Brazil's open trade policy has created South America's most vibrant economy. It is expected to grow nearly 5 percent this year.

Brazil

COUNTRY PROFILE

POPULATION
190,010,647 (July 2007 est.)

GDP
$1.655 trillion (2006 est.)

GDP - REAL GROWTH RATE
3.7% (2006 est.)

EXPORTS
$137.8 billion f.o.b.
(2006 est.)

EXPORT COMMODITIES
transport equipment, iron ore, soybeans, footwear, coffee, automobiles

Source: CIA World Factbook

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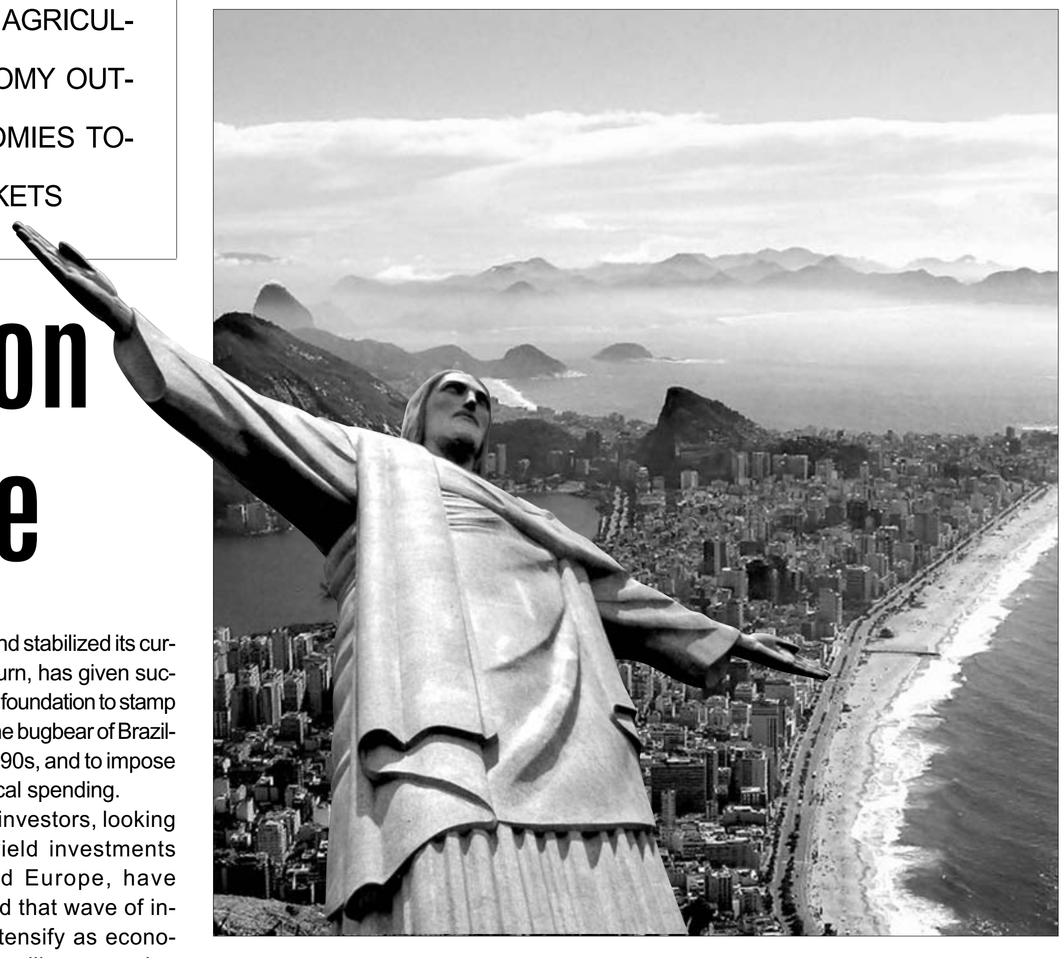
Intercom UK Ltd
Regus - St James's Park
50 Broadway
London, SW1H 0RG
Tel: +44 20 7629 5870
Fax: +44 20 7629 5337
www.intercom-ltd.com

Project Director:
Caroline Vieira
Project Coordinator:
Pedro Amaral

▶▶▶ BACKED BY STRONG MANUFACTURING, AGRICULTURE AND SERVICE SECTORS, BRAZIL'S ECONOMY OUTWEIGHS ALL OTHER SOUTH AMERICAN ECONOMIES TOGETHER. NOW IT IS EXPANDING IN GLOBAL MARKETS

Coming of age on the global stage



AFTER YEARS OF BEING CALLED the country of the future, Brazil appears to be en route to becoming a major player on the global stage. In spite of its abundant natural resources and its sizeable domestic market, Brazil's potential had always remained a promise. Boom and bust economics as well as hyperinflation have often slowed the Latin American country's progress in the past.

Now economic stability has returned and the country is attracting investment from the world over. Brazil's newfound economic prowess has been based on expanding production of its major commodities such as iron ore, oil, soy and sugar over the last few years, which has provided the country with a strong trade balance and stabilized its current accounts. This, in turn, has given successive governments the foundation to stamp out inflation, which was the bugbear of Brazilians in the 1980s and 1990s, and to impose greater discipline on fiscal spending.

As a result, foreign investors, looking for alternative high-yield investments outside the U.S. and Europe, have flocked into Brazil. And that wave of investment may only intensify as economists are expecting Brazilian sovereign debt to receive investment grade in 2008, which will allow a whole new group of institutional investors to come in.

Meanwhile, increased stability has allowed the central bank to reduce interest rates from the astronomical level of 45 percent per year seen in 1999 to the current level of 11.25 percent.

This decline in interest rates has unleashed pent-up demand and kickstarted the world's 10th-largest economy once again.

Car sales are at record levels, while the housing market is exploding and retailers are in rude health, all because of the explosion of consumer credit following the fall in interest rates.

Brazil's government expects gross domestic product to grow 4.7 percent this year, and recently Finance Minister Guido Mantega said the country could register growth above 5 percent over the next three or four years.

Foreign funds are flowing into a wide spectrum of sectors, including sugarcane-based ethanol production for use as an alternative fuel, and infrastructure.

They are also supporting the wave of initial public offerings on the São Paulo Stock Exchange, or Bovespa, as medium-sized companies such as construction firm Gafisa, shippers Wilson,Sons and even the BM&F commodities and futures exchange seek to take advantage of the positive outlook to raise funds for expansion. This expansion is likely to continue as China leads demand for Brazil's core commodities.

Brazil is already a key global supplier of iron ore. It could also become a major oil exporter if it manages to exploit the massive offshore reserves whose discovery was recently announced by state-oil company Petrobras. In addition, it is one of the world's leading food exporters and it is likely to become ever more important in this area as it is one of the few countries that still has abundant untilled arable land.

Years of mediocre growth had led some economists to question whether Brazil really deserved to be classed along with Russia, India and China as one of the BRIC nations. But Brazil appears to be coming of age and doubters are fewer and fewer.

EDB

Energias do Brasil gears up to meet rising energy needs of domestic market

One of the country's largest electricity distributors is now aiming to be one of its largest generators. A gap in the hydropower market is its window of opportunity

AS A COUNTRY of almost 200 million inhabitants, Brazil already requires an enormous amount of electrical energy, and that need is growing fast as the economy accelerates.

For companies able to power the nation, there is a wealth of opportunity here, according to António Martins da Costa, the Chief Executive of Energias do Brasil (EDB), one of Brazil's main generators and distributors of energy.

"The market is there for investors that would like to see their business grow," he affirms.

Brazil primarily uses hydroelectric power to meet its energy needs, which have been climbing at a rate of 4.5 percent per year. As only 35 percent of the country's hydroelectric potential has been utilized, companies like EDB with expertise in the sector are set to capitilize on its opportunities.

For EDB, this means increasing its generation activities. "Our strategy is to grow in generation," says Martins da Costa. "Our distribution side is already well developed, and distribution is a quite heavily regulated industry so profit margins are lower."

The company's portfolio has traditionally been split between 25 percent generation and 75 percent distribution. Looking forward, the company is aiming for a 50-50 split that will see generation representing 50 percent of its revenues.

EDB has already made major inroads towards this, increasing in importance as a major player in the local energy generation market over the last year. It produced 3,929 gigawatts in 2006 and is currently involved in seven major hydropower plant projects. With the 19 projects for smaller hydroelectric plants that are also underway, EDB has 1,000 megawatts of capacity in the pipeline.

In addition, the company has been building a solid reputation for its know-how in hydroelectric development. "Building dams is our core business. We are experts in hydro, especially in dam construction operations," declared Martins.

In areas where hydroelectric projects aren't possible because of physical or environmental restrictions, EDB invests in thermoelectric power. It is currently spending $1.3 billion to develop a 700 MW thermoelectric plant in Ceará, in the northeast of Brazil.

Martins da Costa, who is also the CEO of Horizon Energy in the U.S., says that alternative energy sources is another area of interest for EDB, specifically wind power. Indeed, environmental preservation and sustainability remain key focuses for the company.

EDB adheres to the São Paulo Stock Exchange's Sustainability Index, and spent some 16 percent of its R$1.6 billion ($912 million) budget last year on protecting flora and fauna near site construction and relocating nearby communities.

Martins da Costa admits that investing in Brazil is a long-term strategy, but says that it is one worth the time for the huge potential it holds.

WILSON, SONS

Turning Brazil into an easy gate for Mercosul

SET UP BY BRITISH entrepreneurs in Salvador, Bahia in 1837, the company Wilson, Sons offers a vast array of services at Brazilian ports, including cargo loading and unloading and shipping agency services. It dominates the towage sector in Brazil with a 55 percent market share and is now the largest towage company in Latin America. Additionally, Wilson, Sons benefits strongly from its presence in all of Brazil's major ports.

Wilson, Sons recently acquired 25-year terminal concessions in Salvador and Rio Grande do Sul.

Expanding from its core towage business, Wilson, Sons recently became a major player in the area of terminal administration after acquiring two 25-year terminal concessions at the ports of Salvador and Rio Grande do Sul. It was one of the first private companies to acquire one of these concessions. "We believed in this area and started investing heavily right from the start," declares CEO Cezar Baião. The company invested in its terminals, while others contented themselves with using what the government had ceded them. Wilson, Sons' dynamism paid off, and now it controls 98 percent of the Rio Grande do Sul container market and is the third-largest port terminal operator in Brazil.

Flexibility and resilience have been Wilson, Sons' secret during its 170 years of history as a port operator. It is a remarkable accomplishment given the ups and downs of the Brazilian economy throughout this time.

"Of course we have had some difficult times but if you are agile and creative, you can turn things around," explains Baião.

Now the company sees a bright future with foreign trade exploding in Brazil and the demand for port services continually rising. "We are extremely positive about the current situation," he affirms.

One of Wilson, Sons' key advantages is that it offers a wide range of port services, which allows shipowners to deal with just one intermediary. "Wilson, Sons can offer a basket of products to shipowners and it makes total sense for that type of customer to deal with just one agent," Baião elaborates. As of December 2006, all Wilson, Sons' clients have used at least two of the company's services, and two-thirds used three or more.

Brazilian exports have been growing substantially in recent years, driven primarily by agricultural and metals commodities. Meanwhile, solid economic growth and falling interest rates have caused demand for imports to rise.

"In certain commodities, the country still has a lot of room to grow," states Baião, singling out the growth potential of ethanol fuel. This potential would be even greater if Brazil resolved some of its infrastructure issues. The country's roads and rail links are struggling under the weight of increasing exports, while port capacity is being stretched.

For the future, Wilson, Sons is looking to compliment the gamut of services it offers, expanding its port terminal operations as well as increasing offshore services.

Meanwhile, the company is looking at expanding beyond Brazil's borders into other South American countries, such as Uruguay and Chile. With ambitious plans for the future in mind, earlier this year, Wilson, Sons chose to take advantage of positive market conditions to launch an initial public offering of shares, which raised close to $350 million.

GUARULHOS

From bust to investment grade

The rise of the city of Guarulhos from financial ruin just six years ago to busting business hub today is remarkable

ELÓI PIETÁ looks a satisfied man as he surveys Guarulhos from the window of his mayoral office on a hill overlooking the Brazilian city. When he became mayor back in 2001, the city was in financial ruin. But six years on, Guarulhos' accounts are now in shape to the extent that the city recently obtained an investment grade rating. Companies are flocking to set up in this metropolis of 1.3 million people, which combines fantastic logistics and location with a robust infrastructure and improving standards of living.

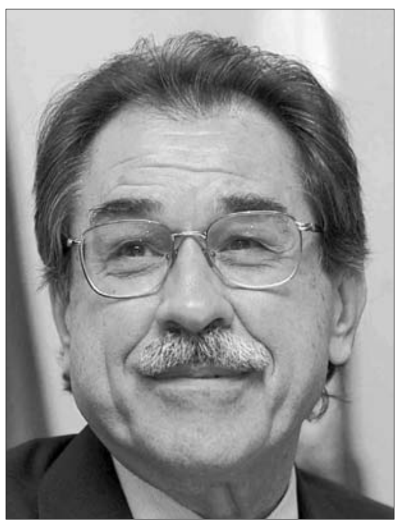
"Guarulhos is expanding. It can offer things that our larger neighbor can't," says Pietá.

Guarulhos actually nestles right next to São Paulo, Brazil's industrial and financial hub and one of the world's largest conurbations, but does not suffer from the same apocalyptic traffic and sky-high rents of the state capital. For industrial firms in need of space and good logistics, that is a huge plus. The package gets better when you factor in that many of the main air and road routes out of São Paulo actually start in Guarulhos. It is home to São Paulo 's main airport, which caters for 13 million passengers a year and is also the starting point for the major highways that link São Paulo to Brazil's other major cities, including Rio de Janeiro and Belo Horizonte. In addition, it is also within easy reach of Santos, Latin America's biggest port.

The benefits of setting up in Guarulhos have attracted a vast array of industrial firms, ranging from autoparts and pharmaceutical manufacturers to food and service industries, creating a record number of job vacancies and a booming local economy.

"Guarulhos is located in the middle of an enormous Brazilian market, at the heart of a main industrial area. It is in a perfect place to produce," enthuses Pietá. The city with the second largest GDP in the State of São Paulo is set to accelerate further.

Foreign investment in Guarulhos hit record levels in the first half of 2007, with tremendous interest in the airport services sector. The Guarulhos airport is already the largest airport in South America and is set to expand further in the next few years as the government plans to build a third runway and a third terminal on the site. In addition, a high-speed rail link between the airport and São Paulo is projected for the next decade. Boeing has already set up a school for pilots in Guarulhos,



ELÓI PIETÁ
Mayor of Guarulhos

while major hotel chains have spotted the enormous opportunities in the area of business tourism.

"This area is expanding extremely quickly. We currently have 19 major hotels and a number of convention centers," declares the mayor.

Meanwhile, the city government is investing heavily in infrastructure to meet both the expanding needs of its new industrial base and its population. Guarulhos is due to receive almost $250 million from the federal government as part of its PAC growth plan, which the city will use to continue to improve the water and sanitation systems and the education system. The city is also starting to pump money into clearing slums and rejuvenating the town center.

Guarulhos can already boast one of the highest standards of living in the State of São Paulo, and with the prospects that the situation will improve further, the city is attracting qualified workers away from neighboring regions.

To ensure that the population gets the best out of the investments being made in Guarulhos, Pietá has placed a great deal of emphasis on dialogue, organizing assemblies for citizen participation in discussions on what improvements needed to be made in the city.

All this has been achieved while the government has managed to stick to a tight budget. Years of mismanagement took Guarulhos to the verge of bankruptcy in 1997 and 1998, and Pietá says he has had to juggle the need to balance the books with the pressing demands of investment to rejuvenate Guarulhos. "We had to ally fiscal conservatism with excellent public spending policies," explains Pietá. Incredibly, the Guarulhos government managed to turn the situation around completely, achieving investment grade from Austin Rating in 2007.

Only two other cities, Rio de Janeiro and Belo Horizonte, have achieved an equivalent grade in Brazil, while São Paulo has yet to reach this level. This is a big advantage at a time when the country is enjoying a wave of foreign investment. The economy has stabilized after years of flux, and institutional investors are seeking alternative opportunities in emerging markets. Most of these investors are seeking secure projects, and Guarulhos' almost unique position of having investment grade puts it at the head of the list of investment options. As Pietá notes, Guarulhos is a fantastic alternative to investing in São Paulo, with all the benefits of the big city but none of the headaches.

CYRELA

Cashing in on real estate dynamism

An aggressive commercial strategy and thorough market research: This is the recipe used by Brazil's market leader in the luxury, medium and low-income housing segments

BRAZIL'S REAL estate market is set to grow strongly as the economy stabilizes and interest rates continue to fall. Cyrela Brazil Realty (CBR), the country's largest real estate company, is extremely well positioned to take advantage of this trend.

The company plans to expand beyond its base in São Paulo and Rio de Janeiro, using a successful blueprint of aggressive commercial operations allied with financial conservatism. "There is a big opportunity for profit and growth here," says Cyrela's Director of Developments, Ubirajara Freitas.

Although officially formed following the merger of Cyrela and Brazil Realty in 2005, CBR has in fact a 45-year history during which it has built a reputation for developing quality high-end residential projects and commercial space. However, for much of Cyrela's history, times were tough for the Brazilian construction industry as boom and bust economics and hyper-inflation meant long-term personal credit was virtually non-existent.

Cyrela's top-to-toe approach to construction has seen it take a huge share of the market.

Now, the return of economic orthodoxy has revived the credit and mortgage markets. As a result, banks are offering, for the first time, credit lines of 20 to 25 years, which has opened vast new potential in the sector.

With an eye to catering for the fast-growing lower-income brackets, Cyrela has developed its "Living" project, which offers apartments under R$150,000 ($86,000) to low-income families and young, first-time buyers.

Already present in 24 cities across 12 states, Cyrela is actively looking to expand into carefully selected new markets in this continent-sized country. "It is not our priority to be present in all cities in Brazil," says Freitas. "It is more important to analyze and test the potential growth of each market." He sums up Cyrela's strategy as one of growth, but always with regard to profitability.

Some expect the local real estate market to undergo a period of consolidation over the next few years, but Cyrela is not looking to merge with or purchase other companies, despite its strong market position. The market leader prefers organic growth, since joint ventures and partnerships offer the profitable advantage of avoiding premium payouts to external shareholders.

It is a successful strategy, as proved by the leading share that Cyrela has eked out in an extremely fragmented real estate market. Today, Cyrela is the unchallenged number one in Brazil, boasting a 10 percent market share in São Paulo and an impressive 25 percent share in Rio de Janeiro.

Cyrela went public in 2005 in an extremely successful operation. Cyrela's CFO and Director of Investor Relations, Luis Largman, is quick to point out that the IPO came about as a result of growth, rather than the contrary.

"We were growing. We got to the point where we had to decide to go for debt or for equity. Our conservative business model meant we preferred equity to guarantee our cash flow. We are ready to grow in this market that has been dormant over the last 30 years in terms of launchings and prices," says Largman.

On the operating side, the key to the company's success has been doing the simple things well. The company invests heavily in market research to ensure it knows more about the challenges ahead and about market trends than its competitors. Cyrela regularly attends foreign trade shows to make sure it is up to date with all the latest industry developments. The results of every single launch are systematically and meticulously analyzed in order to understand the market's response. Furthermore, Cyrela's management strongly believes in committee-based decision making. "Decisions are not made in a rigid and hierarchichal way at Cyrela. Everybody constantly brainstorms in all directions," explains Freitas.

This fluidity of information extends to the company's relationship with the market. "We communicate everything," says Largman. "We communicate with our shareholders all the time, both the good and the bad things." Indeed, the company's strong corporate governance has contributed to the success of Cyrela's shares.

Walking into the showroom for one of its latest projects, a high-end residential apartment project in São Paulo, you can feel the buzz and see why Cyrela is successful. Indeed, some 90 percent of the flats in the project were sold within 48 hours of being put up for sale.