no threat at all, according to Mr. Douer.

He explains: "We are very competitive. Our factory is very modern and is basically powered by gas. The raw material is produced mainly in Brazil by Dupont and Rho-

dia. We are competitive in terms of price and we offer international-level quality."

Doutex is especially strong in the fast-growing market for beachwear and "active and fitness collections," for which it pioneered the development of 'splex' cloth, containing Lycra.

"Nowadays, with the combination of microfiber and high technology, we are developing 100% polyamide fabrics that transpire," such as 'aminicool', which, Mr. Douer explains, takes its name from the 'amini' fiber provided by Rhodia "and 'cool' because it is refreshing."

Doutex will continue to innovate because, as Mr. Douer says, "in this era of globalization you have to keep up with the trends or get ahead of them."

While Doutex has its hands full with its domestic market, BS Continental is searching for new markets to conquer, especially for the ecological refrigerated vending machines produced by its Metafrío subsidiary.

The BS Continental group sees an especially promising market in the U.S. for this product, which can dispense cold beverages or foods requiring refrigeration. The Metafrío vending machines, as well as being ecological and avoiding de-commissioning costs, are attractive and versatile, capable of dispensing a wide variety of beverage containers and food packages while handling the appropriate coins and bills.

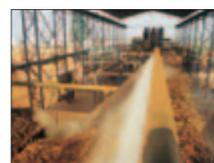
AGRICULTURE and agricultural products, already accounting for one fifth of Brazil's economy, promise steady growth in the years ahead. The agroindustrial sector has especially good prospects with the liberalization of global trade and, above all, the creation of the FTAA.

One firm extremely well placed in this respect is the sugar and alcohol producer Açucareira Corona, more than half a century old but boasting all the latest technology. Corona already exports 70% of its total sugar production, and foresees vast new export opportunities for its sugar and alcohol once the FTAA is in place in 2005.

As the company's director, J.E. Pontes, points out, "although we are the most efficient sugar producer in the world," very high subsidies abroad for refined sugar mean "we supply the rest of the world with raw material when we should supply products with added value." In the case of the U.S., this will all change with the introduction of the FTAA, Mr. Pontes says.

Corona's Finance and Marketing Director, Marcio Diniz Gotlib, sees especially good

prospects for alcohol sales. "Alcohol is a very precious kind of energy," he notes, "and U.S. society is quite concerned with preserving the environment, meaning that alcohol is going to be needed more and more as an alternative energy source."



Ecological concerns are paramount for Brazil's Corona and Orsa.

Pointing to the use of gasohol in states such as Nebraska, Mr. Gotlib explains that "we are able to supply the American market at a much cheaper price than that of the alcohol produced domestically." Corona is already using its own alcohol for co-generation (fuel and electricity), which has made the company energy self-sufficient and protected it against the recurrent power outages which have plagued other industries in the São Paulo area.

What Corona is looking for now is investment capital from abroad to optimize its production capacity. As the firm's president, Sócrates Nasser, comments, "we feel that Corona will provide the perfect conditions for foreign investors to believe in this company, with the diversification of the sector and the competitive and attractive returns they can achieve."

Ecological concerns are paramount for the pulp, paper and packaging products group Orsa. It not only makes pulp and craft paper, it also has five plants for recycling waste paper into corrugated cardboard. Orsa has extensive holdings of Amazon forest, where, the firm's president and CEO, Sergio Garcia Amoroso, is proud to note, it applies sustainable, low-impact management techniques, involving selective harvesting of mature trees.

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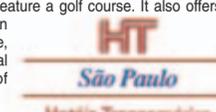
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