

German Desk

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business*



A Look at Brazil

The year of 2014 was marked by a significant slowdown in the growth of the Brazilian economy. In spite of a slight increase of 0.3% during the 4Q, compared with the previous quarter, the year was expected to end in stagnation or recession. The numbers show that the country has continued to struggle with not only the low dynamism and the loss of industrial competitive edge, but also with the deterioration of business confidence, which has adversely affected investments and production.

The performance of Brazil in 4Q14 was a result of family consumption (+1.1% compared with 3Q14). The negative highlight was the government consumption and the gross formation of fixed capital, which decreased by 0.57% and 0.39%, respectively. The unemployment rate was 6.2% at the end of March, which resulted in an average of 5.1% over the last twelve months (April 2014 to March 2015). The first quarter of the year shows that the unemployment rate tends to increase in 2015, compared with the same period in 2014.

Throughout the year, both the growth in the labor market and the increase in the average income of Brazilians caused an increase in demand and, consequently, in prices. In the accumulated for 2014, the Amplified Consumer Price Index (IPCA) reached 6.4%, that is: almost 2 p.p. above the target established by the authorities of 4.5%.

Under pressure as from the beginning of 2015, the price index reached 8.1% in March, in the accumulated for 12 months. This means that, in order to stop prices from escalating and attract foreign capital, the Brazilian Central Bank will have to keep the interest rate at a high level, possibly increasing it from the current 13.25% p.a. to 13.5% p.a. In the medium and long terms, the IPCA is not expected to reach the proposed target of 4.5%. In spite of that, inflation is not expected to get out of control at the moment.

In 2014, which was a presidential election year, the government did not manage to reach the primary surplus target of 1.9% of the Gross Domestic Product (GDP), and recorded a growth of only 0.1% at the end of the year. In 2015, the rules that establish the results of the public sector were changed due to the low revenue of the federal, state and municipal governments, which practically eliminated the previously established fiscal target. In light of this scenario, the government started 2015 with a more restrictive fiscal policy, for the purpose of aligning the market expectations and improving the national accounts.

In the first four-month period of 2015, as a result of the political and economic uncertainties, the foreign exchange rate suffered significant changes and remained depreciated, compared with the same prior-year period, at an average rate of R\$ 2.91 to US\$ 1.00. The deterioration of the domestic political and economic scenarios, in addition to the elimination of the monetary stimulus to the economy in the United States of America, is expected to cause an even higher depreciation of the Brazilian currency.

From January to April 2015, exports recorded a 16.4% decrease in relation to the same prior-year period and imports decreased by 15.9%. Consequently, the trade balance deficit amounted to US\$ 5.067 billion in the period.

As regards the international trade scenario, President Dilma Rousseff indicated that she intends to change the Brazilian stance in relation to the negotiation process involving the Mercosur and the European Union. Brazil has shown increasing signs that it will be favorable to a negotiation in “two steps”: Brazil, Uruguay and Paraguay would be willing to disclose, as from the second half of 2015, a list of sectors that would be subject to the agreement - which would accelerate the conclusion process, whereas Argentina, Bolivia and Venezuela would become part of the free-trade agreement with the European Union at a later time.

The visit of Chinese Premier, Li Keqiang, to Brazil in May 2015 should also be highlighted. Both countries established commitments for the Industrial and Commercial Bank of China (ICBC) to create a US\$ 50-billion fund that can be accessed through Brazilian institutions. Apparently, this is the type of capital funding that will be used to finance such undertakings as a railway linking the Brazilian coast, on the Atlantic, to the Peruvian coast, on the Pacific, so as to reduce the costs of exports to China, or even a joint-venture for the production of steel in Brazil.

Furthermore, structural problems in the electric energy sector and the lack of rains have both increased the uncertainties within the production sector. The National Electric Energy Agency (ANEEL) approved extraordinary rate reviews for 58 electric energy distributing companies in Brazil, which will cause a domestic impact of 23.4%, on average. The risk of electricity rationing or blackouts has increased as a result of the long-lasting droughts and the historically low levels of water in the reservoirs of hydroelectric plants.

This scenario has affected the flow of direct foreign investments in Brazil, which totaled US\$ 62.5 billion in 2014, corresponding to a 2.6% decrease in relation to the previous year. The capital inflow is expected to remain at satisfactory levels in 2015, due to the infrastructure concessions (transportation and oil), which will induce the inflow of foreign capital over the following years.

Uncertainties may decrease in the second half of the year, depending on the successful deployment of the adjustment measures disclosed at the beginning of the year, targeted at recovering the macroeconomic balance. Only then will the production sector be able to have more realistic perspectives to plan its business.

German Investments in Brazil

Germany has been a trading partner and investor in Brazil for a long time. The first German Chamber of Commerce was established in 1916 in Rio de Janeiro, at the time the Capital City of Brazil. A major portion of the large traditional German groups have set up subsidiaries in Brazil in the first half or around the middle of the last century, such as Bayer, BASF, Siemens, Volkswagen, Daimlers-Benz, Thyssen-Krupp and many others.

Over the last 50 years, many small and middle-sized German autoparts companies invested in Brazil at the request of the German OEMs and many engineering, equipment and logistics companies followed.

Sao Paulo is the largest German industrial city in the world, as per statement by the German Chamber of Commerce.

There is no doubt that Germany is one of the most important investing countries in Brazil. Since a significant portion of investments is made through subsidiaries established in other countries like The Netherlands, Switzerland and Austria, the four countries together invested USD 72.0 billion during the last five years in Brazil, which represents nearly 28% of the total investments, and we consider that a significant portion therefore originated from German investors.

German investments have been made in a wide variety of industries, basically reflecting the strength of the German export industry for goods and services. Consequently, automotive, equipment (such as transportation, medial, energy, environmental, security and measuring), pharmaceutical, chemical and logistics are among the most active industries.

From 2006 to 2012

Germany,
The Netherlands,
Switzerland and Austria
together invested

**US\$72
billion**

which represents nearly
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of the total investments

We speak your language

PwC is present in 157 countries and have over 180,000 professionals in the areas of Assurance, Advisory and Tax Consulting. PwC has been conducting business in Brazil since 1915 and currently has 19 offices in the major regions of the country with 185 partners and approximately 5,300 professionals.

We understand that German companies have their own culture and strategies to conduct business. It is precisely for this reason that we have established, together with PwC Germany, the German Desk in Brazil, which is dedicated to serve and provide tailored services to German companies operating in Brazil or planning to enter the Brazilian market.

The services provided by our German Desk are distinctive because of the following:

- We have a strong global network, and PwC is one of the leading professional firms in Germany. Through the Network of German Business Groups, which currently comprises 23 groups worldwide, we have the ability to leverage and share information in relation to German clients that are present in Brazil to ensure that high quality services are provided meeting their particular needs;
- We are able to communicate in German. We have dedicated native German speaking professionals with working experience in Germany and Switzerland who can communicate in German, English and Portuguese who have a deep understanding of the German business culture. In addition, the German desk has experienced professionals that have been seconded to PwC Brazil from Germany, who are key to ensure our strong ties with PwC Germany and who have played a significant role in leveraging on relationships that PwC Germany has with German companies to develop businesses and winning projects in Brazil;
- In addition to the above, each of the dedicated professionals in the German desk have their own area of expertise in specific services so that they are able to personally manage and coordinate services for German companies in Brazil;
- In Brazil, PwC is the largest and most renowned audit firm in the market, providing Assurance, Advisory and Tax Consulting services; and
- PwC Brazil is comprised of professionals specialized by line of service and industry, ensuring the delivery of specialized services by professionals with deep market knowledge.

How PwC can help

The Brazilian market has become a focus for investment opportunities by German companies. Potential investors may seek support from PwC on their business opportunities, considering the following facts:

- PwC is aware of the cultural differences and the way business is conducted in Germany. PwC German Business Group (German Desk) understands these differences;
- German companies usually make long-term investments, as they believe in the potential of the Brazilian market, given of the Brazilian consumer market, population growth and credit expansion, among other factors;
- Brazil has important natural resources which represent relevant opportunities in fields such as renewable energy, oil and gas and agribusiness;
- Major opportunities will arise in the next few years in the areas of infrastructure (ports, airports, high speed railways and metropolitan transportation as well as infrastructure related to the Olympic Games in 2016);
- The complex tax system and labor legislation in Brazil require that foreign companies have professional assistance to enter the local market;
- The same is valid with respect to the significant accessory obligations, especially related to the requirements to deliver very extensive electronic data on accounting, tax and payroll data to the Brazilian tax authorities, to issue and receive invoices in electronic format and to maintain the related records; and
- Due to trade barriers imposed on certain areas (such as the auto industry), foreign companies need to establish their own manufacturing bases in Brazil to remain competitive in the local market.



In addition, new challenges of the international business markets require new solutions. For this reason we created the German Desk, a group specialized in supporting German clients that conduct businesses in Brazil.

We use the multicultural makeup of our staff and complete and specialized knowledge of the German culture in the German Desk, operating together with PwC Germany. Therefore, we are prepared to provide support both to German companies investing in Brazil as well as Brazilian companies interested in investing in the German market.

We offer our clients complete solutions for effective operations in the Brazilian market which are solid, sustainable and effective. We count on qualified specialists and methodologies consolidated in the marketplace which give our clients security and contribute to the success of their operations.

In Brazil our assurance, advisory and tax consulting teams have years of experience and dedicated professionals in 16 different industry segments. With complete and integrated solutions, we assist in improving our clients' performance by promoting operational, financial, organizational and human capital excellence as well as information technology (IT) management, sustainability, governance, risks and compliance improvements.

Our Transaction Support team consists of over 30 professionals, with extensive experience in transactions in the Brazilian and international markets



Assurance

We have staff specialized in risk management services for every area and industrial segment. Our global standard audit services (assurance) are performed by experienced professionals auditing, not only statutory financial statements but also auditing financial statements prepared according to International Financial Reporting Standards (IFRS) and with complete command of generally accepted accounting principles in the United States (US GAAP) as well as Germany (HGB). Among the main assurance services are:

- Statutory financial statement audit;
- IFRS financial statement audit;
- US GAAP financial statement audit;
- Consolidation package audit;
- HGB Financial Statement Audit;
- Internal controls audit (US-SOX, J-SOX etc.);
- Systems audit;
- Other discretionary audits; and
- Capital Markets & Accounting Advisory Services.

Tax Consulting

We offer support in preparing annual corporate and individual income tax returns, consulting on related questions with tax due diligence and management of tax risks. PwC's global network also allows us to offer services on foreign taxes, transfer pricing, mergers and acquisitions and financing restructuring. The main services offered in this area are:

- Tax compliance;
- Tax planning;
- Transfer price consulting;
- Corporate income tax; and
- Individual income tax.

Mergers & Acquisitions and Finance Restructuring (Transaction Consulting)

Our team consists of over 300 professional employees, with extensive experience in transactions in the Brazilian and international markets, who can offer full support in the analysis and performance of transactions involving business mergers, acquisitions, sales and financial and operational restructuring.

We support the preparation and definition of strategies and the analysis of the risks involved, as well as the performance of full due diligence (corporate, tax, financial and operational due diligence). Business valuation and capture of synergies and gains enable value creation through transaction and negotiation strategies and acting directly in negotiations with stakeholders (creditors, stockholders and other stakeholders). We continue by supporting the implementation of the related changes with a view to realizing the gains expected from the transaction.

Business and management consulting services

We offer financial, economic and strategic consulting on complex issues related to the business of our clients. In this area, the principal services are:

- Strategy;
- Finance;
- Operations;
- Information technology - Strategy and Security;
- People, Organization and Changes - Human Resources Consulting;
- Outsourcing of Tax, finance and Human Capital Resources;
- Brazilian/German Social Security Treaty;
- Corporate risk management and compliance;
- Forensics;
- Internal Audit;
- Actuarial Services;
- Corporate Governance;
- Project management;
- Organizational development;
- Business process consulting;
- Management of risk value; and
- Sustainability.

Our publications

We support the operation and development of German companies in Brazil. Our knowledge is also disseminated in our publications.

“Doing business and investing in Brazil”



“Doing deals in Brazil”



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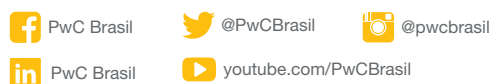
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