



BRAZIL SERIES - I.

MINAS GERAIS

THE BUSINESS-FRIENDLY BRAZILIAN STATE
BETS ON INNOVATIVE SECTORS AND
SOUND GOVERNMENT MANAGEMENT

Photo: Jam Engenharia





BOOM TIMES FOR BRAZILIAN CONSTRUCTION SECTOR

IN MINAS GERAIS AND ACROSS THE COUNTRY, BOTH PUBLIC AND PRIVATE INVESTMENT ARE FUELLING EXCITING NEW PROJECTS

A booming economy, underdeveloped infrastructure, a huge country brimming with potential and the two most prestigious sporting events in the world add up to a unique opportunity for companies involved in construction and related industries in Brazil.

When the global economic crisis hit in 2008, the Brazilian building industry suffered a fall in activity, but the downturn was brief and over the past two years business has come roaring back due to major private investment and mammoth public spending projects.

In 2009, the Brazilian government earmarked \$361 billion to be spent on construction, boosting the sector's growth by 28% over the following year, and one major state-funded project "Minha Casa, Minha Vida" or "My House, My Life", is aimed at building one million new, affordable homes.

Ready to Grow

Construction firms in Minas Gerais are among those benefitting from this surge in building and among the leaders is Egesa Engenharia SA, one of the biggest in the country and whose president, Elmo Teodoro Ribeiro, says was well prepared for the boom.

"Beginning back in 2002, it was beco-



NEW INFRASTRUCTURE IS BEING LAID OUT TO COPE WITH INCREASING DEMAND FROM BOTH BUSINESS AND CONSUMERS



Elmo Teodoro Ribeiro
President
Egesa Engenharia SA

"THERE'S A UNIQUE OPPORTUNITY TO ADDRESS THE COUNTRY'S LACK OF INFRASTRUCTURE"

ming easier for companies to work on government-funded projects as growth followed a more logical pattern and that allowed for better planning on our part," he recalls.

Egesa was therefore well positioned when the new investment began flowing in. "But other companies have also registered growth over this period because there is room for everyone," company vice-president Eduardo Martins explains.

Founded in 1962 as an engineering and heavy construction company, Egesa underwent a deep change 23 years later

when a group of engineers took a majority stake and set out to aggressively tackle more ambitious and complex projects.

These days, the company is involved in a wide range of activities, including oil and natural gas networks, road works, environmental engineering, railroads, bridges and viaducts, drainage, urbanization, transmission lines, irrigation, dams and even street cleaning services.

Egesa's total revenues last year amounted to around \$1.1 billion and that is set to increase as Brazil's building boom continues.

"There is now a unique opportunity for the construction industry with the government setting out to address the country's lack of infrastructure and, of course, the 2014 World Cup and the 2016 Summer Olympic Games," says Martins.

"These world events are going to require new airports, new subways, new hotels and a series of investments in many, many other projects. Those who understand this great opportunity to invest will not dare miss the chance. Egesa is already taking advantage of these opportunities, taking part in the construction of one of the head-quarter-stadiums of the World Cup 2014".

GROWTH AND WEALTH GENERATION WITHOUT THREATENING BIODIVERSITY

Sustainability shall not be controlled and isolated as closed processes of industries and institutions. Rather, it should be comprehensive and concrete, like something that gathers human beings together around common objectives: reconciling people and nature, harmonizing concepts and reshaping habits. Being sustainable means living the synergy between natural elements and people's spirit of solidarity.



The boom extends all across the country and Egesa is active almost everywhere, from building a bridge linking Brazil and French Guiana in the north, to projects in the southern state of São Paulo. Based in Belo Horizonte, the company has commercial offices in Brasília, Rio de Janeiro, São Paulo, Recife and other major cities.

Overseas, Egesa has completed one project in Angola, is beginning another and two more are under development. "We're also looking at working in Colombia, Venezuela, Bolivia and Paraguay but nothing has been signed yet," the president says.

"However, it has to be a very interesting project because the demand in Brazil is so great that it absorbs you completely. Foreigners have noticed this and we've had U.S., Portuguese, Spanish and other companies approach us to propose partnerships."

One of those partnerships involves a South Korean company which is developing a high-speed rail project with Egesa. But the executives say that with so much construction going on in the country, there are manpower shortages with engineers, machine operators, drivers and even office staff increasingly hard to find.

"This is a serious, nation-wide problem. When there is a shortage of skilled labour, workers are more highly valued and the unions start making demands which in turn makes it difficult for us," Martins explains.

Two of Egesa's biggest projects, a hydroelectric dam and a refinery, were hit by strikes which paralyzed activity for two weeks. In a bid to ease the labour shortages, Egesa and other companies carry out ambitious training programmes.

"All our departments have well-developed manpower training programmes and if we're lacking some particular skill set, we can either train someone or shift them from another activity. I believe other companies which are having similar difficulties are doing the same," says Ribeiro.

While construction remains Egesa's main focus, the company has wisely diversified its activities by expanding into the oil business through a relationship with Petrobras, a real estate project in the city of Ipatinga and an ethanol fuel project using sugar from the company's own plantation.

"Our plan is to continue growing and we more or less have an idea of how far that growth should go," the president explains. "I believe that if you return here five years from now, Egesa will be just about the right size thanks to our ongoing construction business and through our diversification efforts."



THE ENERGY SECTOR IS BENEFITING FROM BRAZIL'S STRONG GROWTH

Betting on Growth

Also eagerly looking ahead to the future is Fidens Engenharia SA, another Minas Gerais-based construction firm whose executives say will grow along with the country.

"We think that Brazil will be among the five largest economies in the world within five years. It's now seventh, so that is a real possibility," predicts chairman of the board Fernando Frauches.

Founded in 1968, Fidens is active in highway concession, mining and heavy construction, specifically hydroelectric dams, irrigation projects complete with pumping stations and distribution networks, airports, seaports, railroads, industrial projects and sanitation systems. It is also involved in energy production.

Its clients include national, state and municipal highway, transport and civil works departments, as well as some of

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Fernando Frauches
Chairman of the Board
Fidens Engenharia SA

“BRAZIL WILL BE AMONG THE FIVE LARGEST ECONOMIES IN THE WORLD WITHIN FIVE YEARS ”

the biggest mining and metal companies in the country.

Recently, the family-run enterprise set up a new management model of corporate governance with a board of directors and advisory committees. The overhaul was aimed at making the decision process more transparent and the organisation more sustainable.

“This will be another good year for Fidens, as most recent years have been,” the chairman says. “Sales grew by 60% between 2009 and 2010, last year revenues were \$800 million and our expectations for 2011 are a 50% increase to \$1.2 billion.”

Like with other companies in the sector riding the investment wave currently washing over Brazil, one of the biggest challenges facing Fidens is getting a hold of and keeping qualified manpower.

Executives tackle the problem through training programmes, career placement assistance, further developing those employees with the highest labour skills and seeking staff from abroad.

“We’re even bringing in engineers from Argentina and other countries such as Portugal and Spain to beef up our technical staff,” Frauches explains.

Active throughout almost the entire country, Fidens is also working through

partnerships in Portuguese-speaking African countries of Angola and Mozambique, as well as in the Middle East.

“Angola has just gone through a big economic crisis, but that did not affect us much as our clients there are from the private sector – diamond mining and other mineral extracting operations,” he says. “And we also built an airport and some highways and we have plans to build 2,500 homes there.”

In Mozambique, the company built a dam for providing water supplies, it has various projects in the Persian Gulf sultanate of Oman and was involved with a port project in Libya before the recent unrest unfolded there.

“Our focus is on consolidating our presence in Angola, Mozambique and Oman but we’re not closing our eyes to opportunities in other countries and we’re prospecting for projects in Colombia and Peru,” Frauches says.

The mining and oil and gas markets are really taking off in Africa and Latin America, according to company executives, who forecast that global operations will represent around 20% of the company’s total revenue by 2015.

“Back in 2006, we made plans for 2015 and we’ve already achieved those results this year. Five years down the line, I see Fidens as increasing its revenues by another 50% or maybe even doubling that figure,” the chairman says.

Cool Brazil

A key factor in construction, specifically regarding shopping malls, hotels, hospitals, office buildings and other large, enclosed areas, is comfort and safety and that is the job of JAM Engenharia de Ar Condicionado which has 90% of the sector in Minas Gerais, and works in most of the rest of Brazil.

“Last year, we were the largest dealer for Carrier air conditioning systems in Brazil and the fifth in the world,” says



Joel Ayres da Motta Filho
Director
JAM Engenharia

“THE BIGGEST BOOM IN BRAZIL IS YET TO COME, BECAUSE OF THE WORLD CUP AND THE OLYMPICS ”



DEMAND IN INDUSTRIAL SERVICES HAS BEEN PARTICULARLY STRONG IN THE CONSTRUCTION SECTOR

director Joel Ayres da Motta Filho. “Our turnover was around \$127 million.”

JAM specialises in the installation of air-conditioning, ventilation and mechanical exhaust systems, inspections, professional advice and consultancy in the control of air-conditioning quality.

The company also offers rental and operational leasing of systems and equipment. It has worked in more than 1,000 buildings around Brazil and has an impressive list of clients which includes such multinationals as Fiat, Iveco, Leroy Merlin, Quality Inns and hotel chains

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belonging to the giant French hospitality group Accor.

Internationally, three years ago Jam opened an office in Abu Dhabi, a logical move for a firm in the air conditioning business.

"But with such a growing market right here in Brazil, we asked ourselves: Why work with another language, in a country with no legal protection and with complicated logistics? So we've put further international expansion on hold," the director says.

At home, however, the company is open to partnerships with foreign firms and the director says that is the best way for companies seeking a foothold in a new market.

"If you enter the United Arab Emirates without a partner, you get nothing done and it's the same in places like Angola," he explains. "The best way for a foreign firm to come into a new territory is through a partnership."

Ayres de Motta Filho also argues that partnerships can add strength and new technology.

"Although we already work with Carrier, we would be able to partner with another foreign company if there is

the right synergy," he says, adding that Brazil is well known as an attractive place to do business and more foreign companies are moving in.

"We think the biggest boom in Brazil is yet to come because of the World Cup and the Olympics. I think it is quite clear that we have a lot of growth ahead of us because so many companies are coming here to Minas Gerais."

Traditionally, most foreign companies setting up in Brazil go to Rio de Janeiro or São Paulo but now experts say with those cities so crowded there is a trend to set up operations in Minas Gerais or other cities.

"Compared to Rio and São Paulo, I believe Minas Gerais is way ahead of them regarding quality of life and safety," Ayres da Mota Filho says.

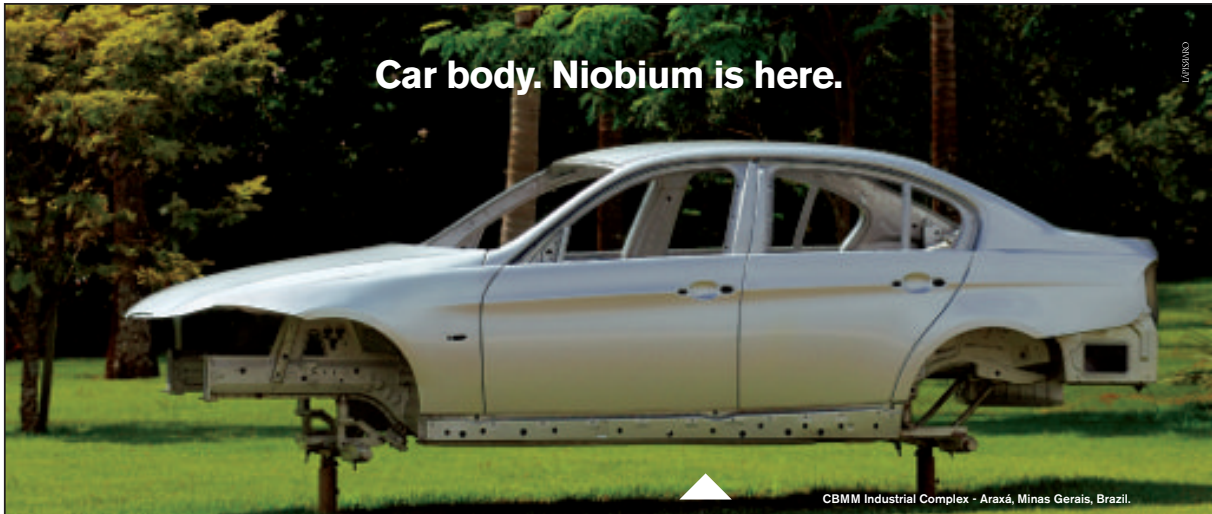
In five years, the director predicts that JAM will be fully consolidated in the Brazilian air conditioning market and that the good times for the construction and related industries will be far from over.

"In 2016, after the World Cup and the Olympic Games have come and gone, I want to be sitting here with you and explaining how both the economy and JAM are still growing."



Photo: JAM Engenharia

STATE-OF-THE-ART SKYSCRAPERS ARE MUSHROOMING ACROSS BELO HORIZONTE, THE BUSINESS-FRIENDLY CAPITAL OF MINAS GERAIS



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Car body. Niobium is here.





Interview with Hélder Couto Mendonça President & Director of Forno de Minas

After retaking control of the family business Forno de Minas, makers of traditional Brazilian cheese rolls, a new generation shows that going back to its roots and betting on quality is a sure way that leads to business growth and greater profitability



Photo: FORNO DE MINAS



Photo: FORNO DE MINAS

Why did you in 2009 decide to buy back the company you had previously sold?

H.C.M.- We knew the business very well. Forno de Minas is a company that was home-grown, small, and that had always focused on new, quality products that had never been industrialized. We were the first company to industrialize a product that is typical of the Minas Gerais area. The business began in 1991 from nothing, and in 1999 we sold it to Pillsbury with an output of 1600 tons per month of exclusively pão de queijo (Brazilian cheese puffs). When General Mills took over Pillsbury a year later and brought in a new chairman and a new concept, they took the strategic decision to change the recipe. Naturally consumers started to notice this and stopped buying the product. When they ended operations in April 2009, the output had dropped to under 600 tons. Ten years had passed, the market was considerably more complex, more pressured, more competitive, but we knew that if we could bring the product back to its previous quality and promoted this, we could earn back the brand's reputation, reposition the brand, and the consumer would begin to buy our product again.

How did the market react to the change?

H.C.M.- We had a much bigger response

"IN SPITE OF EVERYTHING, THE BRAND IS STILL A MARKET LEADER"

here in Minas than in other states, particularly because we had greater publicity here. The second step, after managing to get the formulation of the product right, was to go back to the retail outlets, to go back to the big chains (Carrefour, Walmart, Pão de Açúcar) before the brand lost its profile, as the brand has a strong recall, and is very well-known nationally. And in spite of everything that has happened, the brand is still a market leader, it is the brand that is synonymous with pão de queijo. Within the plans we had made, which were to add to the range of products – because it had been a company that focussed on a single product – and we have two strands to our business: the food service and retail. But our food service clients do not want one industry supplying one product and another supplying another, they want a supplier to provide food solutions. So, we focussed on developing new products and adding to the range in our food service in order to provide a service to cafes, restaurants and bistros throughout Brazil. For each strategy we make, we take Brazil as a whole into consideration.

What are the selling points for Forno de Minas in the Brazilian market?

H.C.M.- We are a speciality company. The major food companies in Brazil today are the large chilled food providers that are looking towards producing ready meals, or other products that compete with ours, but they are not specialists in these products. So our advantage is the quality of our products. The larger companies have smaller ranges of niche products as additional lines. Our business is to work within that niche, this is our advantage. When people talk about food service, they talk about a quality product. We are much closer to our clients and we pay much more attention to them than a huge company such as JBS or BR Foods.

How important are international sales to the company?

H.C.M.- We have a tremendous opportunity now as our pão de queijo is top quality and we hope that through its uniqueness pão de queijo will become a world-class product, like the croissant, or the pizza. It's not considered a bakery product as it does not contain flour; however it is a great substitute for bread at breakfast, works well as an afternoon snack, and has a unique taste and texture, and it also is gluten-free. We are banking on these qualities, on the fact that it is an innovative and unique product. We took it with us on President Dilma's delegation to China, and we were able to bake it in two of the major hotels in China; the chefs were delighted because they'd never heard of it before. It is great, it's tasty and no-one has heard of it. And people always want new things. Nowadays in Europe, in the USA, particularly in the USA, it's always the same thing.

Where do you see the greatest potential for growth in the short and medium term?

H.C.M.- The South American market (Chile, Uruguay, Argentina...) due to geographical proximity, and to the fact that they are already more familiar with the product; there is considerable tourism between Argentina and Brazil and pão de queijo is already known as a quality product.

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Interview with Paulo Eduardo Rocha Brant President & CEO of Cenibra - Celulose Nipo-Brasileira SA

Wood and timber have been one the main resources that have propelled the economy of Minas Gerais for generations. But as the CEO of the main timber company in the Brazilian state explains, new challenges must be met to increase efficiency and keep abreast of the competition



Photo: Cenibra



Photo: Cenibra

You took on your role at Cenibra about a year ago. What was the company situation at the time?

P.E.R.B.- When I joined Cenibra the company was in a good state. It's a company with a very secure capital structure, with little leverage. To give an example, last year the ratio of liquid debt /EBITDA was approximately 1.25, which from a financial point of view makes it an extremely well-capitalized, solvent and well-structured company. The company is nearly 40 years old, with longstanding industrial facilities; Cenibra has two industrial production lines: the first dates from 1977 and the second was introduced in 1995, so both are relatively old. However, Cenibra has systematically invested in them over the years, so that the operational efficiency of the plants is very good. The company holds a very large area of forest. To give you an idea: Cenibra today produces 1.2 million tons of cellulose per year, that is 100,000 tons a month. It has an area of 255,271 hectares in Minas Gerais, of which 128,972 hectares are forested. This area encompasses 54 towns, and therefore there are strong ties, highly complex logistics and the relationship with local communities is very important.

What are the biggest challenges for the company now in order for it to hold

"AT THE MOMENT, THE COMPANY IS OPERATING AT 100% CAPACITY"

its position and to meet future targets?

P.E.R.B.- There are two challenges. The first is this: at the moment the company is operating at 100% capacity. We have spent the most of the past year discussing with the shareholders the possibility of an expansion project, one that will be important not just from the perspective of increasing our market share – the short fibre cellulose market is growing fast, so the plan is to be involved in this expansion – but there is also another element: by incorporating a new production line, we can incorporate some of the industrial and technological advances that the industry has made. The idea therefore would be to extend the net capacity by more or less 800,000 tons, meaning the company would go from 1.2 million to 2 million tons. This would allow us to expand and improve production and to modernize our industrial facilities.

The company is one of the biggest employers in the state of Minas Gerais; are you thinking of increasing employee numbers or are you going to maintain current levels?

P.E.R.B.- In the industrial sector numbers will increase. But in the forestry sector – this relates to the challenges we mentioned. The first challenge is to expand. The second, independent of increasing output, well, what is Cenibra's greatest challenge? Cenibra has an area of forest with certain specific characteristics. A significant part, approximately 30%-35% of Cenibra's forest for cellulose harvest, is on steeply sloping areas.

For an idea of the order of magnitude of the variable price of cellulose, approximately two thirds is spent on getting the wood to the factory. In other words, from the variable cost of the cellulose, 65% is the cost of getting the wood to the factory. This means the cost of wood is key to the competitiveness of the cellulose industry. So much so that Brazil is, for short fibre, for example, far and away the most competitive country due to its advantages in terms of wood production.

I suppose it's a question of climate...

P.E.R.B.- Climate, exactly. To give you an idea, the average productivity of eucalyptus in Brazil is 45 cubic metres per hectare per year. Chile is in second place with 25. It's a big difference. The difference of forest productivity in Brazil, due to climate, sunshine etc. But in this case, two thirds is the cost of the wood. This cost is broken down into three major costs: the cost of the silviculture, or rather, the living wood; the harvest, and its transport to the factory. These are the three components of the cost of the wood. In Cenibra's case, its silviculture is exceptional; the rate of forest development is excellent; it is actually a little above the national average.

However, Cenibra has two problems, both involving the harvest. Why are the harvest costs for Cenibra higher than average and higher than we would like them to be? Due to a large part of the Cenibra forest being on steep slopes, harvesting must be

→ Continues on page 20

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A BOOMING SECTOR SIGNALS GOOD TIME FOR DEVELOPERS

MINAS GERAIS SET TO GROW AS INVESTORS MOVE IN

Brazil's property sector is one of the hottest investments in Latin America, as the rapidly growing economy, healthy mortgage market, expanding middle class and a scarcity of good housing fuels phenomenal growth.

Indeed, one recent report described the real estate market as the most dynamic and profitable in the entire region of Latin America with both domestic and international demand expected to rise dramatically over the coming years.

The demand for houses alone is expected to reach 1.8 million units during the next three years, with prices increasing accordingly, while the commercial property sector is also booming as local businesses expand and foreign firms arrive to get in on the action.

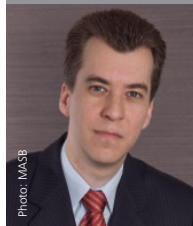
And property developers, builders and related businesses in Minas Gerais are discovering that it's not only the real estate markets in São Paulo and Rio de Janeiro that are expanding, but the one closer to home as well.

Here to Stay

"We recently launched a housing development in in this region with 550 lots," recalls Luiz Renato Paim Fernandes, the president of Minas Gerais-based developer MASB. "There were 5,000 people lined up at the sales booth and we sold them all in one weekend."



NEW RESIDENTIAL DEVELOPMENTS ARE PROVING SUCCESSFUL FROM THE MOMENT THEY HIT THE MARKET



Luiz Renato Paim Fernandes
President - Director
MASB

"WE CARRIED OUT EXTENSIVE MARKET RESEARCH, BUT NEVER IMAGINED SUCH A TURNOUT"

"We had carried out extensive market research but never imagined such a turnout. It exceeded our most optimistic expectations," he says.

Founded four years ago through a merger of three companies with long experience and good standing in the real estate and construction sectors, MASB enjoys all the strengths of the partners and has an exemplary business structure which emphasises solid corporate governance, audited statements and professional management.

Since its beginnings, the company



has had a turnover of \$1.2 billion and an average annual sales growth rate of 110%, with the president crediting MASB's brand strength and the confidence and wisdom of its partners and shareholders for the success.

Those partners include NEO Investimentos, a fund based in São Paulo, which hooked up with MASB just as the world economic crisis hit in October 2008. "The investors in this fund are companies, private individuals and institutional investors seeking long-term commitments of at least 10 years," Renato says.

- One of the largest homebuilders in Brazil;
- Focus on low income;
- One of the highest net margins in the sector;
- ROE ratio reaches 25% in 2010.



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Executives explain that the company offers a unique product to its customers, is totally committed to future-oriented projects and concerned with anticipating market trends.

"MASB believes that it is always possible to innovate in all sectors and at all stages of the product from construction and the relationship with the customer, to the delivery of the final product: our homes," they say.

MASB concentrates on providing quality housing for the country's growing middle class which has access to credit and wants to take that first step up the housing ladder.

A search of MASB's web page reveals photos of a range of sleekly-designed apartment buildings with swimming pools, tennis courts and other amenities attractive to young families and up-and-coming professionals who clearly enjoy the good things in life.

"Our focus is on residential property and we sell mostly to people who are just starting out in the market by purchasing their first home," the president explains. "Besides Minas Gerais, we are also active in the states of Rio, São Paulo, Espírito Santo and Goiás.

But Minas Gerais remains MASB's primary target and the president says there are many good reasons why the state's middle class is one of the largest and most prosperous in Brazil.

"There has always been a very strong presence of government civil servants in Minas Gerais who are solidly middle class and, of course, we have the huge mining and steel sectors here which are expanding rapidly because of demand from China and so their employees are also doing well," he explains.

In addition, the Italian automobile giant, Fiat, has a major plant in the state employing many thousands of workers with good and stable incomes, the president adds.



Photo: Design Resorts

RESERVA REAL, NEAR THE NEW DEVELOPMENT AREA "VETOR-NORTE" CLOSE TO BELO HORIZONTE'S AIRPORT, IS BOTH AMBITIOUS AND STRIKING IN DESIGN

At the same time, many state enterprises in Minas Gerais were privatised, the service sector grew tremendously and high-tech industries like telecommunications, pharmaceuticals and others moved to the state, lured by its excellent universities and, in the case of the medical products companies, world-class hospitals.

The state is attractive to both Brazilian and foreign companies seeking a base as trade unions are seen as moderate, infrastructure is rapidly improving, there is a well-educated workforce and cities like Belo Horizonte, the capital, are less crowded and crime ridden than others in Brazil.

"And there is still plenty of room for further development," the president says.

All good reasons for MASB to continue its forward trajectory in Minas Gerais and the other regions where it is active.

"I think the boom is here to stay both in Brazil and in Minas Gerais so now is the right time to invest because if not, it's going to get more expensive later on."



Photo: Design Resorts

JOSÉ MIGUEL ROQUE MARTINS
President
Design Resorts

"FIVE YEARS FROM NOW, I SEE RESERVA REAL AS ONE OF THE BEST PLACES TO LIVE IN THE PLANET"

An Overwhelming Response

Just 50 kilometres outside of Belo Horizonte, one of the largest quality residential developments in Latin America is under construction by Design Resorts, a company with high-profile real estate projects not only in Brazil, but also in Portugal, Angola and Cape Verde.

Covering more than 1,000 hectares with 5,342 residential units planned ranging from the modest to the luxurious, Reserva Real will include a golf course, a community and shopping centre, an





equestrian centre and even a "Flying Community" with a runway for owners who have their own small planes with parking facilities beside each home.

And for those who don't have their very own aircraft, Belo Horizonte's airport is only a few kilometres away, ideal for owners who choose Reserva Real as the perfect setting for their second home.

"We've had an overwhelming response from people who are planning to live here," says Design Resorts CEO Miguel Martins, who is of Portuguese origin but set up shop in Brazil when he realised that Europe, with its stagnant population growth and growing economic woes, was not the best place for an ambitious property developer.

On the other hand, Brazil in general and Belo Horizonte in particular, was becoming a hot spot for real estate development for a number of reasons.

The city is centrally located, the airport is the only major one in the country which still has room for expansion, high-tech enterprises employing well-paid people are flowing in and the future is even brighter.

"Something like 400,000 qualified jobs will be created here over the next 18 years and there will be a demand for 300,000 homes," he says. "And people want to live somewhere environmentally sustainable with a small-town atmosphere close to a highly-paid job."

Martins argues that the only dark cloud on Brazil's horizon is the lack of highly-qualified people for the key industries of the future and urges Europeans, Americans, Japanese and others to fill the gap.

"This is the moment for Brazil to import people to help ensure this extraordinary growth and I believe with the right conditions, they will come. Of course there are qualified people here, but the supply is insufficient to meet all the demand that exists."

"Five years from now, I see Reserva Real as one of the best places to live on the entire planet. I believe we'll have additional projects in Minas Gerais and in other Brazilian states because in this country, growth is happening everywhere."

A Favourable Sector

Also betting on Minas Gerais is Constructora Caparaó SA, a high-end residential and commercial developer, winner of many national and international prizes, and responsible for constructing more than 1.600.000 square meters since its foundation.

Office and apartment buildings, hospitals and shopping centres are its special-



Ney Moreira Bruzzi
President-Director
Constructora
Caparaó SA

"GROWTH IS NOW SHIFTING TO THE NORTH, WITH THE NEW ADMINISTRATIVE FACILITIES AND AIRPORT"

ity, and now the company is moving into the hospitality sector with a hotel planned for the Belo Horizonte airport in the northern region of the city.

"Growth has traditionally been to the south of Belo Horizonte but now it is shifting to the north with the new municipal administration facilities there and, of course, the airport," explains company president Ney Moreira Bruzzi.

Caparaó's director of project and planning, Maria Cristina Oliveira Moura Valle, echoes this argument, saying that the region is the focus for the future.

"The World Cup is no longer the major reason for investment and real estate development for growth in the northern sector. It is the administrative centre and the international airport with its accompanying distribution and logistics facilities that will boost investment there."

Caparaó's income increased a hundred per cent in 2010, which the president describes as an exceptional year.

Headquartered in Belo Horizonte, the company also has a 35,000 square metre operations centre with warehouse, carpentry, metalwork and marble workshops and heavy equipment storage. Caparaó employs 800 people but also outsources and subcontracts some of its work as demand for its business expands.

"Belo Horizonte is a city which needs to increase as far as infrastructure," says Maria Cristina Valle. "The city's new administrative facilities have many new employees who need services, housing, schools, shopping areas, etc., so people have yet to move their lives here," she says.

According to the president, the company is open to working with foreign partners seeking to invest in Belo Horizonte's northern sector, near the airport. "Technology transfer would be interesting for us, a partner who could increase construction technology and modernise production, for example," he says.

At this moment, Caparaó is also wor-



NEW PROJECTS ARE HEADING NORTH AS BELO HORIZONTE IS EXPANDING TOWARDS NEW AREAS AROUND THE AIRPORT



king in large-scale and high-quality projects outside Belo Horizonte.

"In two or three years, we'll be in full launch phase of the projects now being approved or in development," says the projects and planning director.

"In all of them we apply the most modern concept of urbanism and sustainability with a social commitment and environmental responsibility. We, as a constructor, are also conscious of our responsibility for the urban landscape and the contribution that our buildings do to make our city even better", completes Maria Cristina Valle.





Interview with Rodrigo Saraiva Chairman of Cobimex

New opportunities are arising in the distribution sector, and specialists in foreign trade like Cobimex are helping large wholesalers bring the right products to its customers



Photo: Cobimex

- What was behind the founding of the company?

H.C.M.- The company was founded by Embrasil through necessity. Embrasil had products abroad that it wanted to bring into the country. At that time, there was legislation in Brazil on certain taxes, which meant that rather than the company itself importing the products, it had to buy them through import companies. So it seemed to make sense to start a company rather than create a separate department within its own company. Therefore we created Embraex, which began to import products specifically for companies belonging to the Embrasil group.

Between 2006 and 2007, Cobimex started to create its own product brands and several product ranges, which it began to supply to the general market. Who are Cobimex's customers? The company mainly works with wholesale distributors. In Minas Gerais for example, we have several major wholesalers like Embrasil, Bartofil and Martins, which is the largest wholesale distributor in Uberlândia, and we have regional distributors; companies that fulfil the same job as these three, but serve more limited areas within 200 or 300 km of their headquarters.

With what country and what kinds of products do you work most?

H.C.M.- We have recently begun to work with distributors outside the state of Minas Gerais. As well as distribution, we are also focusing on the retail market, in the major regional and national chains. We are currently working on improving sales in the supermarket sector and in the large electrical retail chains. This means our major customers are wholesale distributors, retail supermarkets and electrical retailers. In order to have a presence in this market, we sought out products that were appropriate for this market. We now have many suppliers, the majority in China, and we have suppliers in Italy, Taiwan, Vietnam, Pakistan, India, Spain and a few in Argentina. That's pretty much it.

Do you intend to add to your product list and increase the number of countries with whom you do business?

H.C.M.- The main companies we do business with are in China. Also, most of the other companies with whom we are doing business have a large part of their products manufactured in China. What are the products that Cobimex works with? Cobimex has some of its own brands. Strong is a line of manual tools for

mechanics, for everyday use at home, and tools for agricultural use such as spray guns. We also have tools for civil construction. We have a camping and leisure range, which includes tents, sleeping bags, penknives, torches, and backpacks with the Yang mark. We also have the Rochelle brand, which has a range of domestic products. These three brands belong to Cobimex and at the moment we are working on all three. In parallel to these three own-brands, we have agreements with another three suppliers with world-wide licenses, one of which is Michelin ("non-tyre" products). Michelin began to create products over and above to its range of tyres and is outsourcing the manufacture of these products. So we have, with exclusivity in Brazil, Michelin high-pressure washers, Michelin compressors and Michelin tools.

Can you give an idea of the yearly volume of business for the company?

"THE BRAZILIAN FOREIGN TRADE IS HEAVILY RELIANT ON TAX BENEFITS, AS IN SANTA CATARINA AND ESPÍRITO SANTO"

H.C.M.- Cobimex, last year, turned over around 50 million dollars, through import and export, and this year, it should increase to 60 or 65 million dollars.

How do you see your growth over the next few years?

H.C.M.- The Brazilian foreign trade is heavily reliant on tax benefits, and the major centres of importation are states which have some kind of fiscal benefits. In the case of Brazil, the two states that are particularly influential are Santa Catarina and Espírito Santo, both of which have fiscal benefits to facilitate importation. This year, the Minas Gerais state government decided to respond to these states in kind, or rather, to create fiscal benefits for the importers based here. Our previous option would have been to leave Minas Gerais and go for one of these two states. However, as the Minas government decided to compete with those states by offering the same benefits, we are now investing in Minas Gerais and we intend to keep our activities here.





Interview with Rogério Valadares Gontijo Director of Siderúrgica União / Sidepar

The Brazilian iron and steel industries are facing tough challenges in the aftermath of the financial crisis of 2008. Self-sufficiency in charcoal and energy production are seen as key elements of survival for Sidepar's director, who has seen the market swing from boom to bust and back

Can you give us an idea of the activities undertaken by Siderúrgica União / Sidepar in Minas Gerais?

R.V.G.- Siderúrgica União is an iron ore processing plant that produces pig iron, the first raw material needed to produce steel. Since 2008, pig iron production has been going through a major crisis because it is a product used in the production of steel. It is used heavily in first world countries, mainly in Europe and the USA. With this crisis, scrap iron has been replacing pig iron. There's a lot of scrap iron and that lowers the price of pig iron. We see that iron ore – the raw material needed to produce pig iron – is nowadays separated from pig iron, since the great demand for iron ore comes from Asia, mainly China. Therefore, iron ore is very expensive and the price of pig iron is indexed to the price of scrap iron. We have been noticing that in the last two, three months there has been a lot of demand from the Brazilian internal market. So there is a lot of internal demand for our pig iron produced in the south east (in Divinópolis, in the case of Siderúrgica União, and throughout the western part of Minas: Divinópolis, Pitangui, Bom Despacho, and Sete Lagoas, a major pig iron producer, are located Usiminas, ArcelorMittal and Gerdau). For this reason, the pig iron we used to sell in high quantities to Asia, mainly Thailand, Malaysia, Vietnam, and even China, is being sold today to the internal market. We are not exporting the product. Now, the forges in the north of Brazil, such as Sidepar, the other company we own, are sending their product, pig iron, to the American market. We understand that there is demand for the product, but things are evolving very slowly; we are only noticing a slight improvement. The question is, what happened? From 2008 to 2011 we were

"OUR ENERGY POTENTIAL IS TWICE THAT OF OUR CONSUMPTION NEEDS"

able to sell pig iron for 900 dollars a ton (in August and September 2008). In mid-2009, we hit rock bottom and had to sell it for 205 dollars a ton. Now we are selling it for 500, 520, 525 dollars. We know that demand is low because of all the supply of scrap iron. However, no matter how much scrap iron you use to produce steel, you always have to add 10%, 15%, 20%, or 30% of pig iron in order to produce good steel. So our product is a noble metal – pig iron is considered the best metal for producing steel because it is pure and low in phosphorus – and a quality product – in order to produce quality steel, there's the need to add some percentage of pig iron. Those steel producers who want to produce quality steel feel the need to import this product from Brazil.

Can you give us an idea of the production volume of the Sidepar and União plants?

R.V.G.- União produces approximately 150,000 tons/year and has a turnover of nearly 80 million dollars/year. Sidepar produces approximately 500,000 tons of pig iron and has a yearly turnover of nearly 270 million dollars.

Do you believe that Minas Gerais is still the great centre of iron production in Brazil and, if so, do you think that this will still be the case in the future?

R.V.G.- We believe that the American and European markets will surely return to previous levels of consumption, close to those registered in 2008. And there is high demand from the Brazilian internal market. Nowadays, the produc-

tion capacity of the pig iron industry in Minas Gerais represents less than 50% of the installed capacity, which is approximately eight, nine million tons. This means that only four million tons are being produced, i.e. less than 50%.

How long can this situation last?

R.V.G.- The truth is that there are many plants which are literally closed. And the companies which have better resources, in terms of technology, forests, charcoal mines, and iron ore production, are the ones in operation. They are being subsidized by the raw material. This is how we know that the industry is not doing well: lots of companies have closed with no prospect of opening again; there are companies whose industrial facilities have already been closed for two, three years and irreversibly damaged, and companies working with very low or negative profit margins and cost-effectiveness.

In your case in particular, how do you see the future?

R.V.G.- We are preparing ourselves for whatever comes. I speak for the two companies: Sidepar and União. At Sidepar, we own 100% of the iron ore. We have all the means for the iron and coal transportation. We have developed some technological improvements to the steel works, namely pulverized coal injection, the ore drying process, which reduces coal consumption, and the sintering of pulverized iron ore. We realize that the margins are smaller, but we do need to have options in order to keep producing. So we are planting forests. We want to be self-sufficient in terms of charcoal production in the next four years. Nowadays, pig iron means coal and iron ore, and the two together represent nearly 90% of the costs. We now have iron ore of our own and we are heading towards self-sufficiency in terms of coal in the next four years. And in the next two or three years we are also planning to make one last investment in electrical energy co-production. The idea is to use the gas generated by the blast furnace to produce energy. Our energy potential is twice that of our consumption needs.





Interview with Ricardo Ribeiro Valadares Gontijo Commercial Director of Direcional Engenharia

As the Brazilian poor join the ranks of the middle class, affordable housing has become one of the hottest business segments in the construction sector. Boosted by the government-sponsored program "My Home, My Life", Direcional Engenharia is enjoying the sweet taste of success



Photo: Direcional Engenharia



Photo: Direcional Engenharia

ded the corporation's capital, our Initial Public Offer took place in November 2009 and in February 2011 we went through a follow-up process. We have this need for capital due to the fast rate of growth that is occurring, mainly as a consequence of the increase in available credit. During the construction process, we receive only a relatively small portion of the value of the property and only when the work is finished can the customer obtain the thirty-year mortgage and pay off the rest of the debt that he owes us. In the meantime, when the property is being built we are spending a lot of money. Therefore, the increase in capital achieved through the public share offer was essential in enabling the company to grow.

How is Direcional Engenharia experiencing the recent good economic times in Brazil?

R.R.V.G.- In our sector of activity, specifically the sector of real estate development, there are some factors which are essential to the success of the business and the growth that we have been experiencing over the past eight to ten years. Which are those factors? The first factor is employment, the second concerns salaries and the third is credit. In order to be able to buy a property, mainly in the salary band that is Direcional's target and from which we have most of our demand, credit is needed, as the population is not able to buy an apartment without requesting a loan. What has enabled credit to increase in the Brazilian economy has been the country's stability and a lower inflation rate, making Brazil a more predictable country, where contracts are respected. This is what has really motivated banks to make more credit available and have more belief in the real estate market. To give you have an idea, mortgages that used to be limited to a fifteen-year payment term ten or twelve years ago now have a thirty-year term. Interest rates that were around 12% per year are now around 9% and, in some cases, 5%, specifically in the low-cost sector.

"WE HAVE GROWN AN AVERAGE OF A 100% IN THE LAST FIVE YEARS"

When we have an increase in mortgage payment terms and a reduction in the interest rate as a consequence of the increase in available credit made possible by the recent country's stability, with employment and salaries rising, the real estate market will have the potential to grow.

How have you been taking advantage of this situation?

R.R.V.G.- Actually, if you take a look at Direcional's figures from 2006 to the present, we have been growing at a rate of approximately 100% per year. Obviously, during the past two years the level of growth has decreased because growing from a very high base is more difficult than growing from a lower base. But in order to sustain our growth, as the construction and real estate development sector is financially very demanding, we first went through a process of being financed by an investment fund, Tarpon Real Estate, which acquired 25% of our capital and made a 100% primary share offer. We then expan-

What are your expectations for 2011?

R.R.V.G.- In 2010 we launched and sold 12,300 apartments, resulting in a financial volume of 1.07 billion reais, a volume of contracted sales totalling 1.03 billion. In terms of launches and sales, this represents growth of 50% in comparison with 2009. When analysing our revenue for 2010, the growth rate was 100% compared to our revenue for 2009. As our revenue is out of step with our sales, first we sell, then we build in order to obtain revenue. This is the curve that I was talking about. Since we have grown at an average rate of 100% during the past five years, it is not possible to grow at the same pace from now onwards as the growth is now measured from much higher starting point. The rate at which we launched properties grew by between 50% and 60%, while our revenue has grown by 100%. This is exactly the beginning of less significant growth. For 2011 we could say that expectations are quite positive, mainly in the lower salary bands, the people targeted by the second phase of the

→ Continues on page 20

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MINAS GERAIS BETS ON TECHNICAL INNOVATION FOR GROWTH

STATE SEEN AS BUSINESS FRIENDLY TO INNOVATIVE COMPANIES

Agriculture, mining and heavy manufacturing have long been the industrial pillars of Minas Gerais state, fuelling Brazil's domestic growth and helping create the country's enviable overseas trade surplus.

As one of the so-called "BRIC" countries, which analysts argue will be the drivers of the world economy in the not too distant future, Brazil is well on its way and Minas Gerais, strategically located in the southeast central region of the country, is set to play a big role.

Last year, Minas Gerais was second only to São Paulo in the rankings by state for exports, selling \$31 billion worth of goods and services abroad with China, Japan, Germany and the United States as its chief customers.

And now the state is becoming a recognised leader in high-tech products and services with innovative companies making inroads into sectors once thought to be the domain of more developed countries such as sophisticated healthcare manufacturing, information technology and telecommunications.

Hard Work Ahead

One such company is Labtest, the largest Brazilian developer of in vitro



INNOVATIVE COMPANIES SUCH AS LABTEST ARE BECOMING MORE COMPETITIVE IN THE INTERNATIONAL MARKETS THROUGH IN-HOUSE R&D



Eliane Lustosa Cabral Gomez
President
Labtest



Tarcísio B. Vilhena Filho
CEO
Labtest



"IN THE FUTURE, THE CHINESE AND THE MIDDLE EASTERN MARKETS ARE INTERESTING PROSPECTS"

diagnostic products, which this year is celebrating its 40th anniversary and looking forward to expanding sales of its reagents and diagnostic equipment both at home and abroad.

"Domestically, Labtest has to compete with multinationals in our sector and this can be difficult as these companies are strong globally and can source products from their world-wide supply chains," explains company presi-

dent Eliane Lustosa.

"However, we're able to compete in the market as we provide products of international standard and quality, but at a very competitive price," Lustosa says, adding that the company also keeps costs down by adhering to lean and well-designed production methods.

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"And despite our success we still have plenty of room to grow in Brazil and we must now focus on increasing the demand for our products," she says.

Another advantage the Lagoa Santa-based business enjoys is the tax breaks for companies which export and Labtest is currently active in 20 countries around the world, mostly in Latin America, South Asia and Africa.

"And in the future, the Chinese and the Middle Eastern markets are interesting prospects and we're already active in China," chief executive director Tarcísio Vilhena says. "We are currently billing around \$50 million annually from all our operations and hope to grow by 20% this year."

Labtest develops, produces and markets some 120 diagnostic reagents for biochemistry, hematology, coagulation, anticoagulant, immunochemistry, molecular biology and other applications, selling around 1 million kits a year.

Its other main product line is state-of-the-art automated and computerised equipment for diagnostic laboratories, including analysers and blood cell counters.

The company is located near Belo Horizonte, the capital of Minas Gerais where the state government is actively assisting Labtest and other high-tech enterprises which other states are more than keen to lure away.

"It is very clear that the Minas Gerais government wants to ensure that entrepreneurs stay here and are successful," says the president. "It fully supports us and has established helplines for companies which are eager to grow and develop, especially those in the technology sector."

Minas Gerais is also home to one of the leading business schools in Latin America and the world, Fundação Dom Cabral, which trains young Brazilian executives who are in increasing demand not only at companies like Labtest but also at multinational corporations.

"A growing number of companies have sought help to become more professional and efficient in their sectors and the Fundação Dom Cabral helps them out in that respect, too," she continues.

As managers of a forty year-old company, the second generation has set out to meet the demands of an increasingly complex business environment, aware



Photo: Labtest

LABTEST DEVELOPS, PRODUCES AND SELLS OVER ONE MILLION DIAGNOSTIC KITS A YEAR IN TWENTY DIFFERENT COUNTRIES

of the market situation and world tendencies in the industry.

"We here in Minas Gerais have entrepreneurs with an exceptional vision. My idea is to double the size of the company over the next five years. For that we need products, strategy, a very involved team and to work hard; very, very hard," Lustosa says with a convincing look.



Photo: Labtest

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High-tech Attractions

The director of another Minas Gerais-based company, Dimitry Palma Boczar of Digicomp, is also bullish on the state's prospects, especially for high-tech enterprises like his own.

"In our state, there is a growing number of young, skilled professionals who are coming out of the excellent training centres located here," he says.

"In the southern region of Minas Gerais, for example, there is a telecommunications engineering school and a technical school that prepares students between the ages of 15 and 18 so they can work in IT and telecommunication companies."

Besides the superbly trained workforce, Minas Gerais' other attractions include abundant resources and raw materials, upgraded transport infrastructure, a location allowing quick and easy access to the sea and Brazil's other markets, and a government that understands business.

"This is thanks to our former governor Aécio Neves who improved the infrastructure, balanced the public accounts, imposed a system of meritocracy for state employees and planned for the future," says the president.

"That's why Minas Gerais is so far ahead of other Brazilian states when it comes to management at all levels of government."

Digicomp was founded 20 years ago just as the country's demand for expertise in IT and telecoms installation and management was taking off and when there were few other companies with the skills and personnel to satisfy that demand.

"In those days we just did IT engineering and electrical wiring but, now we do entire turn-key projects from the initial construction of data and call centres, for example, to installing the acoustics, air conditioning, security and optical systems, etc." he explains.



Photo: Digicomp

THE IT AND TELECOMMUNICATIONS INDUSTRIES OF MINAS GERAIS HAVE BENEFITED FROM IMPROVED GOVERNMENT MANAGEMENT



Photo: Digicomp

Dimitry Palma Lima Boczar
Partner & Director
Digicomp

"MINAS GERAIS IS AHEAD OF OTHER STATES WHEN IT COMES TO GOVERNMENT MANAGEMENT"



Photo: Digicomp

Other products and services include consulting and network design for LAN and WAN; IP telephony, wireless network and remote access solutions, and cabling and fibre optics, all handled by a staff of 100 employees, a fifth of whom are engineers and technicians.

This year, Digicomp sales are predicted to be in the neighbourhood of \$30 million and Boczar says he fully expects that figure to hit \$100 million by the time the company celebrates its 25th anniversary.

"We're already planning for that and have set annual goals," he explains. "By

then we want to be operating in most of the country, primarily with local partners. We're moving slowly and carefully in that direction so that we get it exactly right."

Once Digicomp is firmly established in Brazil, Boczar says the company could look further afield for growth, especially among the country's immediate neighbours.

"We would be very interested in establishing partnerships in countries which are nearby, and that have a similar business environment, like Argentina, Uruguay and Chile."

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THE NETWORK OPERATION CENTRE OF CEMIGTELECOM, IN BELO HORIZONTE, IS AN EXAMPLE OF TECHNOLOGY IN ACTION



Photo: CEMIGTelecom

Sérgio P. Belisário
Director
CEMIGTelecom

"IN FIVE YEARS WE EXPECT TO HAVE LAUNCHED AN IPO, AND TO QUADRUPLE OUR TURNOVER"

"Our mission at Digicomp is this: Offer our clients the very latest in IT and telecoms solutions and hardware so they can be the very best at what they do," he says.

New Synergies

Expansion is also in the plans of CEMIGTelecom, a partly state-owned enterprise which spun off in 1999 from Minas Gerais' electricity utility company and which uses that synergy to serve its increasing number of customers by piggybacking on the parent company's power grid.

CEMIGTelecom sees itself as a "carrier's carrier" providing services through its optical fibre networks for telecom companies seeking to boost their area of operations or which want to serve end customers without having to own their own network.

The company's dedicated "clear channel" circuits carry signals between telecom operators (fixed, mobile and business) and Internet access providers and their end customers. In Minas Gerais, CEMIGTelecom operates in more than 70 municipalities.

"We closed the year 2010 with \$130 million in sales," says executive director Sérgio R. Belisário. "That was an increase over the previous year and over the past five years, our annual revenue growth was around 25%, posting profits every year."

Parent company CEMIG is doing busi-



Photo: JAM Engenharia

THE PRIVATE SECTOR OF MINAS GERAIS HAS RISEN TO THE CHALLENGE OF PROVIDING CONTINUOUS TRAINING IN THE WORK PLACE

ness in neighbouring markets and Belisário says subsidiary CEMIGTelecom is included in the expansion plans.

"We're doing business already in Chile and we're looking at the rest of Latin America where there are good markets, strong economic growth and huge potential," he says.

CEMIGTelecom is also open to partnerships with foreign telecommunications companies interested in doing business in Brazil.

"We don't close the door to anyone,"

Belisário stresses. "CEMIGTelecom is right now studying four new investments with the private sector, both Brazilian and international."

"In five years, we expect to have launched an IPO which will open up opportunities for external partners to participate in the management process. At the same time, we're forecasting a quadrupling of turnover and we want to be operating in other states and internationally," the chief executive director says.

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Interview with Paulo Henrique Pinheiro de Vasconcelos CEO of PHV Engenharia

Used to working in a market characterised by a conservative mentality and general lack of good spaces to build, PHV Engenharia has perfected a system which offers not only sustainable growth but interesting opportunities for outside investors



Photo: PHV Engenharia



Photo: PHV Engenharia

How did PHV Engenharia grow into one of the main real estate companies in Minas Gerais?

P.H.P.V.- PHV was founded in 1997. I created PHV together with my father, who has exactly the same name as I do: Paulo Henrique Carvalho de Vasconcelos. Initially, the name of the company was inspired by our names, but nowadays we try to associate it more with the motto "Profissionais em Habitat de Vanguarda" (Professionals in Vanguard Habitats) so as not to have it too connected to our names. At the time, Brazil was not experiencing much growth, and Minas Gerais even less so. So we started with small projects, especially by establishing partnerships with other companies. Minas Gerais is a very special market; people are very traditional. In that sense it is a market in which a company coming from the outside can experience great difficulties in becoming successful, since they don't know the right people. PHV has become specialized in what I call "mining", which is this: we look for a good spot – PHV has come to focus on high-quality commercial and residential projects. Sometimes our prospecting process takes two or three years, followed by a year of construction. This is a characteristic of our "mining" activity. And we always try to construct in a way that is beneficial for both sides, for the owner and for ourselves, or our partners.

"MINAS GERAIS IS A VERY SPECIAL MARKET, PEOPLE ARE VERY TRADITIONAL"

Do you think that the lack of good land could motivate your company to search for other places in the future?

P.H.P.V.- Yes. Definitely. We have already anticipated that and started investing in parceling out. We are partners in a housing project called Vale do Serenoig neighbourhood by the exit towards Nova Lima, very near here, in Belvedere (Belo Horizonte), we have also partnerships in others projects like this, one in the Nova Lima area that called Jardim da Torre and others near by the southern area of Belo Horizonte. We have also thought about acquiring land to build on, since there is a scarcity on the market. Parcelling out is good business. We consider it be a trend which could extend over the borders into other states.

How long do you think this economic boom in the real estate sector will last?

P.H.P.V.- I think this form of "mining" is sustainable. And the way we do it is also sustainable. Because we don't depend much on the end customer. The way we do business is very down to earth, very safe. Virtually all of our projects

are independent of bank financing. We rely on our own resources and the support of investors. What positive things have been happening in Minas Gerais lately? One of the positive factors is related to the government: we have a stronger government. For a long time the governor of Minas was fighting with the president, and Minas suffered from it. Not today. Today we have an active government that has managed to attract more resources, more companies to Minas. And Brazil is also in better shape. What can we foresee? From now until 2014, when Brazil is hosting the World Cup, and 2016, with the Olympic Games, the economy in general, throughout Brazil and particularly in Minas, will experience a major boost. And we have all the best conditions for businesses to set up. Brazil has every condition, such as its climate, to grow. It never did because I think the policies were never favourable. The whole of Brazil is still waiting to be built. If you compare it with developed countries the difference is this: they already have good infrastructure. People have their own houses, they are buying their second house, or third house. The policy of the federal government increasing the income of the lower classes is the driver. The worker buys; he gives money to the trader, who buys a more expensive building. Since Brazil is still to be built, a lot of infrastructure work is going to have to be done.

Is PHV interested in partnering with international companies to build a stronger base for future projects?

P.H.P.V.- Yes. Our business is based on our own independent share capital and that of investors. But nothing prevents us from studying other markets, from investing abroad, which I think is very appealing. Currently, rental here pays proportionately more than in the rest of the world. It is very appealing to invest in very well located commercial property to obtain income from rent. In fact, there is a general lack of commercial spaces, warehouses, apartments. Because the market has been frozen for a long time. I think that this boom will last until at least 2016. I imagine that after that point it will not drop off. It will perhaps stabilize.

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**Interview with Marco Antonio Andrade Carneiro
President & Director of MIP Edificações**

As a spin-off of one of the main engineering and construction groups in the country, MIP Edificações has found in financial independence and vertical integration the right ingredients for growth and profitability



When was the company founded and what were its beginnings?

M.A.A.C.- The MIP Group has celebrated its 50th anniversary this year. Currently there are two companies: MIP Engenharia S.A. and MIP Edificações Ltda. MIP Engenharia has worked since 1961 with electromechanical assembly, industrial assembly. Initially, MIP Edificações came about as a means of financial diversification. MIP has always been a financially strong company and, because of that, it has survived all the crises we're all familiar with, particularly here in Brazil. Our capital was concentrated in banks. We decided to diversify. As we already had the know-how, we decided to diversify. That was in 1992.

What is the company's position in the construction market?

M.A.A.C.- We are involved in all the links of the value chain. We incorporate, we build, we sell and we finance. This is all done with our own equity capital. We have no loans and no debt. It is a financially independent company and we only work with our own equity capital. We work in the market of residential and commercial buildings, all in the wealthier southern region of the city of Belo Horizonte, areas within

"THE PHILOSOPHY OF THE GROUP IS TO GROW, CONSERVATIVELY AND SOLIDLY"

the Contorno orbital: Savassi, Lourdes, Santo Agostinho, Funcionários, all of which are up-market areas. We work with a target public of single professionals, newly-weds, couples without children and newly single people. We have a very specific public and we work with them through quantitative and qualitative research and, with each undertaking, we refine our studies along with our clients.

Can you give me an idea of how 2011 should finish for you in terms of growth.

M.A.A.C.- We have eighty employees, and the Group as a whole has around 4000 employees. This year I have surpassed my targets. A growth of 263% on top of 56% and with a small deceleration at the end of last year into the beginning of this year, if we manage to achieve the same turnover as last year, it will be excellent. Just keeping last year's level of activity will be great.

Where do you see the opportunities

for the future?

M.A.A.C.- We need to keep a look out for other opportunities. This is why we have started to invest in other markets, other partnerships – I am already in partnership with Direcional Engenharia – and in the middle-class sector, especially in upstate São Paulo, which is the largest economy in the country. The largest economy in the country is São Paulo, and the second largest is upstate São Paulo. São Paulo is already full; now you can take longer to get to work living in São Paulo than if you live 100 kilometres out of São Paulo with higher living standards, on a private road, with a peaceful commute. You spend less time travelling and have a higher standard of living. I believe that there is still space in the property market. Even within a small market, like Belo Horizonte, one that is very restricted. Demand is different for each region. The Nova Lima region, for example, is where companies from São Paulo have moved. They need large areas, and build nine, eleven, twelve towers, very large projects. And they can't fit in the southern area, where there are smaller undertakings, perhaps

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**Interview with
Paulo Eduardo Rocha Brant**

done by hand, rather than mechanically. This is our major challenge: how to mechanize and increase production. It is a technical problem that we are working on. At the moment, approximately 60% of the Cenibra wood harvest is mechanized. Thus, Cenibra now has two major challenges: a strategic one, to invest in expanding its production and to improve and rejuvenate its industrial facilities; and, from the perspective of the forest, to improve harvesting and transport operations for the wood.

Do you think that in the international market there is, and will continue to be, sufficient demand to justify this new industrial investment for the foreseeable future?

P.E.R.B.- Undoubtedly. Firstly, the short fibre cellulose market has grown the most, but projections for the next 10 years suggest that growth will be around 4% a year. The second point is that it is important that demand has grown continuously, to a great extent due to the Chinese. So demand has grown gradually and steadily, and what we are able to supply increases in bursts as there are restrictions to increasing productivity due principally to the fact that a forest takes seven years to grow in Brazil, although it takes 10 years in Chile and longer in other countries. The investment and the fixed capital are considerable. Therefore, as what we can supply increases in bursts and irregularly, there is little likelihood of having significant discrepancy between supply and demand. The big projects that are under consideration, our future investment, should not destabilize the market over the next 10-15 years. We hope that the increase in demand will justify this new expansion. And in Cenibra's case, the expansion project should reduce the unit cost of the cellulose, thus making Cenibra more competitive.



Photo: Cenibra

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**Interview with
Ricardo Ribeiro Valadares Gontijo**


Photo: Direcional Engenharia

federal government programme "Minha Casa, Minha Vida" (My Home, My Life).

Which part of Brazil do you see as being the most interesting for your type of product over the next few years?

R.R.V.G.- Brazil has a shortage of low-cost housing throughout the country. In any city in the country there will be, without any doubt, a demand for the type of product framed by "Minha Casa, Minha Vida". Because of the business model that we operate, Direcional is traditionally fairly different from other real estate developers and mainly focuses on the federal state of Belo Horizonte. Belo Horizonte is our home; it is where we started. But it is also the state where there is more competition, as the majority of real estate developers in Brazil are from São Paulo and Minas Gerais, from the southeast of Brazil (São Paulo, Minas Gerais, Rio de Janeiro), we therefore have more competitors. Although we are based here, almost two thirds of our revenue comes from the north of Brazil (Manaus, Porto Velho, where there is heavy investment in infrastructure and hydroelectric power, mainly in Belém and Marabá) and from the central-western region (Brasília). We will continue to conduct market research in the north and northeast, another two federal states where we will start to operate during the current year. We are going to maintain this focus. The more difficult it is to build in a specific region, the more Direcional benefits, as we have our own labour. We are not dependant on third party companies to build our properties.

What would you like to tell me about Direcional Engenharia in five years?

R.R.V.G.- By that time we can think about having something outside of the country. I would not say that it is essential since, according to our strategic planning, we believe that in five years we will still, without doubt, have opportunities to continue growing at a significant rate with the existing opportunities in Brazil.

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**Interview with
Marco Antonio Andrade Carneiro**

with greater profitability, but they're too small for them. These regions have much greater supply compared with demand, unlike the southern area, where people really have to search hard for land. It can take two, five, 10 years to manage to get a piece of land. One example was in Rua Pernambuco. It is an exceptional plot, perhaps one of the best. I took ten years to get it. Today it is a success; Savassi Lifestyle. So, it's a different market within a market.

What kind of partnerships may interest you in the future?

M.A.A.C.- I am particularly interested in this area of plot-division, and in the middle-class sector, especially in the surroundings of Belo Horizonte, Minas Gerais, which is growing fast with a great demand for this kind of condos.

What can you tell me about MIP and about the property market in Brazil and Minas Gerais four or five years from now?

M.A.A.C.- If we manage to reach all the targets for our strategic planning and the global economy continues to help, even with all the crises – mainly those in Europe, that have interfered a little and discouraged foreign and national investors. I would hope to be in new headquarters, which we are already planning for, making four times what we do now, with our feet on the ground, with the company well-capitalized, with increased equity capital, so as not to get into debt. It is a slower growth plan than the Brazilian norm, but it is steady growth with our feet on the ground. We want to grow, but conservatively and solidly. That is our philosophy.



Photo: MIP Edificações

