

Doing Deals in Brazil

June 2009

Doing Deals in Brazil

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Foreword

The long period of domestic economic instability in Brazil seems to have been overcome. Brazil is now a mature country, from both economic and political points of view, which makes it one of the most attractive markets in the world for foreign investment.

The country risk in 2008 reached the lowest range in recent history, the currency is strong, and the Brazilian government no longer depends on foreign borrowings. Despite also having felt the effects from the global credit crisis, especially in the last quarter, the economy grew 5.5% in 2008. The prospects for the current year are naturally less optimistic; however, the country undoubtedly has quite strong economic fundamentals and political and institutional stability, which are important elements to sustain its journey through the current turbulence. Most specialists agree that the country should be back to the sustainable growth track in 2010, based on the expansion of both domestic demand and exports.

The IPOs and M&A markets presented a robust performance in the last few years. The “Investment Grade” recently obtained from independent credit rating providers is a milestone for the Brazilian economy. Current expectations for the next years are optimistic, and an increase in private investment is forthcoming to cope with demand expansion.

Despite their increasing interest and confidence in Brazil, prospective investors still find it difficult to overcome complex local business issues. In order to help improve their understanding of these perceived barriers and the ways to clear the path to a successful investment, we are pleased to publish the June 2009 edition of the Doing Deals in Brazil guide. This publication contains information about the economic environment, political and cultural issues, financial and tax regulation and M&A activities, among other subjects. A team of PricewaterhouseCoopers - Brazil specialists has endeavored to identify the critical aspects and risks involving foreign investor transactions.

Doing Deals in Brazil does not purport to exhaustively cover all subjects, but it is intended to address some of the important and broad questions that may arise. We trust, however, that this guide will contribute to our clients’ accomplishment of successful and profitable business ventures in Brazil.

Professional advice should be sought to address relevant Brazilian laws and regulations as well as obtaining appropriate accounting and legal advice. PricewaterhouseCoopers professionals are available to provide further information on the matters covered in this publication.

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Table of Contents

Section	Page
1 Main Drivers & Challenges	7
2 Economic Environment	13
3 M&A and Private Equity Activity	35
3.1 General Considerations	35
3.2 M&A Activity in 2008 and 2009 Outlook	37
3.3 Private Equity	45
4 Cultural Issues	47
5 Accounting & Audit Requirements	51
6 Tax Issues	57
7 Work Force and Labor Charges	69
8 Environmental Issues	73
9 Our M&A Specialists and Post-deal services in Brazil	77

Section 1

Main Drivers & Challenges

Did you know?

- Brazil shares a border with every other country in South America apart from Ecuador and Chile - eleven in total - and has lived in peace with all of them for nearly 150 years.
- Brazil is the world's fifth most populous country after China, India, the United States and Indonesia.
- Brazil has one of the world's biggest afrodescendent population and the largest number of people of Japanese ancestry outside Japan.
- São Paulo is the biggest and the most populous city in the Southern Hemisphere. Its population is approximately 11 million, and 18 million if the adjacent metropolitan areas are considered.
- More than 80% of all new cars sold in Brazil are flex-fuel cars which run on any combination of ethanol and gasoline.
- A pine tree in a Finnish forest takes 50 years before it can be pulped and milled into paper. A eucalyptus tree in Espírito Santo, on Brazil's coast, is ready in seven.
- Growers in the Brazil's north-east region, harvest grapes twice as often as their competitors in France.
- A mega-oil field in the so-called pre-salt layer has impressive figures of potential volumes of barrels and investments required, which can put Brazil amongst the top oil exporter countries in the world.
- BM&FBovespa ("A Nova Bolsa", as a result of the merger of São Paulo Stock Exchange - BOVESPA and Futures and Commodities Exchange - BM&F) is public and is the third largest Stock and Futures exchange in the world in market cap.
- Brazil is the world's largest exporter of sugar, coffee, orange juice, soy beans, beef, tobacco and chicken. The Financial Times describes the country as "a powerhouse whose size and efficiency few competitors can match".
- Investment-Grade (BBB-) rating was received by Brazil from S&P in early 2008.
- Some meat producers in Brazil need no electricity to heat chicken coops, unlike their competitors in colder climates.
- Massive investments in infrastructure are expected as Brazil will host the 2014 FIFA World Cup. Rio de Janeiro is a candidate city for the Olympic Games in 2016.
- There is an increasing number of Brazilian global companies in a variety of sectors such as mining, oil and gas, banking, aircraft producers, food, agribusiness and steel, among others.
- New law in place since 2008 making Local GAAP go in the direction of IFRS.

Growing foreign direct investment shows that the BRICs offer huge opportunities and potential for growth. The challenges for the investors in Brazil seem to be smaller than in other emerging countries.

Opportunities (all BRICs)

- Rapid economic growth.
- Higher growth rate of GDP per capita.
- Increasing market size across all sectors.
- Burgeoning middle class in recent years.
- Large urban populations.
- Burgeoning energy consumption.

Challenges (all BRICs)

- Poor infrastructure.
- Problems of state functioning.
- Ineffective law and order.
- Rampant corruption.
- High levels of inequality and poverty.

Most of the challenges are common amongst emerging economies. However, huge differences exist in favour of Brazil:

- Brazil has a consolidated democracy.
- Established institutions.
- Highly urbanized compared to other emerging market countries.
- Immense energy, mineral resources and raw material supplies.
- Self-sufficiency in petrol plus world leading position in low-emission fuels.
- Large oil and gas reserves discovered at the end of 2007.
- Sophisticated financial/banking system.
- More business-friendly environment to US/European investors (cultural differences impacting business less strongly than in other emerging markets).
- Modern and strict environmental legislation.
- Peaceful relations with neighbour countries.
- One language throughout the country.

Main Drivers & Challenges for Doing Deals in Brazil

Main Drivers

- Brazil's economy outweighs all other South American countries and it is expanding its presence in world markets.
- Brazil is characterized by large and well-developed agricultural, mining, manufacturing and service sectors, with a broad industrial base and infrastructure in a diversified economy.
- Brazil is the fifth largest country in the world in area, it has the tenth largest economy (eighth if the Purchasing Power Parity criterion is adopted - as it is by the International Monetary Fund) and an estimated current population of approximately 188 million.
- Many local companies are undervalued and in need of restructuring, capital and technology.
- High-growth potential and fast-growing consumer market considerably in the middle-classes.
- Potential self-sufficiency in oil production. Officially, the reserves of the Tupi oilfield are of 5 billion barrels, but according to analysts may be over six times bigger.
- Creativity and flexibility of labor force.
- Abundant agricultural, mineral and energy resources.
- The energy diversity of Brazil is currently favourable to the country which should continue in future, as it is pointed out as one of the global leaders in development and production of biofuels, especially ethanol.
- Established transportation networks (railways, highways, ports) and distribution channels in the most industrialized areas.
- Privatization effort consolidated since the 1990's and follow-on transactions in development.
- Inflation under control for over a decade.
- Significant reduction of the country risk rate in the last years.
- Increasing globalization and international trade with government policies which favour exports.
- From Brazil, investors have tariff-free access to the other members of the Mercosur free trade zone area (Brazil, Argentina, Chile, Venezuela, Paraguay and Uruguay).
- Investment-Grade (BBB-) rating received from S&P in early 2008.
- Foreign investors are eligible for most available fiscal incentives, including deductibility of goodwill under certain conditions.

Doing Deals in Brazil

Section 1

Main Drivers & Challenges

- New regulations favouring minority shareholders, corporate governance and better accounting practices.
- Great improvement in local capital and debt markets with huge number of IPOs in the last years.
- Economic environment is not as volatile as years ago as macroeconomic fundamentals were adjusted.

Main Challenges

- Multiple taxes with fast changing legislation which affect business plans and increase risks of contingencies.
- Complex tax and labor regulatory environment with high taxes and social charges rates on payroll, sales and income.
- Significant number of family-owned businesses, which certainly requires investments in post-deal issues, such as corporate governance, compliance, internal controls, integration of IT platforms, HR related matters, etc.
- Fast-changing business conditions.
- Insufficiency of local financing, especially long term, coupled with still high actual interest rates.
- Generally low quality of historical financial information of businesses also affected by fluctuations in exchange rates and GAAP differences.
- Complex transfer pricing and foreign capital registration rules.
- Transparency international corruption index of 3,5, 80 out of 180 nations slightly behind China and ahead of India and Russia.
- Difficulties in reorganizing companies quickly, including high costs for employee terminations.
- Important business cultural peculiarities, including a different perception of a due diligence process (e.g., more than 50% in average of the due diligence efforts in Brazil are directed to taxes and social contributions matters).
- The “know-who” is sometimes more important than the “know-how” in certain regions and even industries.
- Considerable bureaucratic rules and regulations for certain businesses and industries.
- High demand for investments in distribution channels and infrastructure in less industrialized areas of the country.
- Semi-skilled and unskilled labour in certain developing areas.
- Social extremes with unequal distribution of wealth.

Main issues usually identified in due diligence processes involving Brazilian target companies

- Relevant tax, labour and environmental risks and contingencies.
- Certain level of informality in the operations (i.e., unrecorded transactions; two sets of books).
- Relevant related parties' transactions with no adequate documentation (i.e., family costs).
- Lack and/or inadequate internal controls environment (resulting in poor quality of financial information).
- Decentralized systems.
- Inadequate accounting practices, triggering significant accounting adjustments (to EBITDA, net income and net asset) and tax risks.
- Lack of accounts reconciliations on a regular basis.
- High level of indebtedness and/or inadequate cash management.
- Lack of compliance with a local corruption or anti-bribery laws, including FCPA (Foreign Corrupt Practices Act), resulting in potential successor liability issues.

Main recurring reasons for unsuccessful deals in Brazil

- Unexpected tax, environmental and labour issues.
- Overload of legal formalities/bureaucracy.
- Quality and level of available information.
- Volatility of market conditions.
- Insufficient due diligence prior to investing.
- Compliance issues and/or successor liability risk.
- Underestimation of deal execution time.
- Inefficient exit strategies.
- Overestimated synergy/restructuring gains.
- Quality of acquired management.
- Inefficient post acquisition monitoring.
- Partners with financial problems.

Section 2 Economic Environment

Vigorous growth before the crisis - 2008

The performance of the Brazilian economy in 2008 is best described by examining before and after the financial crisis that erupted in September. Before the crisis, the economy was growing about 6%, maintaining the trend of the previous year. Domestic demand, in real terms, was growing 9% per year with private consumption expanding 6%, government spending rising 6%, and private investment growing 17%. The boom in the world economy and the vigorous boost in domestic credit were the main engines of this expansion.

In April 2008, the Central Bank started a cycle of interest rate hikes to fight the inflationary pressures created by the imbalance between demand and production capacity. At this point, it seemed that annual inflation would exceed the upper limit of the government target (6.5%). In fact, the inflation rate closed the year at 5.9%, largely due to the dampening effects of the crisis.

The gradual increase in domestic interest rates, however, produced little effect on aggregate demand, which held its pace of expansion. A sharp reversal came only in the last quarter of the year, when the international credit markets collapsed and commodity prices plunged.

Although Brazilian banks were not involved in the crisis, foreign credit, particularly to the tradable sector, represented about one-fifth of total credit in the economy, and its sudden halt caused a squeeze in banking liquidity, a contraction in domestic credit and an immediate increase in loan rates. At the same time, large Brazilian companies were unable to roll over their foreign debts, shifting their demand for funds toward the domestic financial market and further reducing liquidity there. On the other hand, as a large exporter of commodities (metals and foodstuffs), Brazil endured against a fall in trade with the dramatic plunge in commodity prices starting September, which drove domestic demand even lower.

Doing Deals in Brazil

Section 2

Economic Environment

The effect of the crisis was surprisingly strong and felt quickly in Brazil. GDP dropped about 1% in the last quarter of the year, led by industrial production and influenced by the precipitous fall of activity in the credit-driven sectors (consumer durables, capital goods and construction materials). The production of motor vehicles, for instance, fell to half of its level prior to the crisis in December, as companies adjusted their excess inventories created by the contraction in demand. Industrial production grew 3.6% in 2008, down from the 6.8% maintained until the third quarter - a good measure of the intense impact of the crisis. Nonetheless, the economy grew 5.5% in 2008, although the prospects for the current year seem much less optimistic, as analyzed below. The adjustment made by companies to the drop in demand and the accumulation of excess inventories drove the new job creation rate to zero in the last few months, and in time these facts will increase the rate of unemployment.

The excess domestic demand that prevailed for three quarters of the year spilled over into the trade balance, reduced the trade surplus to US\$ 23 billion in 2008, down from US\$ 40 billion in 2007, with dollar imports growing 46% and dollar exports, 24%. As a result, the current account slumped into a deficit of US\$ 30 billion, the first negative result in six years. The inflow of US\$ 38 billion in foreign direct investments, together with an expressive net inflow of

portfolio investments (before the world financial crisis), more than financed the current account deficit, allowed the Central Bank to capture nearly US\$ 200 billion in reserves by the end of the year. So, the Brazilian net foreign debt (gross debt minus reserves) remained negligible. The reduction in the country's external vulnerability was recognized in April, when the main rating agencies upgraded Brazil to the investment level.

This favourable situation put downward pressure on the exchange rate, which reached R\$ 1.60 to one dollar in July 2008, the lowest level since 1999 (please see monthly exchange graph further in this section). The clear overvaluation of the Real did not impact exports as much because of the record high prices of commodities that prevailed until the middle of the year. Since then, the exchange rate has devalued in relation to the dollar as portfolio capital has flown out of the country and export revenues have shrunk. However, the usual inflationary impact of the devaluation did not occur due to the simultaneous fall of commodity prices and weakening of domestic demand.

The reaction of the government to the crisis has been timely and strong, although sometimes arbitrary. Following the pace of most countries, but to a much lesser degree, the Central Bank extended credit to the banking system to protect weaker institutions from the liquidity squeeze and to forestall a major contraction of credit to the private sector.

At the same time, the Central Bank interrupted hiking its target interest rate. The government injected capital into the three large federal banks (Banco do Brasil - BB, Federal Savings and Loans Bank - CEF and National Bank for Economic and Social Development - BNDES) to improve their credit capabilities, especially to the sectors most affected by the crisis, like the automotive and construction industries. Simultaneously, Congress approved a new law, allowing federal banks to purchase participation in (or control of) private banks, and the federal banks went out shopping, increasing the already large (one-third) state participation in Brazil's financial system. Large private banks have also bought smaller institutions, and there was a large-scale merger between Banco Itaú and Unibanco, two of the country's largest banks. As a consequence, the banking sector has become more concentrated. By the end of 2008, the government created a "sovereign fund", designed to "transfer" part of last year's primary budget surplus to finance larger fiscal expenditures in 2009, allegedly to offset the effects of the crisis. Critics say that the fund is actually a means to keep up the pace of fiscal expansion of the Lula administration, with an eye to next year's presidential election.

Asset prices in Brazil followed the worldwide downward trend. Real estate prices and common stocks fell sharply after September. The BOVESPA stock index plunged nearly

50% in comparison with its peak in May, reflecting the outflow of capital by foreign institutional investors and the poorer expectations regarding the performance of large companies. In the context of a contracting world economy and of falling oil prices, even the major offshore discoveries by Petrobras (the pre-salt oil deposits) were unable to liven up the stock market. Given the current oil prices, the feasibility of the huge investments required to explore the pre-salt deposits is seen as dubious.

On the political front, the municipal elections held in October 2008 have not substantially changed the balance of power among the major Brazilian political parties. In fact, the trends of the previous elections have been maintained. From now on, the actions of the political players will be directed at reinforcing their positions for the 2010 general elections. The economic difficulties predicted for the next two years, with the consequential increase in the unemployment rate, may damage the extraordinary prestige enjoyed by President Lula, whose approval rate has risen to an unprecedented 70%, according to recent polls. If Lula loses part of his popular support, it may be more difficult for his party (PT) to name a successor.

Outlook for 2009

The outlook for the Brazilian economy is closely related to the unfolding of the current world crisis. It is recognized today that the crisis may be deep and last long, what means that the advanced economies and, to a lesser extent, the emerging economies will grow well below their long-term potential for the next three years or so. There are two main mechanisms that will drive the crisis to ultimately affect Brazil: credit and trade channels. Firstly, the collapse of international credit and the recession in the advanced economies imply that trade finances, bond issues abroad, foreign direct investments and portfolio investments will be greatly reduced in comparison with pre-crisis levels. Secondly, a recessive world economy and the fall of commodity prices mean less export revenues and greater difficulty to finance a current-account deficit.

On the positive side, the deflationary trend in the world economy will help mitigate inflationary pressures at home and counteract the price effect of the exchange rate devaluation. This means that there may be room for a substantial reduction in interest rates over the course of the year.

This in turn will help sustain economic activity. Current projections indicate that the economy will grow well below the average of the nearly 5% recorded in the last four years, but this is still a positive outcome in relation to the world economy. Nevertheless, the modest economic expansion is insufficient to keep the rate of unemployment constant.

No significant change in fiscal policy or advances in the agenda of institutional reforms should be expected in the remaining two years of the Lula administration, as the presidential elections of 2010 draw nearer. The federal government used the bonanza years, in which real tax revenue increased above GDP growth, to raise current spending (consumption and income transfers), but not necessarily public investment.

The only investment program launched back in 2007 by the federal government ("Programa de Aceleração do Crescimento" - PAC) was timid, suffered from bad management and conflicting political interests, and has had very limited impact so far. Although private investment boomed in the last few years, public investment, especially in infrastructure, has lagged behind.

Some additional highlights for 2008/9

After several years of consecutive surplus, a current account deficit of the balance of payments is expected for 2009, as the trade balance deteriorates. However, the balance of payments is not a threat to growth as it was in the past. The worsening of the current account already led to some devaluation of the Real, although this could be seen as a beneficial movement to improve the competitiveness of the export sector, especially in the context of a less buoyant world economy. Challenges that should be considered include:

- Growth capacity of the economy under the new scenario imposed by the global slowdown, which will naturally be poorer as the world enters a period of low expansion.
- The management of monetary policy going forward will be a delicate matter: to keep inflation stable while not spoiling the optimistic business environment and the confidence of consumers.
- It has been said that Brazil may experience a virtual breakdown of the country's infrastructure, as attested by the acute crisis in air travel in 2007. New investments in these areas have been sluggish and take a long time to mature. So far, the Lula administration has not increased public investment in critical sectors and failed to create a reliable regulatory environment for private investment in infrastructure. In particular, the risk of a shortage of electric energy in the next years can be a major factor in inhibiting private investments, as occurred during the rationing of 2001. The sustainability of projected GDP growth rates going forward is dependent upon relevant investments in infrastructure and demands decisive change in public policies for infrastructure to occur very soon.
- Fluctuations of the international oil and other commodity prices will play an important role on the potential global crisis and on the performance of the Brazilian economy.
- Corporate Legislation, accounting practices and reporting requirements are improving. As a result of changes in the Brazilian Corporate Law and new regulations from the CVM (our local SEC), Local GAAP is prospectively going in the direction of IFRS, and statutory audits will be required for non-public large companies. This will certainly contribute for the local companies to gain even more transparency and competitiveness.

Doing Deals in Brazil

Section 2

Economic Environment

- The government's PAC ("Programa de Aceleração do Crescimento" - Growth Acceleration Program) and the PPPs (Public-Private Partnerships), along with other investment-oriented initiatives primarily in infrastructure, are expected to contribute for higher foreign direct investment going forward.
- Official interest rate is currently at approximately 10% p.a. level, which represents an actual deflated rate of approximately 7% p.a. Despite the huge decrease of the rate over the past years, it remains as one of the highest rates in the world. Future reductions will depend heavily on how close inflation rates are kept to the government's target.

Highlights of the Agribusiness industry

- Over the past decade, Brazil has consolidated its position as an important agricultural products global source for the international markets.
- Brazilian agriculture has benefited from currency devaluations, low production costs, rapid technological advances, and both domestic and foreign investments in production capacity.
- Brazil is a very competitive exporter of soy beans, sugar, poultry, beef, coffee, tobacco, frozen concentrated orange juice, soy bean oil and ethanol from sugarcane. Brazil is a pioneer in biofuel production and the world leader in using ethanol as fuel for vehicles.
- Export earnings have financed imports of wheat and occasionally corn (also used to feed animals).
- Brazil has the world's largest availability of land for food and bioenergy production.
- Brazilian competitiveness is based on low-cost production processes in most of the agricultural chains. There is also a high level of productivity and high technology employment.
- Large multinationals are investing in Brazil and strongly supporting research and development.
- Roads are in poor condition and there is a low use of rail and highways for commercial transport. Low use of biotechnology.
- Brazilian Agribusiness in numbers:
 - Crop 08/09 - grains: 137 million tons.
 - Exports 2008: US\$ 72 billion, 22.9% higher than 2007.
 - Agribusiness Trade Balance 2008: US\$ 60 billion, another record.
 - Agribusiness GDP grew 6.15% from 2007 to November, 2008.
 - Agribusiness in Brazil is responsible for 36.3% of all exports.

Source: Agriculture government and Companhia Nacional de Abastecimento - CONAB

Overview of Brazil

Key Figures

- Population: estimated at 188 million.
- 26 states and 1 federal district.
- GDP in 2008: US\$ 1,573 billion.
- Currency: Real (rate of US\$ 1 to approximately R\$ 2.0 as of June 2009).
- Language: Portuguese.
- GDP per capita of approximately US\$ 8,200.00 in 2008.
- Approximately 70% of the people are concentrated in the Southeast and Northeast regions.
- Average life expectancy of approximately 73 years.

Political Scenario

- Federative Republic of Brazil.
- Next presidential elections will be held in October 2010.
- President Luiz Inácio Lula da Silva was re-elected in 2006.
- Current legislation precludes him from running again in 2010.
- 20% of the population are rural dwellers, and 80% urban.
- Some 42% of the population is under 20 years of age and less than 8% is over 65 years.
- The population of the São Paulo and Rio de Janeiro states are approximately 34 million and 14 million, respectively.
- São Paulo is one of the fastest-growing cities in the world, based on current international surveys.

Economic Overview

- The largest economy in South America and the tenth in the world.
- Primary economic sectors are: agriculture, automotive, utilities, transport, industrial products, mining and energy.
- Main economic regions are: São Paulo, Rio de Janeiro, Minas Gerais and Paraná.
- 20 other metropolitan areas of Brazil have populations of more than 1 million.
- 30% of the population lives in the ten largest cities.
- Brazil represents the largest population in Latin America and the fifth largest in the world.
- GDP per capita in the Southeast, South and Midwest regions are much higher than in North and Northeast.

- Although mostly seen as a commodity exporter, agriculture and agribusinesses make up only approximately 30% of Brazil's GDP whilst industrial activity make up 40% of GDP. Banking and services respond for the remaining 30%.
- The main industries are: chemicals, cement, iron ore, tin, steel, aircraft, motor vehicles, auto parts and other machinery and equipment. The industrial production growth rate, according to IBGE, was 3.1% in 2005, 2.8% in 2006, 6% in 2007, and 3.1% in 2008.
- Natural resources - bauxite, gold, iron ore, manganese, nickel, phosphates, platinum, tin, uranium, petroleum, hydropower and timber, among others.
- Main agricultural products - coffee, soy beans, wheat, rice, corn, sugarcane, cocoa and citrus, among others.
- Export items - iron, soy bean, automobiles, soy bean oil and derivatives, aircraft, among others.
- Import items - petroleum, vehicle parts, electronic micro parts, medicines etc., among others.
- Main ports and harbours - Tubarão (ES), Itaqui (MA), Santos (SP), Itaguaí (RJ), São Sebastião (SP), Paranaguá (PR), Aratu (BA), Rio Grande (RS), Belém (PA), Angra dos Reis (RJ).

Source: IMF and World Bank

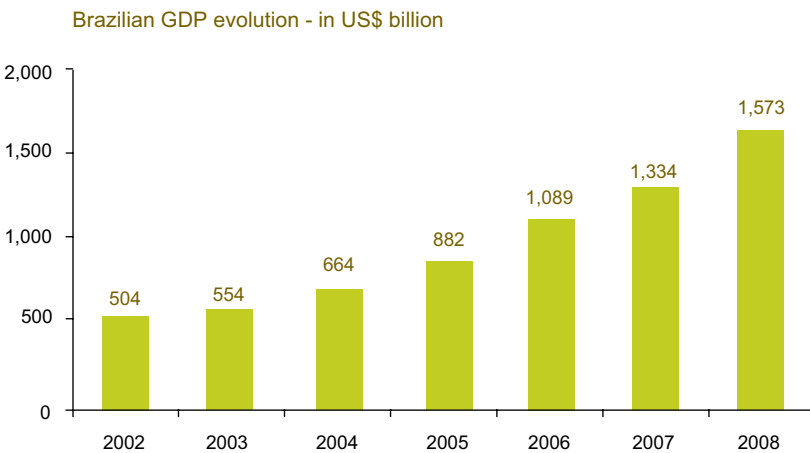
Region	Population		Land mass	
	In millions	%		%
Southeast	77.8	42.3		11.0
South	26.7	14.5		7.0
Midwest	13.3	7.2		22.0
North	14.6	7.9		42.0
Northeast	51.5	28.0		18.0
	183.9	100.0		100.0

Source: IBGE - Instituto Brasileiro de Geografia e Estatística

Doing Deals in Brazil

Section 2 Economic Environment

Brazil's GDP is the highest of Latin America and has been positively impacted by the large and developed agricultural, mining, manufacturing and service sectors. Inflation has decreased significantly since 2002.



Source: IBGE - Instituto de Geografia e Estatística

Main contributors to GDP growth in recent years include financial, political and social stability, inflation under control, increasing exports, high international reserves, no external debt, current account surpluses, oil self-sufficient, Central Bank independency and transparency, floating currency, less vulnerable to international crisis, benefiting from the high price commodities, increasing foreign investments. Appreciation of the Real over the years also contributed for such growth.

Challenges > Structural reform in tax and pension systems; low levels of investments in infrastructure, education, public health, among others.

Main Economic Indicators

In US\$ billion	2002	2003	2004	2005	2006	2007	2008(1)
GDP (US\$ billion) (2)	506.0	552.0	664.0	880.0	1087.0	1332.0	1584.0
Real GDP growth (% per year)	2.7	1.1	5.7	2.9	3.7	5.7	5.5
Unemployment rate (% of labor force)	10.5	10.9	9.6	9.8	10.0	9.3	7.6
General price index - IGP-DI (% per year)	26.4	7.7	12.4	1.2	3.8	7.9	9.4
Consumer price index - IPCA (% per year)	12.5	9.3	7.6	5.7	3.1	4.5	5.9
Exchange rate at year's end (R\$/US\$)	3.63	2.93	2.72	2.29	2.15	1.78	2.45
Exchange rate change (% per year)	53.8	(19.3)	(7.2)	(15.8)	(6.1)	(17.2)	37.6
Public sector deficit (% of GDP)	4.2	4.6	2.4	3.0	3.0	2.3	0.4
Public sector debt (% of GDP)	50.5	52.3	47.0	46.5	44.9	42.8	36.0
Goods exported	60.4	73.1	96.5	118.3	137.5	160.6	198.7
Goods imported	47.2	48.2	62.8	73.6	91.4	120.6	175.6
Trade balance	13.2	24.9	33.7	44.7	46.1	40.0	23.1
Current-account balance	7.6	4.1	11.7	14.3	12.9	1.7	(30.0)
International reserves	37.8	49.3	52.9	53.8	85.8	180.3	194.7
Foreign direct investment (3)	14.1	10.1	18.1	15.1	18.8	36.0	37.9
Total foreign debt	227.7	235.4	220.1	168.9	172.5	196.2	237.1

Source: Highlights Brazil, 2008-2009 edition (PwC Website)

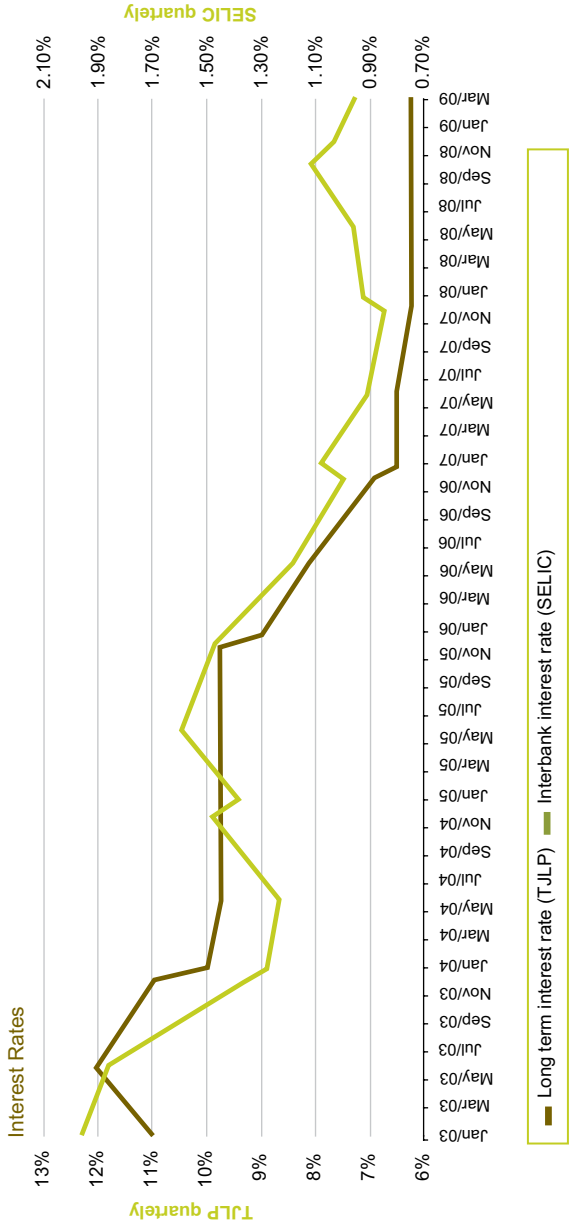
(1) Some 2008 figures are estimates based on the last published data.

(2) At the year-average exchange rate.

(3) Including intercompany loans.

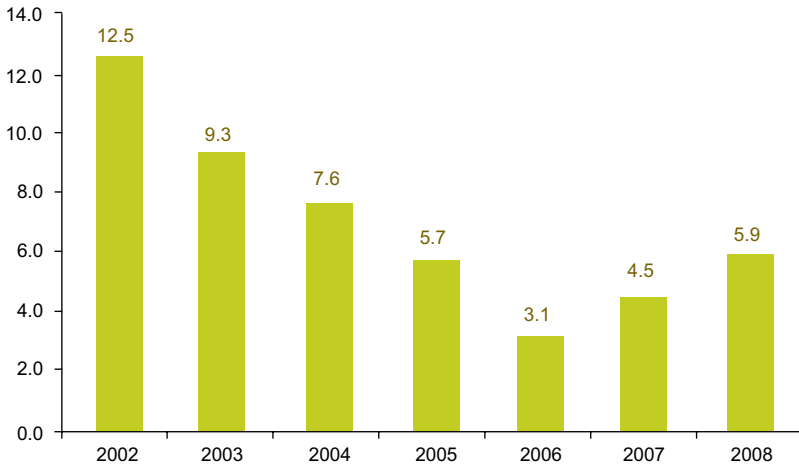
Doing Deals in Brazil

Section 2
Economic Environment



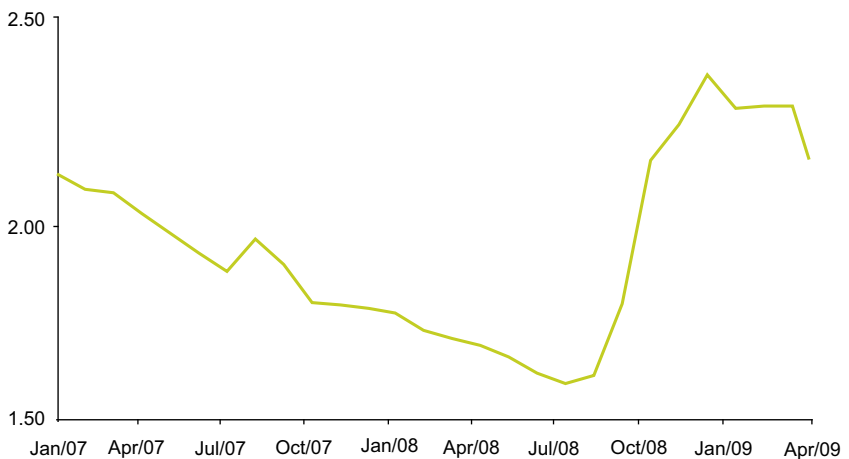
Source: Diário Oficial da União

Brazilian Inflation Index (IPCA) evolution



Source: Ipeadata (Presidência da República - Secretaria de Assuntos Estratégicos) Brazil used to be a hyperinflation economy until 1994, when the “Plano Real” was implemented by the former president, Fernando Henrique Cardoso.

USD-BRL Evolution



Source: Gazeta Mercantil

Doing Deals in Brazil

Section 2
Economic Environment



Source: Bloomberg

The annual growth rate of exports was 23% between 2007 and 2008, against the 43% growth in the rate of imports (in US\$ millions FOB).

Main exports/imports - by country

Country imports (US\$ millions)	2006	2007	2008
United States	14,850	18,887	25,810
China	7,989	12,618	20,040
Argentina	8,057	10,410	13,258
Germany	6,503	8,675	12,025
Nigeria	3,885	5,273	6,706
Japan	3,839	4,610	6,807
South Korea	3,106	3,391	5,412
Chile	2,908	3,483	4,162
France	2,837	3,525	4,678
Italy	2,570	3,347	4,612
Algeria	1,976	2,234	-
Taipei, Chinese	1,749	2,285	-
Other countries	31,125	41,883	69,687
Total	91,394	120,621	173,197

Source: Secretaria do Comércio Exterior (Brazilian Trade Balance Consolidated Data Report)

Doing Deals in Brazil

Section 2 Economic Environment

Country exports (US\$ millions)	2006	2007	2008
United States	24,679	25,314	27,648
Argentina	11,714	14,417	17,606
China	8,399	10,749	16,403
Netherlands	5,744	8,841	10,483
Germany	5,675	7,211	8,851
Mexico	4,440	4,260	4,281
Chile	3,896	4,264	4,792
Japan	3,884	4,321	6,115
Italy	3,829	4,464	4,765
Venezuela	3,555	4,724	5,150
Russia	3,443	3,741	4,653
Belgium	2,994	3,886	4,422
Exports to non - traditional countries	3,231	1,655	1,228
Other countries	51,988	62,802	81,545
Total	137,471	160,649	197,942

Source: Secretaria do Comércio Exterior (Brazilian Trade Balance Consolidated Data Report)

Main exports/imports - by product

Exports (in US\$ million)	2006	2007	2008
Transport material	20,444	23,865	27,026
Metallurgic products	14,676	16,100	23,047
Oil and fuel	13,005	16,042	19,427
Ores	9,755	12,026	18,727
Soy beans & prod	9,311	11,386	17,986
Meats	8,510	11,095	14,283
Chemicals	9,112	10,914	12,225
Sugar & Etanol	7,771	6,578	7,873
Machines e equipments	7,692	8,724	9,671
Electrical equipments	5,807	5,712	6,500
Paper & Pulp	4,006	4,726	5,834
Footwear & Leather	3,989	4,389	-
Other products	23,393	29,092	35,343
Total	137,471	160,649	197,942

Source: Secretaria do Comércio Exterior (Brazilian Trade Balance Consolidated Data Report)

Imports (in US\$ million)	2006	2007	2008
Raw products	45,287	-	-
Capital goods	18,911	25,120	35,929
Oil and fuel	15,199	20,068	31,466
Consumption goods	11,997	16,024	22,525
Intermediate goods	-	59,409	83,277
Total	91,394	120,621	173,197

Source: Secretaria do Comércio Exterior (Brazilian Trade Balance Consolidated Data Report)

Doing Deals in Brazil

Section 2 Economic Environment

In 2008, the Top 10 companies represented approximately 29% of exports and 25% of imports (in US\$ millions FOB)

Companies (US\$ millions)	Exports		
	2006	2007	2008
Petróleo Brasileiro S.A. - Petrobrás	11,087	13,626	19,299
Companhia Vale do Rio Doce	5,990	7,904	13,531
EMBRAER - Empresa Brasileira de Aeronáutica	3,269	4,737	5,733
Bunge Alimentos S.A.	2,267	3,055	5,023
Adm do Brasil Ltda.	801	1,224	2,593
Sadia S.A.	1,316	1,776	2,424
Samarco Mineração S.A.	1,087	1,279	2,228
Cargill Agrícola S.A.	1,606	1,759	2,205
Mercedes- Benz do Brasil Ltda.	-	1,424	2,109
Volkswagen do Brasil Ltda.	2,279	2,126	2,002
Other companies	107,768	121,738	140,794
Total	137,470	160,649	197,942

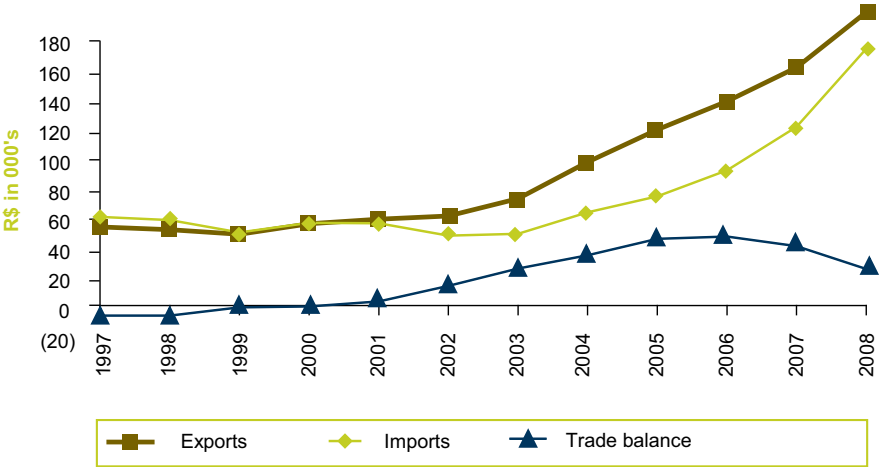
Source: Secretaria do Comércio Exterior

Companies (US\$ millions)	Imports		
	2006	2007	2008
Petróleo Brasileiro S.A. - Petrobrás	11,207	15,374	24,087
EMBRAER - Empresa Brasileira de Aeronáutica	2,217	2,957	3,766
Alberto Pasqualini - REFAP	2,015	2,324	3,536
Bunge Alimentos S.A.	294	1,241	2,777
Cisa Trading S.A.	734	734	1,833
Motorola Industrial S.A.	1,946	1,866	1,667
Mercedes - Benz do Brasil Ltda.	-	1,047	1,589
Samsung Eletrônica da Amazônia Ltda.	901	1,046	1,554
COPEL - Cia Petroquímica do Sul	1,102	1,316	1,524
Volkswagen do Brasil Ltda.	783	1,079	1,458
Other companies	70,197	90,991	129,408
Total	91,396	120,617	173,197

Source: Secretaria do Comércio Exterior

Section 2
Economic Environment

Brazilian trade balance evolution - 1997 to 2008



Source: Banco Central do Brasil

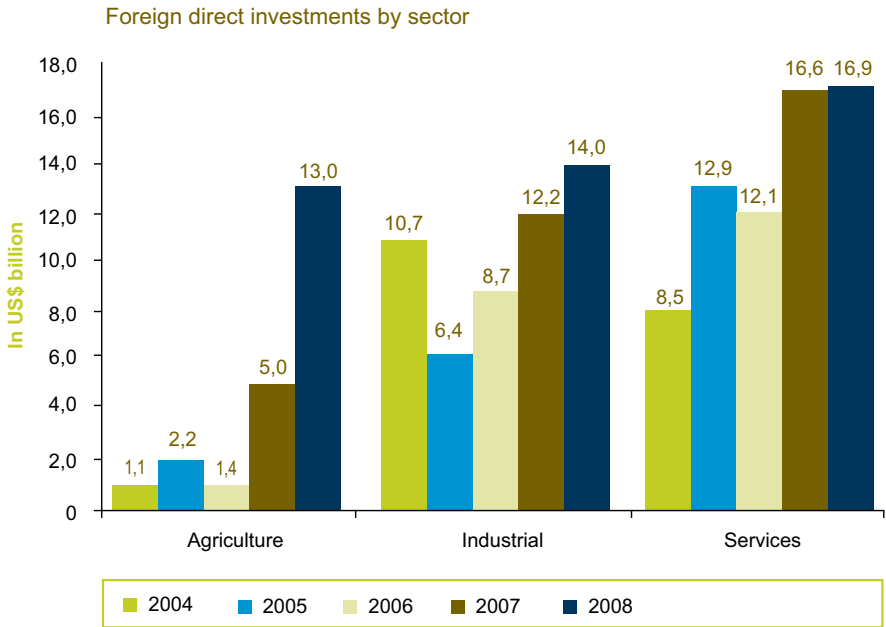
Europe has been the main foreign direct investor during the last five years. The manufacturing and services sectors received respectively 31.9% and 38.5% of the total investment in 2008.

Foreign direct investor

In US\$ million	2004	2005	2006	2007	2008
Netherlands	7,705	3,208	3,495	8,116	4,624
United States	3,978	4,644	4,434	6,039	6,918
Luxembourg	747	139	745	2,855	5,937
Spain	1,055	1,220	1,514	2,164	3,787
Germany	795	1,269	848	1,757	1,037
Cayman Islands	1,522	1,078	1,974	1,604	1,555
France	486	1,458	745	1,214	2,856
Canada	593	1,435	1,286	819	1,438
Mexico	60	1,661	782	409	220
Japan	243	779	648	465	4,099
Portugal	570	335	300	468	1,026
Other countries	2,512	4,294	5,462	7,795	10,390
Total	20,265	21,522	22,231	33,705	43,887

Source: Banco Central do Brasil

Section 2
Economic Environment



Source: Banco Central do Brasil

Section 3

M&A and Private Equity Activity

Section 3.1

General Considerations

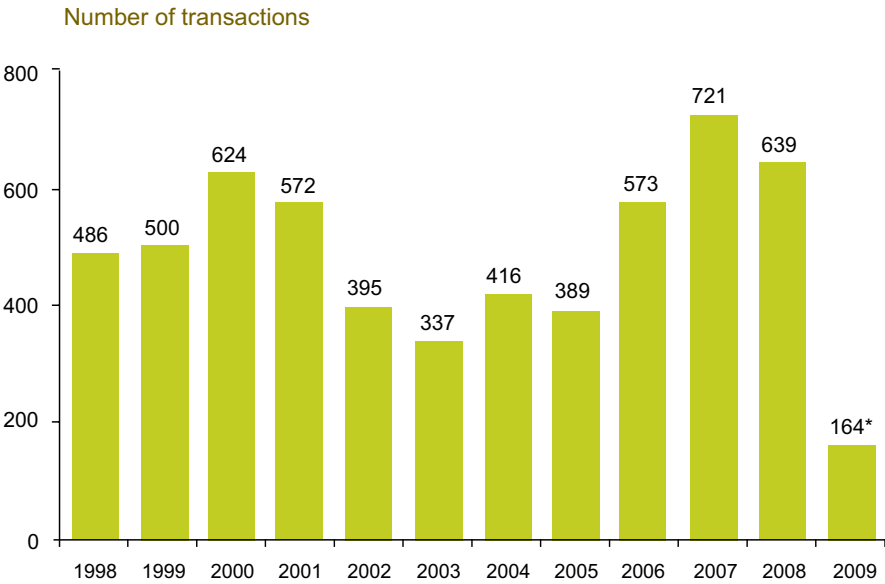
M&A activity has been booming in recent years in Brazil, with the record of 720 deals in 2007. The number of deals in 2008 (639 deals) reflects the impact from the global slowdown especially felt in the last quarter of the year.

- During the 90s, Brazil entered in the route of foreign investors, after a series of liberalizing structural changes including a more open economy, privatization and deregulation of key sectors.
- After that, Brazil faced several years of instability resulting from crises in other emerging economies and high levels of foreign and domestic debt. This, combined with the fear of major changes in economic policy that the economic agents expected the Lula government to implement, led Brazil to unstable exchange rates, erratic growth and low levels of M&A activity and FDI.
- Those expected changes never occurred; liberal, sound and responsible economic and fiscal policies prevailed, and growth took over from 2004/5 onwards.
- Mergers and acquisitions were record-high at US\$ 36 billion in 2007 (according to Thomson Reuters), with consolidation in several sectors, including petrochemicals and consumer goods.
- With a strong Real, Brazilian corporations were able to make several acquisitions abroad, mainly in South and North America, and in the steel, mining, petrochemical and food sectors. For the same reason, Brazilian companies increased significantly their share of local acquisitions (vis-à-vis international investors).
- With the consolidation of the Brazilian stock market as a feasible exit route, private equity funds also became important players in the M&A market.

Doing Deals in Brazil

Section 3 M&A and Private Equity Activity

The number of transactions in the first 4 months of 2009 (164) is 25% lower than in the same period of 2008 (219), but still higher than in the same period of 2006 (152).



Source: PwC Corporate Finance.

* Acquisitions until April 2009.

Section 3.2

M&A activity in 2008 and 2009 outlook

M&A deal values in Brazil in 2008 increased by 42% from 2007 levels. In 2008 total deal values in Brazil reached \$ 51 billion with 639 completed deals, against \$ 36 billion and 720 completed deals in 2007 (Source: PwC Corporate Finance and Thomson Reuters report; only transactions announced in the press). According to these sources, 27% of the 639 deals completed in 2008 were made by foreign acquirers or non-Brazilian buyers (31% in 2007). These numbers indicate Brazil continued to be a destination for investors. An important level of M&A activity is also expected in 2009, despite the impact of the global financial crisis and the risk-averse philosophy adopted by many investors.

The number of announced deals in the 4 months of 2009 decreased 25% compared to the same period of 2008 (164 against 219 deals). Industries expected to experience increased deal activity include infrastructure, financial services, automotive, consumer products and energy. Infrastructure projects could include ports, airports, roads and energy transmission. Financial services activity will likely be spurred by further fallout from the collapse of multinational institutions.

The automotive industry is expected to continue experiencing deal activity caused by the massive changes being undertaken at large U.S. auto manufacturers. The consumer products sector is expected to benefit from the region's relatively young demographic structure, compared to the US and Europe. The energy sector is also expected to experience activity because of the recent discovery of hydrocarbon reserves and additional exploration activities.

The number of Initial Public Offerings - IPOs in the country declined significantly in 2008, with four IPOs raising \$ 7 billion compared to 64 IPOs which produced \$ 56 billion in 2007. The decline in IPO value was also impacted by the significant currency devaluation. The Brazilian equity market (the Brazilian Stock, Mercantile and Futures Exchange) presented four IPOs producing \$ 3.2 billion in 2008. The significant IPO in 2008, the \$ 2.9 billion transaction by the Brazilian oil and gas company OGX Petróleo, was the largest IPO in Latin American history.

Doing Deals in Brazil

Section 3 M&A and Private Equity Activity

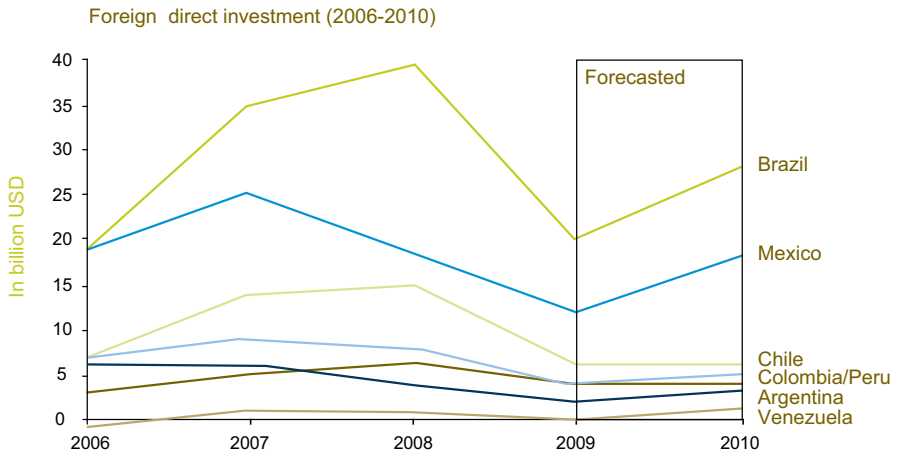
Stock exchange index: after peaking in 2008, stock exchange indices declined substantially, especially after the second half of 2008. Despite the decline, the Brazilian stock market outperformed the S&P 500.

The combination of the recent market regression with the strength of the U.S. dollar against the local currencies may produce lower dollar based purchase prices for Brazilian companies/assets.



Source: Bloomberg.

Foreign direct investment: the flow of Foreign Direct Investment - FDI into Brazil (largest in the region) has been historically strong and, despite the downturn in 2009 caused by overall global market conditions, is expected to increase again in 2010. The relatively positive macroeconomic environment combined with availability of public-to-private infrastructure partnership projects, stability and consistent improvement in the sovereign credit ratings is expected to contribute to the expected FDI inflow growth.



Source: The Economist Intelligence Unit (EIU) Data Service, February 2009. The numbers for 2009 and 2010 are based on forecasted data from the source listed above.

Credit rating: historically, Brazil maintained higher levels of public debt compared to other emerging regions, what makes the country more vulnerable to external shocks and refinancing risks. Since 2003, levels of public debt have been reduced significantly from greater than 50% of GDP to approximately 35%, according to the OECD Latin American Economic Outlook 2009. The decrease in public debt has been one of the primary factors supporting the recent increases in sovereign credit ratings for countries in the region. In 2008, Standard & Poor's upgraded the Brazilian sovereign credit rating.

Additional information on the profile of the M&A market in Brazil

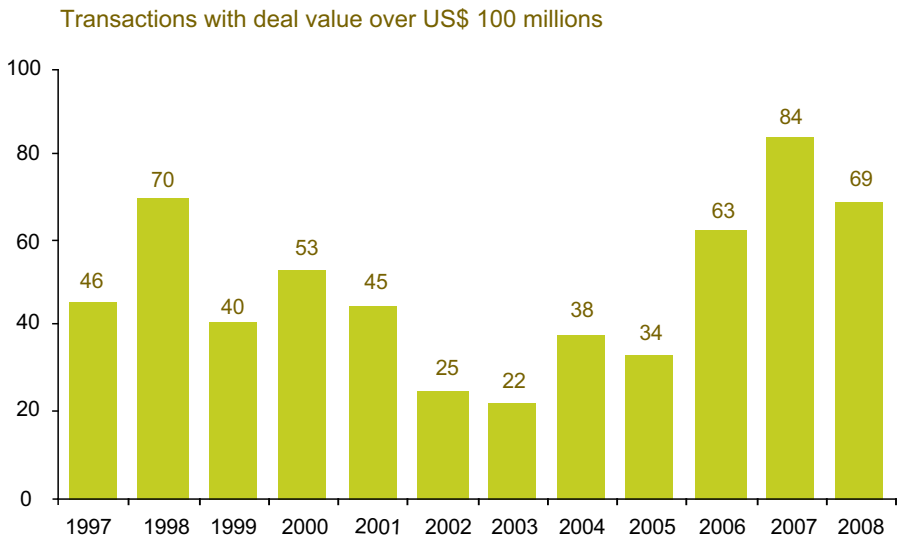
Buyers

- Local and multinational firms.
- Private equity and buy-out funds.
- Government and private pension funds.
- Distressed debt conversions.

Targets

- Private companies.
- Family owned.
- Privatization (first and second waves).
- Carve-out of acquired non-core businesses.
- Non-core or distressed businesses of multinational companies.

It is expected that the value of the transactions in Brazil will grow



Source: PwC Corporate Finance

The following were the most relevant transactions disclosed in the first 4 months of 2009:

- BTG acquiring the brazilian operations of UBS (US\$ 2.5 billion).
- Banco do Brasil acquiring a participation in Banco Votorantim (US\$ 1.8 billion).
- Aracruz being sold to VCP (US\$ 1.4 billion).
- Camargo Corrêa acquiring CPFL (US\$ 1.1 billion).
- Cosan acquiring Nova América (US\$ 0.7 billion).
- Sonofi-Aventis acquiring medley (US\$ 660 million).

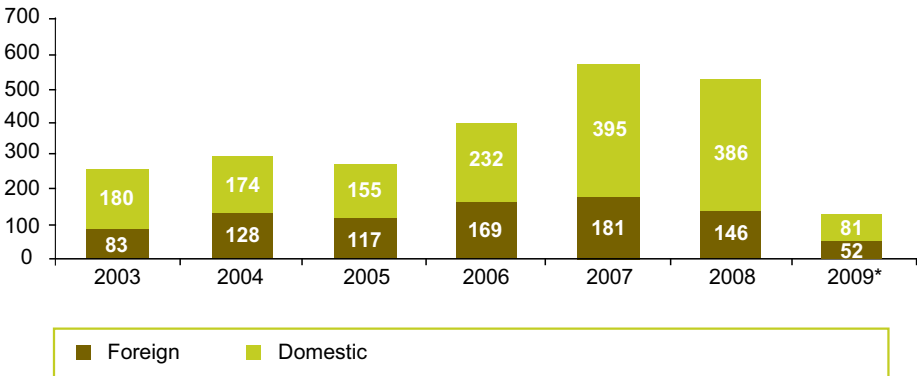
Doing Deals in Brazil

Section 3 M&A and Private Equity Activity

Foreign and domestic capital participation in the M&A activities

The number of acquisitions made by local companies in Brazil is increasing significantly as a percentage of total operations.

Acquisition deals by origin of buyer

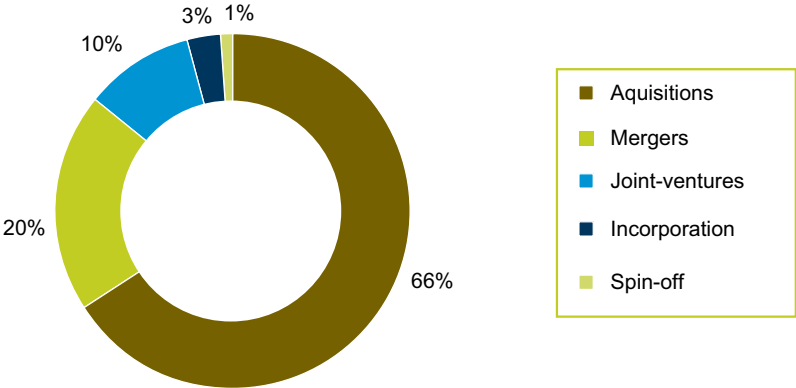


Source: PwC Corporate Finance

*Acquisitions until April 2009

The disclosed acquisitions in the first 4 months of 2009 were 81 made by domestic companies and 52 by foreign inventors.

Transaction by type – 2008



Source: PwC Corporate Finance

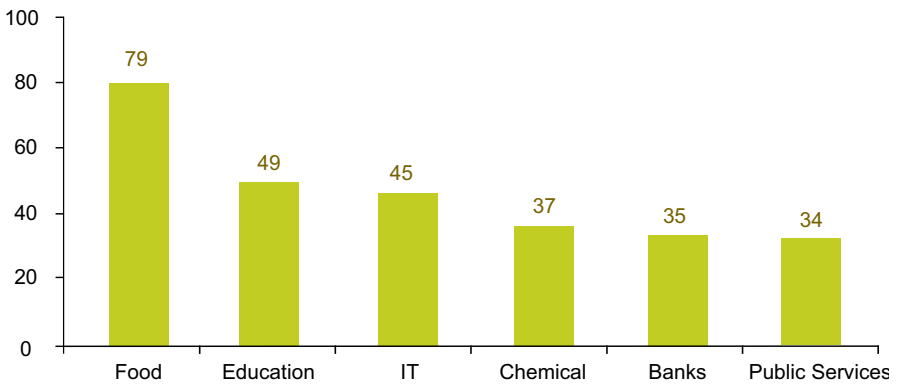
The first 4 months of 2009 indicate that acquisition of control remains the preferred model for a transaction (58%).

Doing Deals in Brazil

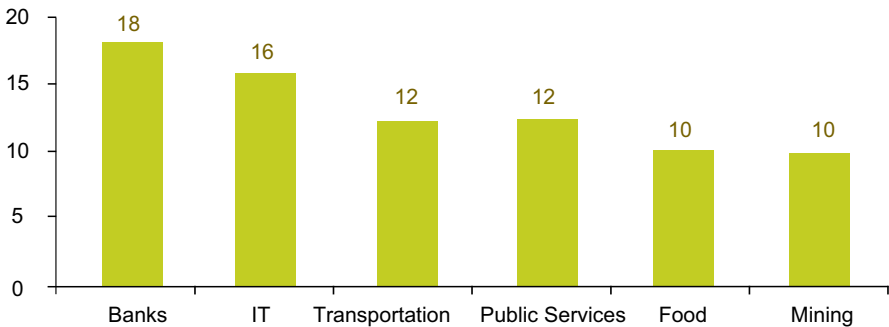
Section 3 M&A and Private Equity Activity

Transactions by sector - 2008 and first 4 months of 2009

Transactions by sector in 2008



Transactions by sector (Jan - Apr.09)



Section 3.3 Private Equity

Private Equity Gains Momentum in Brazil

Brazil saw a significant increase in M&A activity in recent years, continuing the upward trend which began in 2004. In 2007, the number of announced deals increased peaked in 720, although this figure dropped to 639 in 2008, feeling the consequences of the world slowdown. The Brazilian M&A market has been leveraged by a combination of several factors that stimulate and strengthen Brazil as an investment option to China and India. The combination of factors, such as more developed and liquid capital markets, new financing instruments, the investment grade with a stable economy and the growth potential of the economy, are leveraging the whole country, placing Brazil as a serious player in the worldwide market.

The private equity industry is taking its share. Funds participated in 108 of the 639 transactions announced in 2008, a significant 17% of the total. Still in 2008, the number of PE deals in Brazil increased by 20%. There was a growing presence of large funds that have been traditionally operating in Brazil (like AIG, Advent, GP, Banco Pátria and Gávea) and the entrance and/or confirmation of interest in the country published in the media including Blackstone, Carlyle, GE Capital, One Equity Partners, Morgan Stanley, Apax Partners and CVC. All these players are competing for investment opportunities with other local and international funds, as well as with strategic investors.

Real estate, education, consumer goods, logistics, healthcare, outsourcing services, agribusiness and biotechnology companies are the new investment targets for Private Equity funds in Brazil. The approach of the Private Equity industry in Brazil is wider, and funds in Brazil are more flexible in terms of interest to be acquired and investment size. Private equities have always been active in the low-mid market deals. In 2007 and 2008, this market experienced considerable activity, and funds were moving forward to the strategic investors' arena. However, since the last quarter of 2008, there is a general sense of precaution within the PE houses, and the number of concluded deals has decreased.

The leading funds, in terms of capital raising in recent years, were Advent International and GP Investments (GP has completed its IPO in 2007 and ended the year with some US\$ 1.5 billion in assets; Advent raised also a US\$ 1.3 billion fund for Latin America). Blackstone, which is a partner of Banco Pátria in Brazil, was said to be prospecting business opportunities involving figures in the range of US\$ 1 billion.

What to expect for the near future?

Perspectives are that in 2009 the Private Equity industry will mature and increase its presence in the economy despite the global credit crises. While the worldwide market is taking an observer position, M&A and the Private Equity industries in Brazil are active, although in a slower pace. Despite the modest GDP growth forecast for 2009, perspectives for 2010 onwards are optimistic. Concentration opportunities and the new credit market (e.g., the credit availability in the real estate and automobile markets, with longer payment terms and at more reasonable interest rates) are exciting to the market. Anyway, as observed on a worldwide basis, commodity prices and inflation have to be closely watched.

Private equity funds are expected to exercise a cautious investment approach to Brazil in 2009, focusing rather on existing portfolio companies. Investments are expected to be made on a very selective basis and alternative ways of financing might need to be considered since highly leveraged buy-out models may not be available. Despite these challenges, markets offer excellent opportunities as many companies face liquidity problems and reduced valuation multiples. Current market conditions increase companies' needs for strong partners who can provide capital and are willing to

become principals or co-investors. The challenges for investors in 2009 will likely be to (i) select the right deal, (ii) evaluate the target's financial situation and (iii) develop valuation models with parameters that enable buyers to provide purchase prices which are appropriate in the present highly volatile economic environment.

Main sectors of investment are expected to be healthcare and outsourcing services, agribusiness/ ethanol and biotechnology, real estate shopping malls, food and consumer goods, IT, education and finance - these last ones for consolidation/bolt on strategies. Infrastructure, given Brazil's structural deficit, is also a sector to continue to be observed.

Section 4 Cultural Issues

Summary of significant cultural issues



Language

Brazil's official language is Portuguese. There are no significant local dialects nor other derivations from the official language, but a number of words and phrases vary from those used in Portugal. English is the most used foreign language in the business community.

Religion

The predominant religion is Roman Catholicism. Many other religions are also practiced, since immigrants of different creeds have settled in Brazil. The constitution guarantees religion's freedom.

Education

Government-subsidised (free) and private educational facilities from primary school through university offer full or part-time curricula. The government also subsidises national apprenticeship training programs in order to develop manpower for various industrial and commercial sectors, and an educational program to reduce illiteracy. Recent studies indicate that the illiteracy rate of the population older than 15 years in Brazil is approximately 14%. The general level of education requires much improvement, with only 5% of enrolled students going on to higher education.

Living standards

The living standard of a large proportion of the population is very low, while the top stratum is extremely high. This income gap between rich and poor has been a constant preoccupation of successive governments. Basic social indicators underscore the differences in regional development.

The Gross Domestic Product (GDP) per capita is around the equivalent of some US\$ 8 thousand.

Cultural and social life in Brazil

With its mixed background of Portuguese, Italian, German, Japanese, East European and African immigrants, Brazil offers a wide diversity of cultural and social activities depending on the region of the country. Most major cities support cultural institutions. Leisure and recreation activities are mainly outdoors, taking advantage of the favorable climate. Many social clubs in Brazil offer extensive sports and social facilities.

The attitude of local business community towards foreign investment

In general, the attitude of local businessmen towards foreign investment is welcoming. Certain sectors have exerted strong lobbying pressure in order to protect their activities by a number of means, including the imposition of trade barriers and the establishment of restrictions on foreign investment. In the past, such political pressure was quite successful but, since the early nineties, the government has gradually changed this situation, as it seeks to generate more efficiency and competitiveness in the business environment.

Workforce attitude towards foreign investment

If foreign investment and management can be seen to bring jobs and compete on an equal basis with Brazilian businesses, the attitudes of the workforce tend to be welcoming.

Cultural Perception of Due Diligence

The need for detailed analysis and due diligence to be performed by a potential investor has been accepted by sellers of local businesses in Brazil. However, the purposes of due diligence are not always clear in the minds of local businessmen and the staff of target companies. It is sometimes thought to be some form of audit work or to be limited to an analysis of the company's financial, tax and legal positions.

The existence of generally less homogeneous accounting and reporting systems and less sophisticated financial and accounting departments in medium and small sized Brazilian companies renders the preparation of due diligence information and the execution of due diligence exercises generally more difficult and time consuming than when performed in more developed countries.



Section 5

Accounting and Audit Requirements

Accounting and Audit Requirements in Brazil

The differences between IFRS and accounting practices currently adopted in Brazil are still significant.

The comments made in this section of Doing Deals are for those who wish to gain a broad understanding of the key differences International Financial Reporting Standards (IFRS) and accounting practices adopted in Brazil.

It should be noted that the accounting practices adopted by Brazilian financial institutions and insurers, as well as by companies operating in certain specific industries such as electric energy and telecommunications, are different in certain aspects from those adopted by companies in other industries because of the specific standards issued by industry regulators - Brazilian Central Bank (BACEN), Superintendence of Private Insurances (SUSEP), National Electric Energy Agency (ANEEL), and National Telecommunications Agency (ANATEL).

This publication is not intended for specific industries and may not cover differences for companies operating in such industries. This publication primarily covers the differences applicable to companies in general. No summary publication can do justice to the many differences that exist between detailed standard frameworks.

Even if their fundamentals are similar, there can be differences in their application. Additionally, in general, Brazilian accounting practices have a lower level of detail and application guidance, which leads to a higher number of discrepancies as to their application, which could have a material impact on the financial statements. In this publication we have focused on the accounting treatment similarities and differences most commonly found in practice. Users and preparers of financial statements must consult all the relevant accounting standards and related interpretations, as well as additional pronouncements issued by the relevant regulators for a detailed knowledge of the accounting treatment and financial information reporting requirements.

General Comments on Accounting and Audit Requirements in Brazil

Audit requirements

Audited financial statements are required for listed companies, financial institutions and insurance companies. Listed companies with total annual gross revenue above R\$ 100 million must present quarterly information with a review by independent auditors. Other regulated segments might require audited financial statements. These entities and corporations are required to publish their annual financial statements in a newspaper.

Law No. 11638 enacted in December 2007 determines that, from 2008 on, all entities, independently of their statutory structure or whether they are listed or regulated entities or not, must have their financial statements audited by independent auditor if they are considered as of large size. Large size companies are defined as those which gross revenue in the last year was greater than R\$ 300 million or total assets over R\$ 240 million within Brazil. These limits are applicable not only to individual legal entities but also to a group of entities under common control, even if the control is abroad. Please note that this analysis considers the operations in Brazil only.

Accounting Practices Adopted in Brazil

The accounting practices adopted in Brazil (BR GAAP) are based on the local Brazilian Corporate Law. Law No. 11638/07 was enacted in December 2007 amending the previous Law in relation to certain accounting practices and the format of the financial statements, as from the fiscal year ending on or after December 31, 2008. The changes determined by such law made BR GAAP get closer to the International Financial Reporting Standards - IFRS, although there are still several remaining differences.

CVM, Brazilian Central Bank (BCB) and Insurance Regulator (SUSEP) have issued regulations determining that entities under their rules must prepare consolidated financial statements in accordance with IFRS by 2010. Stand-alone financial statements must, so far, be prepared in accordance with BR GAAP.

The format of the financial statements in Brazil is similar to IFRS. Level of disclosure in BR GAAP is limited if it is compared with disclosure requirements prescribed by IFRS.

Impacts of Law No. 11638/07 on Accounting Requirements in Brazil

As mentioned before, Law No.11638/07, enacted in December 2007, amended Brazilian Corporate Law in relation to certain accounting practices and the format of the financial statements, as from the fiscal year ending on or after December 31, 2008. The main issues addressed by the new law, which may affect the financial statements for the next years, may be summarized as follows:

- a. The issue of accounting standards by the Brazilian Securities Commission (CVM) for publicly-held companies subjected to its regulation should be consistent with international standards. In a release to the market, the CVM informs that, in accordance with its preliminary understanding, the accounting standards adopted by IASB - International Accounting Standards Board are currently considered in the international reference in terms of accounting standards.
- b. The Statement of Changes in Financial Position is replaced by the Statement of Cash Flows. Additionally, the Statement of Added Value is included in the formal set of financial statements for listed companies.
- c. The new law (i) creates the subgroup "Intangible Assets" including acquired goodwill; (ii) in property, plant and equipment, includes assets arising from transactions which transfer to the company the benefits, control and risk, regardless of whether there is a transfer of ownership; and (iii) restricts the use of deferred charges to pre-operating expenses and additional restructuring costs when linked with generation of additional revenue.
- d. Creates, in stockholders' equity, the subgroup "Asset Valuation Adjustments", which main purpose will be to record the contra-entry of certain adjustments of assets to market value, particularly relating to the valuation of certain financial instruments, as well as the translation adjustments relating to foreign exchange rates changes on corporate investments abroad.

- e. Establishes new criteria for the classification and valuation of investments in financial instruments, including derivatives, aligned with the IFRS, which classifies these financial instruments into three categories, namely: Trading Securities, Securities Held for Sale and Other Securities. The two first categories are valued at their market price and the last one at cost plus accrued income.
- f. Introduces the concept of Present Value Adjustment for long-term asset and liability transactions and for significant short-term ones. CVM has already informed the market that the application of this concept by the companies it regulates is dependent on the issue of a specific rule or a reference expressed in some other rule, defining its scope and establishing the requirements for its use, which should be in line with IFRS.
- g. Establishes that the company must periodically analyze the extent to which the amounts recorded in property, plant and equipment, intangible assets and deferred charges are recoverable. CVM has already regulated this subject for publicly-held companies through the issue of CVM Resolution. No. 527/07, which approved Statement 1 of the Brazilian Accounting Pronouncements Committee (CPC 1), which is aligned with IAS 36.
- h. On merger, combination and spin-off transactions carried out between unrelated parties and linked to the actual transfer of control, all assets and liabilities of the merged, combined or spun-off company should be identified, valued and recorded at market value.
- i. Changes the parameter for recording associated companies on the equity method of accounting, extending it to all associated companies over which the investor has significant influence, and it is presumed that this occurs when the investment is 20% or more of the voting capital (instead of the total capital).
- j. Creates the Tax Incentive Reserve to enable, especially limited liability corporations, to record donations and subventions for investments as income for the year instead of in a capital reserve. The portion of net income which contains this tax benefit may be transferred to this reserve and excluded from the calculation basis of the compulsory minimum dividend.
- k. Eliminates the possibility of carrying out revaluations of property, plant and equipment. According to the new law, companies may choose to keep the existing balances, which should be realized in accordance with the current rules, or reverse these balances up to the end of 2008.

There were also changes coming from Law No. 11638/07 for operating leases (the accounting treatment is now similar to IFRS) and functional currency (the functional currency used to be the currency of the country where the entity is located and now the accounting treatment is similar to IAS 21), among others.

It is important to stress that the comments made on the accounting changes made through Law No. 11638/07 represent the current preliminary view of the respective accounting treatments and impacts, since such changes are quite recent and are in the process of being regulated. There may be differences when the final new local accounting standards are issued.

It is also important to mention that these changes will certainly require the change in the local culture, mindset and training standards for all professional involved with accounting and finance matters. As time passes, there is a trend of BR GAAP being more and more close to IFRS, although convergence will take a long time to be completed for companies with no relevant public interest.

Summary of main differences between BR GAAP and IFRS

As mentioned before, despite the important movement towards IFRS, BR GAAP still differs from International Financial Reporting Standards - IFRS in many different accounting treatments. Below, we are describing some of the current most relevant differences in BR GAAP when compared to IFRS:

Start-up costs - in accordance with BR GAAP, these costs must be capitalised and deferred over a period between five to ten years.

Segment reporting - BR GAAP does not require companies to present segment information.

Biological assets - these assets are usually measured at historical cost for BR GAAP purposes, although in limited circumstances use of fair value is permitted.

Consolidated financial statements - similar to IFRS, but without considering currently exercisable potential voting rights.

Equity instruments vs. financial liabilities - BR GAAP is based on the form of the transaction instead of on the substance. As a result, many financial instruments might be accounted for as equity instrument in BR GAAP and would be accounted for as financial liabilities under IFRS. On the other hand, compound instruments (e.g. convertible bonds) are usually treated as financial liabilities with no equity component.

Revaluation of property, plant and equipment - revaluation from 2008 (prospectively) is no longer allowed in the BR GAAP. Historical cost must be used.

Investment property - for BR GAAP, they are usually treated as property, plant and equipment, i.e., at historical cost less depreciation and impairment, when applicable.

Earnings per share (EPS) - BR GAAP does not have the concept of diluted EPS. EPS is determined as the result of the net result for the year divided by the outstanding number of shares at the end of the year.

Embedded derivatives - there is no guidance in the BR GAAP on this issue. Usually the contracts with embedded derivatives are not split and the derivative is not separately recognized.

Goodwill - for BR GAAP, goodwill is usually amortised over a period between five to ten years.

The summarised text above might not be the only source of assessment of the main differences between BR GAAP and IFRS. It is actually a very limited description, in order to provide the reader with an initial understanding. We advise prospective investors to seek for help from your accounting advisors when assessing such differences.

Section 6 Tax Issues

Preliminary comments regarding the tax environment in Brazil

Brazil is commonly referred to as the land of taxes - there are currently more than 50 different taxes and social contributions that can be assessed against a company. In addition, the tax system is highly regulated and extremely complex and it is difficult, if not impossible, to structure a transaction in order to avoid or eliminate succession liability. There are also a number of other factors which increase the risk in this area, including the nature of the legislation (sometimes with an emphasis on form rather than substance of transactions), the frequency of tax audits performed by Federal, State and Municipal authorities, the incidence of relatively high penalties and interest charges in the event of non-compliance and an enforcement process which is difficult to predict (and at times arbitrary). It is also important to consider the fact that the statute of limitations for most taxes and social charges in Brazil is of five years (there are some significant exceptions, such as Government Severance Indemnity Fund for Employees - FGTS). In the case of fraud, tax authorities/auditors may access financial, accounting, tax and labour information for periods superior to five years. As a result of the above mentioned, we would strongly recommend that a tax and labour due diligence be performed prior to the finalization of any proposed acquisition of a Brazilian target.



With respect to succession liability in Brazil, the responsibility to pay present and previous tax and labour liabilities, both known and unknown, generally follows the legal entity, based on the concept that the owner of the operating assets or the acquirer of the business unit retains the capacity to generate income and hence, pay the tax or labour liabilities. As a result, whether in structuring the transaction as an asset or a stock acquisition, the buyer steps into the shoes of the previous owner with respect to all present and past tax and labour liabilities and contingencies.

Stock acquisition

The most common means used by foreign companies to invest in Brazil is through the acquisition of a Brazilian target entity through the purchase of its shares.

This acquisition method has several tax and labour implications for the buyer. From a legal standpoint, the business unit retains its identity in all respects including its taxpayer identification number. As a result, the buyer will step into the shoes of the former owner and be subject to, and primarily liable for, any known and unknown tax and labour contingent liabilities. In addition to this, the buyer will be also primarily liable for any fines and penalties imposed by the tax authorities regardless of whether such fines or penalties relate to target activities prior to or after the transaction. When acquiring the stock of a Brazilian Target Corporation, caution must therefore be exercised so that the major tax and labour contingent liabilities can be identified, measured and analysed, so that the buyer can factor the cost of the liabilities into the overall investment decision.

Purchase of assets and assumption of liabilities

A foreign investor may, for a variety of business reasons, structure the acquisition of a Brazilian Target Corporation as an asset purchase of the business unit (operating assets), and assume part or all of the related liabilities. Unlike a stock acquisition, the acquirer will be secondarily liable for the income tax liabilities but will be primarily liable for VAT taxes and labour liabilities. In addition, it is not common to structure a transaction as an asset acquisition in Brazil because the transfer of assets will typically trigger additional VAT taxes.

Types of investment mechanisms in Brazil

Besides the private deals, a foreign investor has two other alternatives of investing in a Brazilian Corporation, which are often used. They are (i) acquiring shares directly on the Brazilian stock exchange market and (ii) investing on FIP (Equity Investment Funds). Accordingly, under certain circumstances the capital gains on the disposal of such investments made in the Brazilian Corporations are not subject to local taxation, provided they meet certain requirements, as per local tax and corporate legislation.

New corporate legislation

Brazilian corporate legislation has been recently changed through Federal Law 11,638/07, which affected significantly accounting practices in Brazil as from January 1, 2008. The main goal of this new rule is to adequate the Brazilian GAAP to the IFRS. As a consequence, such changes have tax implications as well.

In December 2008, through the Provisional Measure n° 449, Brazilian Government introduced the Transitory Tax Regime - "RTT" in order to neutralize the potential tax effects derived from new accounting methodologies brought by Law 11.638/07.

According to such provisional measure, the RTT is not mandatory and the company may opt for such regime for the years 2008 and 2009. Such option has to be formalized in the Income Tax Return, which will be submitted to the tax authorities by June 30, 2009. Note that the option for the RTT may have a significant impact in the company's tax burden, mainly concerning IRPJ, CSLL, PIS and COFINS taxes.

Public Digital Bookkeeping System - SPED

The SPED was enacted in 2007 in the objective of integrating the tax and accounting information enabling the tax authorities to cross check the tax returns filed by the taxpayers with their accounting records.

The SPED contemplates three initiatives:

- i. Accounting SPED;
- ii. Tax SPED; and
- iii. Electronic tax invoice.

The Companies have to be ready to put in place such system as from 2009. Note that there is a restricted list of entities, which in the course of the year 2008 is part of the experimental implementation process.

Background information on the main taxes and contributions in Brazil

The main federal, state and municipal taxes are as follows:

Federal

- Corporate Income Tax (IRPJ).
- Corporate Social Contribution Net Income (CSLL).
- Withholding Income Tax (IRRF).
- Excise Tax (IPI).
- Import Tax (II).
- Social Integration Program Tax (PIS).
- Social Contribution on Revenues (COFINS).
- Financial Operations Tax (IOF).
- Contribution at the Economical Domain (CIDE).
- Export Tax (IE).
- Rural Property Tax (ITR).

State

- Value-Added Tax on Sales and Services (ICMS).
- Inheritance and Gift Transfer Tax (ITCMD).
- Automobile Ownership Tax (IPVA).

Municipal

- Service Tax (ISS).
- Property Taxes (IPTU and ITBI).

Corporate Income Tax (IRPJ)

The Corporate Income Tax is determined based on the calendar year, with monthly tax payments, and it is generally computed on the basis of annual or quarterly taxable income. IRPJ is charged at the rate of 15% plus a surcharge of 10% on annual taxable income in excess of R\$ 240,000 (approximately US\$ 145.00).

Note that the Companies located in the north and the north-east regions of Brazil may apply to a tax incentive, which corresponds up to a 75% reduction of IRPJ due.

Social Contribution on Net Income (CSLL)

Brazilian tax legislation also provides for a social contribution tax on profits, which also has the nature of corporate income tax. Its taxable basis is quite similar to the corporate income tax, but with certain distinct adjustments. CSLL is charged at the rate of 9%.

Contribution for the Social Integration Program (PIS)

PIS is a federal social contribution calculated as a percentage of gross revenue, generally levied at 1.65%. Note that higher rates are imposed in certain sectors (such as automotive). PIS contribution also applies to the imports of goods and to the payment of services to non-residents. Export revenues are tax exempt from PIS.

A PIS credit system is meant to ensure the tax that is applied only once to the final value of each transaction; which means that a company is granted a tax credit calculated on acquisition of inputs and on certain expenses (non-cumulative system).

Note that there are certain companies which pay PIS under the cumulative system. The cumulative system imposes a lower rate (0.65%) but does not enable a company to record tax credits on acquisitions.

Contribution for Social Security Financing (COFINS)

COFINS is a monthly federal social security contribution calculated as a percentage of gross revenue, generally levied at 7.6%. Note that higher rates are imposed in certain sectors (such as automotive).

COFINS contribution also applies to the imports of goods and to the payment of services to non-residents. Export revenues are tax exempt from COFINS.

A COFINS credit system is meant to ensure the tax that is applied only once to the final value of each transaction, which means that a company is granted a tax credit calculated on acquisition of inputs and on certain expenses (non-cumulative system).

Note that there are certain companies which pay COFINS under the cumulative system. The cumulative system imposes a lower rate (3%) but does not enable a company to record tax credits on acquisitions.

State Value-Added Tax (ICMS)

ICMS is a State tax calculated on the circulation of merchandise and on the rendering of interstate and intermunicipal transportation services and also on communications, even when the transaction and the rendering of services start in another country. Export revenues are tax exempt from ICMS.

It is not a cumulative tax, that is, the tax is only assessed on the increase in the price of the product in each part of the circulation process. The calculation process involves a system that, in each payment period, the taxpayer must check the amount of debits and credits related to the State Value-Added Tax and, if the taxpayer has more debits than credits, it will have to pay the tax on the difference between them.

In summary, it is a value-added tax and it is collected by most States at the rate of 17%, except for the States of São Paulo, Minas Gerais and Paraná, whose tax rate is 18%, and Rio de Janeiro, whose rate is 19%. Some products exceptionally trigger a higher rate (usually 25%) or a lower one (automotive industry and other special industries are below 17% or 18%).

Special rates apply to interstate sales, as shown in the chart below:

From	To	Rate
South and the south-east	South and the south-east	12%
North, the north-east and the midwest	North, the north-east and the midwest	12%
South and the south-east*	North, the north-east and midwest	7%
Any State	Non-taxpayer	Internal rate from the Sender's State

(*) Including the State of Espírito Santo.

Industries located in certain States of Brazil, such as Mato Grosso, Goiás, Bahia, among others, may apply for State tax incentives, which correspond mainly to a reduction of tax due, deferment of tax due or recording of presumed tax credits.

Service Tax (ISS)

ISS is a municipal tax on gross billings for certain services designated by the Federal Government. The applicable rates to be determined by each municipality can vary between 2% and 5%. ISS also applies to the import of services. ISS is not levied on exports of services, except when the services are rendered in Brazil or the results of these services are applied in Brazil.

In general, the Service Tax is levied by the municipality in which the Company is headquartered. There are some exceptions to this rule for services involving assembly, construction, demolition, among others.

Federal Excise Tax (IPI)

This Federal Excise Tax is paid by manufacturers on behalf of their customers at the time of sale, either to another manufacturer who will further the manufacturing process or to the retailer who sells to the end user. IPI is also imposed on import transactions. Export revenues are tax exempt from IPI.

The tax paid is stated separately on the sales invoice, as is the nature of the goods involved. Certain exemptions are given to goods considered to be of basic necessity to the country's economy. The rates are defined by the product's tax code according to the Harmonized System.

As mentioned above, when manufactured products are sold to other producers, IPI it is imposed. However, the subsequent manufacturer is allowed a credit against its IPI liability, equal to the IPI paid to its suppliers (non-cumulative tax).

Import Tax (II)

Import Tax is levied on the CIF price. The rate depends on the degree of necessity and it is defined by the product's tax code according to the Harmonized System. Import tax (II) is a cost to the company (not recoverable).

Taxes on importation are levied on top of one another, as follows:

- i. Import tax is applied to the CIF price (FOB price plus insurance and freight).
- ii. IPI is levied on the total of (i) above (CIF price plus import tax).
- iii. PIS and COFINS are applied to the total of (ii) above (CIF price, import tax and IPI) plus ICMS due on imports and the contributions are included in their own basis.
- iv. ICMS is applied to the total of (ii) above (CIF price, import tax IPI) plus PIS, COFINS and ICMS is included in its own basis.

Taxes on payments to non-residents

Financial Transactions Tax (IOF)

As a general rule, foreign exchange transactions made in order to allow payments to non-residents, considering royalties, technical services, technical, administrative and any other assistance or any other revenue, including the reimbursement of any costs, are subject to IOF.

Historically, these transactions were subject to an IOF rate of 25%. The current IOF rate for foreign exchange transactions (both inbound and outbound) is of 0.38%. As a result, IOF may not be avoided if the payment requires a foreign exchange transaction from reais to a foreign currency, or from a foreign currency into reais. Payments of interest, for the importation of goods and for the acquisition of an investment in Brazil by a local resident from a foreigner, are also subject to IOF.

IOF of 5.38% is charged on foreign loans with an average maturity of less than 90 days. All other foreign loans are subject to IOF at 0.38% rate. The average maturity is determined based on the balance of the loan relative to the number of days of the outstanding balance of the related loan.

Withholding Taxes (IRRF)

The current rates applicable to the following payments to non-residents are:

- | | |
|--|----------------|
| i. Dividends | - Not taxable |
| ii. Interest | - 15% (*) (**) |
| iii. Royalties | - 15% (*) (**) |
| iv. Technical and administrative services | - 15% (*) (**) |
| v. Other services | - 25% (*) (**) |
| vi. Certain loans made prior to December 31, 1999 that have a maturity period in excess of 96 months are exempt from Withholding Income Tax. | |

It should be noted that the tax authorities respect the exemption from withholding for all dividend payments, including dividend payments subject to Withholding Tax under the provisions of a tax treaty. In the case of royalties, the royalty contract has to be approved by the National Institute of Industrial Property (INPI) and filed with the Brazilian Central Bank.

Deductions for royalties are generally limited up to 5% of net sales of the relevant products or services; the percentage depends on the type of product or activity. Royalties for the use of trademarks and trade names, for whatever type of production or activity, when the use of the mark or the name does not result from the utilization of a production patent, process or formula, are limited to 1% of net sales.

Repatriation of capital in excess of the cost of the non-residents' investment in Brazil is subject to capital gains tax at 15% (or 25% for tax haven jurisdiction).

(*) These rates are effective unless otherwise specified by tax treaty. Currently, Brazil has double tax avoidance treaties with the following jurisdictions: South Africa, Argentina, Austria, Belgium, Canada, Chile, China, Korea, Denmark, Ecuador, Spain, Philippines, Finland, France, Netherlands, Hungary, India, Israel, Italy, Japan, Luxembourg, Mexico, Norway, Paraguay, Portugal, Czech Republic, Slovakia, Russia, Sweden and Ukraine.

(**) Payments of any type made to tax havens, defined as jurisdictions that do not tax income or tax income at a rate lower than 20%, will be subject to withholding at a rate of 25%.

Capital gains

Capital gains obtained by local resident companies are taxed at the normal corporate rate (34%), while capital gains of non-residents are taxed at the rate of 15% (unless otherwise specified by international tax treaty).

Individuals are taxed at the rate of 15% on capital gains.

Payments of any type made to tax havens are generally subject to withholding at a rate of 25%.

Other taxes on payments to non-residents

A Brazilian company with royalty, license or service agreements with foreign entities must pay a 10% Economical Domain Intervention Contribution (CIDE) based on amounts paid abroad.

PIS and COFINS contributions and ISS also apply to the payment of services to non-residents.

Other tax related relevant information

Tax Losses Carry Forward (IRPJ and CSLL)

There is no time limit for the carry forward of tax losses. However, the taxable profit of each year can only be reduced by tax losses up to a maximum of 30%. Furthermore, it is neither possible to carry back tax losses nor transfer tax losses to other Brazilian companies. Tax losses of an acquired company cannot be carried forward to be offset against the taxable income of a new activity if the following two conditions are simultaneously met:

- a. modification in the ownership of the company; and
- b. modification in the activity of the company.

Interest on capital

Entities are allowed to remunerate their shareholders by paying interest on capital, subject to certain limitations (i.e., limited to TJLP - Long-Term Interest Rate - and the existence of twice the amount of current or accumulated profits). This payment is deductible for corporate income tax purposes and for social contribution on net income purposes as well. These payments are subject to a 15% withholding tax (or 25% for tax haven jurisdiction).

During the first quarter of 2009, the applicable rate was 6.25% per year.

Distribution of profits to shareholders

Distribution of profits to shareholders is not subject to the withholding tax on profits generated as of January 1, 1996, regardless of being paid to resident or non-resident shareholders.

Section 7

Work Force and Labour Charges

Labour Relations

Labour and management relations

Employer and employee relations are dealt with principally in the labour laws (CLT) enacted in 1943 and subsequent legislation. The labour laws are applicable to all employees in regular registered employment, except for individuals in public employment or domestic labour, who have separate regulations. The labour laws make no distinction between skilled and unskilled workers or between those engaged in manual, office or professional work. Therefore, all types of workers are generally referred to as employees. A change in the legal structure or ownership of an employer does not affect the rights acquired by employees under the labour laws.

Extensive social security laws and labour regulations govern employer-employee relations. However, foreign investors have not experienced much difficulty in the way of labour problems, mainly because they follow local standards and practices.

Background information on labour practices and main social charges in Brazil

Employer's Payroll Costs in Brazil

Remuneration:

Salaries

In addition to the salaries paid to employees, any other amounts which are paid on a regular basis are, for all legal purposes, considered as part of the employee's salary and are, in general, taken into account in the calculation of vacation, 13th salary and the amount that must be deposited in FGTS as well as termination payments.

A fringe benefit is an additional item granted to an employee in excess of the employee regular salary. Pursuant to the applicable labour legislation, the grant of an award or of any other benefit (such as vehicles) to an employee may be considered a fringe benefit, for the reason that any incentive award or benefit may represent an additional payment and consequently compensation to the employee. In such cases, the total amount of the employee's earnings (including taxable fringe benefits) shall form the taxable basis for the contributions that should be borne by the employer.

Paid Vacation

After a 12-month period, employees are entitled to a 30-calendar day paid annual vacation, which must be taken within the subsequent 12 months and compensated at an amount equivalent to a month and 1/3 of the salary.

13th Month Salary (Christmas Bonus)

At the end of each year, employers must pay employees an annual bonus equivalent to a month's salary.

Profit Sharing

The employees' profit sharing or the participation in the company's results is established in the Brazilian Constitution and it is regulated by specific law. The law determines that the profit sharing or the participation in the company's results has to be granted each six months, but it does not provide rules for calculating the amounts.

Overtime

Normal working hours should not exceed eight hours per day and 44 hours per week. This 44-hour workweek applies to any employee with some exceptions, such as bank clerks, telephone operators and so forth, who are subject to different workweeks pursuant to specific regulations. Time worked in excess of the above is treated as overtime. In general, compensation for overtime work is paid at least 50% above the compensation paid for normal working hours.

Night Shift Additional Payment

Employees that work between 10 p.m. and 5 a.m. are entitled to an additional payment for night work, which corresponds to an increase of, at least, 20% of the amount paid per the daily working hour.

Taxes and contributions on payroll:

Social Security Contributions (INSS)

Employers' social security contributions correspond to 20% of the gross payroll (monthly compensation paid to all employees).

In addition, employers are also responsible for withholding and collecting the INSS on behalf of their employees (who are also subject to INSS at lower and progressive rates).

FGTS

Under the FGTS system, employers must deposit monthly on the employees' behalf, in a blocked bank account, an amount equivalent to 8% of the remuneration of each employee. The 8% destined to FGTS is borne by the employer without any discount on the employee's salary.

In case of employee's dismissal, the company will have an additional 50% cost calculated on the balance of the employee's FGTS deposit.

Workers' Compensation Insurance

Payment of insurance by employers against labour accidents is normally due at rates, which vary from 1% to 3% of the total remuneration paid to employees, depending on the "level of risk" presented by the type of activity of the company.

Education Salary Allowance

Employers are also required to pay a monthly contribution as the "education salary allowance" equivalent to 2.5% of the total remuneration paid to employees.

Other Additional Payments to Governmental Entities

Payment to specific institutions, such as:

- National Institute of Colonization and Agrarian Reform (Instituto Nacional de Reforma Agrária - “INCRA”);
- Social Service for Trade (Serviço Social do Comércio - “SESC”);
- Social Service for Industry (Serviço Social da Indústria - “SESI”);
- Brazilian Service for Support of Small Companies (Serviço Brasileiro de Apoio às Micro e Pequenas Empresas - “SEBRAE”);
- Among others.

Section 8 Environmental Issues

Environmental Issues in Brazil -
rules are strict but opportunities are big

Environmental impact on businesses

Doing deals and business in Brazil has to take into account several environmental issues which may become relevant risks if not adequately managed. On the other hand, there are many environment-related aspects in Brazil that may result in real opportunities, such as the abundance and quality of natural resources, the country's climate, the overall concern with environmental protection and the corresponding Brazilian environmental legislation which is among the most advanced in the world.

Protecting the environment

Key "green" concerns in Brazil include the deforestation of the native and old-growth forests in the biologically rich Amazon rainforest and other regions, and soil loss due to erosion. Main "brown" areas of attention are the lack of sewage collection; solid waste management; urban, industrial and non-point-source pollution of rivers, lakes, estuaries and shoreline; air pollution in and around some major cities, and questions related to the recovery of mining areas.

Main Legislation and Regulations

The Brazilian legislation is very extensive with a wide variety of environmental issues concerning licenses, zoning, pollution prevention and control and inspection procedures.

Environmental crimes are subject to fines of up to R\$ 50 million

The environmental legislation was effectively introduced in 1981, when the National Environmental System - SISNAMA was implemented - including all agencies responsible for the environmental quality. More recently, in 1998, new legislation was passed (named the "environmental crimes law") defining pollution and forest destruction as crimes punishable with heavy fines and, in some cases, jail sentences. These fines can reach amounts up to R\$ 50 million.

Furthermore, the acquirer of a Brazilian company or business might become fully or partially responsible for present and past environmental liabilities attached to the acquired asset. The penalties might include not only the fine but also the cancellation of the operating license and the obligation for the recovery of the impacted area. Additionally, in many cases, the issue is made public, thus affecting the company's reputation. Given this scenario, environmental due diligence prior to acquisitions is highly recommended.

Projects for the construction of a new plant or production site must be submitted for approval by the Brazilian environmental authorities. The location and activity will determine the environmental license that should be obtained at federal, regional or local levels. For activities considered as having high environmental impact, a more detailed study of environmental impacts and mitigation (named EIA-RIMA) is required before installation is allowed.

Every plant in operation must obtain an environmental license issued by the Federal Environmental Agency (IBAMA). The license has to be updated from time to time, which varies according to the plant's location.

Pollution control

Pollution has become a serious concern in many areas and consequently it is now one of the main issues on both the political and the economic fronts. Federal and State governments have developed programs and controls aiming at preventing or reducing pollution, mainly in the more industrialized areas.

The treatment of waste with the purpose of avoiding or reducing pollution must be considered in the installation of new production sites in Brazil or it must be evaluated when acquiring a business.

CONAMA is the federal agency responsible for establishing federal criteria for pollution control. Other state agencies are required to take environmental regulations into account when examining applications for incentives and financing of investment projects. Non-compliance with pollution control regulations may result in the suspension of tax benefits, credit restrictions or even the closing-down of operations.

Sustainability - a growing issue in Brazil

Good environmental management became a relevant business issue as from the discussions at the Rio Environmental Summit in 1992, when the concept of sustainability (i.e., the adequate integration of environmental management, social responsibility and the related economics/value added) gained higher presence in the agenda of the public and private sectors as well as of a major part of the global population.

In many sectors, good environmental management is no longer a competitive advantage but a condition not only to compete in the global market but also in the Brazilian market.

Section 9

Our M&A Specialists and Post Deal Services in Brazil

PricewaterhouseCoopers in Brazil

Our 16 offices in Brazil

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- Belo Horizonte
- Brasília
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The Brazilian firm of PwC was formed in 1915, and since this date it has been the leading professional services organization in the country.

- We have 140 partners in Brazil who draw on the experience over 4,000 professionals.
- With 16 offices, we cover the entire Brazilian territory.
- Our “Deals” (Transaction Services and Corporate Finance) group is comprised of:
 - 20 Partners and Directors.
 - 44 Senior Managers and Managers.
 - 81 Consultants.
- All partners, directors and staff are segmented into industry sectors: Financial Services, Consumer and Industrial Products, Agribusiness, Telecom, Media, Technology, and Government Services.
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Doing Deals in Brazil

Section 9

Our M&A Specialists and Post Deal Services in Brazil

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Ribeirão Preto - SP

Edifício Metropolitan Business Center
Av. Antônio Diederichsen, 400 - 21° e 22°
14020-250 - Ribeirão Preto/SP
Telephone: (55-16) 2133-6600
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Ribeirão Preto - SP | Outsourcing

Rua Rui Barbosa, 1145 - 12°
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Telephone: (16) 3635-4303
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Rio de Janeiro - RJ

Rua da Candelária, 65 - Centro
20091-020 - Rio de Janeiro/RJ
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Facsimile: (55-21) 2516-6319

Salvador - BA

Edifício Citibank
Rua Miguel Calmon, 555 - 9°
40015-010 - Salvador/BA
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São José dos Campos - SP

Rua Euclides Miragaia, 433
Cjs. 301 e 304
12245-550 - São José dos Campos/SP
Telephone: (55-12) 3913-4505
Facsimile: (55-12) 3942-3329

Sorocaba - SP

Edifício Trade Tower
Rua Riachuelo, 460 - 5°
Salas 501, 502, 503 e 504
18035-330 - Sorocaba/SP
Telephone: (55-15) 3332-8080
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Vitória - ES

Edifício Century Towers - Torre B
Av. Nossa Senhora da Penha, 699
Cjs. 801 and 802
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