

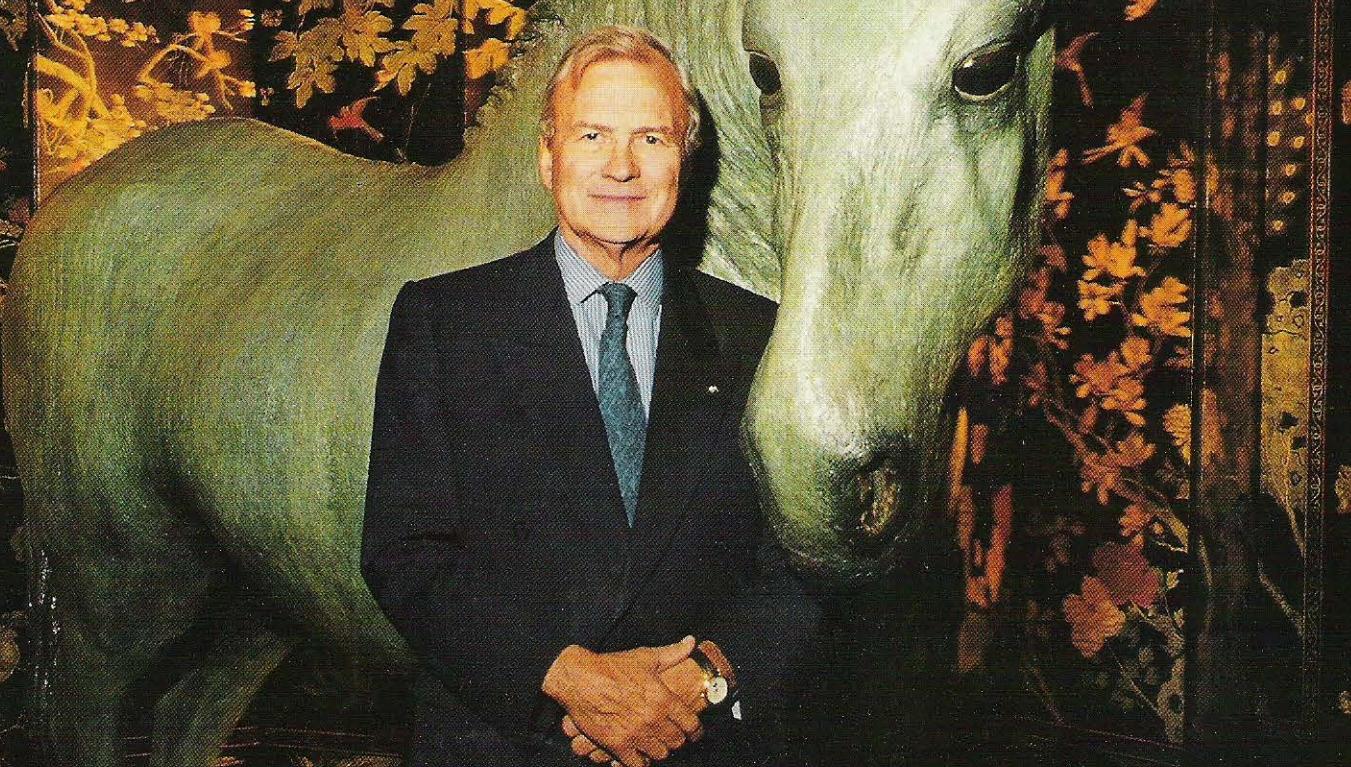
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FOR^{TUNE}NE

DECEMBER 20, 1999

NO. 24

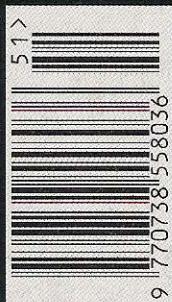


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GLOBAL REVIEW

Olavo E. Setubal,
President of
Investimentos
Itaú S.A.

David V.
Thomas,
President of
Lloyds Bank



Roberto E. Setubal,
President of Banco Itaú

Government's Stabilization Plan and Restructuring Efforts Bring Fresh Air

Flexible Financing

Privatizations, acquisitions and new foreign players are all shaking up the banking industry, which is a volatile sector at the best of times. But most banks in the country came out of the devaluation with increased profits, and while keeping an eye on the market, they are ready for any new surprises.

A Strategic Position

In the first six months of this year, Banco Itaú registered an extraordinary profit of around half a billion dollars and much of that was thanks to the devaluation of the Brazilian real last January, says the bank's president, Roberto Egydio Setubal.

"We were in the strategic position of having more assets in dollars than liabilities, so profits went up," he recalls. "Devaluation earned us around \$267 million and our normal operations gave us around \$280 million. That was from the success we've had in consolidating the banks

we've acquired over the past three years."

This last year has been a roller coaster ride for Brazil's bankers, financiers and investors with some scary moments indeed, but Roberto Setubal believes that Central Bank Chief Arminio Fraga is on the right track.

"I think he's doing very well. He took office during a very difficult period but has been able to slowly bring down interest rates and he is trying to deregulate the Brazilian financial system, which is an excellent idea," the Banco Itaú chief says.

"Banking in an emerging market is very different from banking in stable markets like the United States. Volatility is high in countries like Brazil and margins are much higher as well. You also have to spend a lot of time trying to understand the market and what's coming next," he explains. "Banking is a very complex business."

The Banco Itaú chief believes that the sector is particularly difficult to

comprehend at the moment because of the restructuring that is taking place.

"There are a lot of changes going on. Many banks have been acquired by others, and Banco Itaú itself has bought three banks in the last three years and we expect this to continue," Roberto Setubal predicts. He also says some foreign banks may pull up stakes and get out after selling off their assets.

"I would expect that some of the foreign financial institutions here might decide to leave the market, because I don't believe all of them will succeed and they could sell their operations."

These changes are very much on the mind of Olavo Egydio Setubal, the father of the Banco Itaú chief and himself the president of Itaúsa-Investimentos Itaú S.A., which is the parent company of the bank and a firm that is also involved in insurance, manufacturing and real estate.

But Setubal Sr. is adamant that the group's banking activities take precedence, pointing out that net income in 1998 was \$335 million, or almost 44 percent more than the previous year. The bank represents 90 percent of the group's results and 75 percent of its investments.

Itaúsa-Investimentos Itaú S.A. also owns the construction materials manufacturer Duratex, which has its own subsidiaries in Europe and North America; electronics goods and computer producer Itáutec Philco, the Elekeiroz chemical company; and the Itaúsa Empreendimentos real estate firm. But the bank is the star performer.

"Banco Itaú is doing very well because we have a clear focus in our business and we are only really interested in financial activities," he explains. "We have bought banks being privatized,

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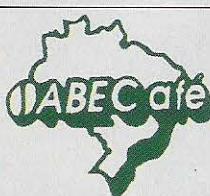
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but we have no desire to take part in the privatization of other sectors."

Next to be put on the block in the government's banking privatization process is Banespa. Banco Itaú is

rapidly, and if you want to be successful, you have to be flexible."

Lloyds Bank seems to have learned its lessons. In the first six months of this year it had a profit of some \$7 million,



considering making a bid along with its main competitors, Bradesco and Unibanco, in what could be a purchase that would transform the sector.

"If Bradesco buys Banespa, it will be ahead of Banco Itaú, and if we win it, we'll be bigger than Bradesco. We are very interested in Banespa, but we won't pay a foolish price," Setubal Sr. says.

Going Latin

With 135 years of experience in Brazil, Lloyds Bank has seen it all and President David V. Thomas passes on a valuable tidbit of advice to foreign managers who he says should forget normal business practices, go Latin and be ready to react at a moment's notice.

"What is difficult in Brazil is the volatility of the market over a much shorter time than in other countries," he explains. "The market shifts very

a healthy increase over 1998. "The gain came in two main areas: corporate banking and consumer finance," Thomas says.

After the devaluation of the real at the beginning of this year, bank executives expected less demand for consumer credit. "But it has performed surprisingly well," he says, arguing that Lloyds has a competitive advantage as it is the market leader in the sector. "We have the best distribution, the largest value and the biggest database for customers."

Quick on One's Feet in a Changing Environment

Brazil, and its economic landscape, is constantly changing, and quickly. Bankers have to be fast to adapt and focus on the strategy that best serves their current interest. One such agile institution is Banco

CCF Brazil, a subsidiary of Credit Commercial de France and among the 25 biggest banks in the country.

"We offer services to institutions, private companies and individuals, and one of our objectives is to maintain an equilibrium so we go with the market," says Banco CCF Brazil President Bernard Mencier.

Its basic business is distributing financial products, but instead of investing in a branch system like most banks, it has invested in direct selling systems, as executives feel the country is overbranched. Last year, the São Paulo-based bank's assets totalled \$2 billion with a net equity of \$242.5 million and net income of \$30 million.

"The market today is much more active for individuals, so that is what we are focusing on for the time being as the recession has slowed down company business," he explains.

One of the bank's other key services is providing advice to



companies looking to set up operations in Brazil. Half of Banco CCF Brazil's corporate clients are multinationals, and 50 percent of those are from the United States.

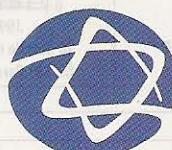


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Ben J.A. van Schaik, President of Mercedes-Benz do Brazil



Edson Eden dos Santos,
PQU Managing Director-CEO

These are exciting times for Brazilian industry as regional trade pacts and globalization open new markets in Latin America and the rest of the world, and local and foreign firms are having to adjust.

A Blend of Cultures

At first glance, manufacturing and then successfully selling a luxury automobile in a market like Brazil, where the per capita income is around \$4,000, would seem an impossible task, but Mercedes-Benz do Brazil S.A. is doing just that with its A-Class passenger car months after production began.

"We will almost certainly obtain a market share of 15 percent this year in the segment, but we have to see how the acceptance of the product develops," says President of Mercedes-Benz do Brazil Ben van Schaik. "The situation in Brazil is getting

Benz do Brazil had a turnover of \$2.7 billion, about 1.3 percent above the previous year. van Schaik attributes the company's performance to its long experience in Brazil, where it first set up operations in 1953, and its ability to roll with the economic punches.

"It is important to always try to remain as independent as possible concerning inflation, currency fluctuations, etc., he explains. "It is also vital to export and we sell 25 percent of our Brazilian production abroad, basically to other Latin American countries, but also to Australia, South Africa, Morocco and China, for example." Plans call for eventually exporting 10,000 engines a year to the United States.

Besides the new A-Class, Mercedes-Benz do Brazil produces commercial vehicles such as trucks and bus chassis. Executives are planning to roll out an entirely new line of such vehicles starting in 2003 from the factories in



A Positive Attitude

The Industry is Doing Pretty Well, but There are Still a Lot of Challenges

better, but the automotive sector is different and since last year the market dropped 20 percent."

In 1998, which was not a good year for the sector, Mercedes-

Sao Bernardo do Campo and Campinas in Sao Paulo state. The A-Class is produced at a new plant in Juiz de Fora, Minas Gerais.

Mercedes-Benz received government incentives when it set up the factory in Minas Gerais. Some Brazilian politicians argue against incentives such as tax breaks for new companies, saying that if the state receives less tax income, it has less to spend on things like infrastructure.

But van Schaik defends the practice, explaining that incentives make it possible for companies such as his to overcome certain disadvantages. And besides, he stresses, Mercedes-Benz do Brazil pays more in taxes than it receives in incentives.

All part of doing business in Brazil where the Dutch-born executive says fusing German and local business techniques has never been a problem for his company.



Technology Is the Key

A healthy return on investment despite lower sales is not the norm in business, but Petroquímica

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Werner Karl Ross, President of Degussa-Hüls

União S.A. (PQU) managed just that last year, swinging back into the black after posting a loss in 1997. PQU Managing Director-CEO Edson Eden dos Santos credits an overhaul of the company for the good results.

"What we did was restructure the company, among some other decisions that were taken, and that had an impact," he explains. "We also reduced costs."

Located in Santo André in São Paulo state, PQU was the first basic petrochemicals raw materials plant in the country. Executives are interested in acquisitions and are currently studying the purchase of a petrochemical plant in Rio de Janeiro.

"In this industry, what makes a company stand out is the technology, and we modernized our facilities several years ago," dos Santos says. "As we supply raw materials, we do very little research on new products or new lines, but we do carry out research in technology in order to have the best equipment."

Building Confidence

After 25 years in Brazil, Degussa-Hüls Ltda. President Werner Karl Ross has seen the country's economic fortunes rise and fall and rise again. And he says foreign investors considering a move to Latin America's biggest market should study the situation, go in with eyes wide open and they might be pleasantly surprised.

"One has to be realistic, see clearly what problems there are and

have a positive attitude," he suggests. "Thousands of Brazilian businesses have shown that it's possible to survive when the economy is not performing well."

His own company is a case in point. The Brazilian subsidiary of the German industrial giant of the same name, Degussa-Hüls is involved in the chemicals, metals, medical supplies, ceramics and automotive parts sectors. Sales in three of its four divisions registered gains in fiscal 1997/98, and operating profits were up 6 percent over the previous period despite the economic woes then affecting the country.

"I think that this government has good basic ideas.

There are problems, but I also have confidence that this government, and the next, will solve them," Ross says.

"Brazil is, after China, the country that attracts more capital and foreign investment than any other."

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Anything else you want to know about the Brazilian Market?

Petroquímica União, based in the city of Santo André, was Brazil's first petrochemical raw materials plant and fundamental to the construction of the São Paulo Petrochemical Complex. In continuing its administrative and operational restructuring, over the past year the company has reduced costs, increased its business volume and tripled its profits. Today with an ethylene production of half a million tons and of more than one million tons of additional petrochemical raw materials, PQU confirms its outstanding position in the growing Brazilian market.

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Jairo Santos
Quartiero,
President of Camil



Jorge Esteve,
President of Abecafé

Staples for Home and Abroad

Coffee sales are brisk overseas, earning hard currency, while at home beans and rice provide nourishment and indicate Brazil's economic performance.

A Coffee Revolution

Brazilian coffee planters are expecting a bumper crop next season, which is good news for all concerned as demand is booming

abroad for the precious bean and the exports bring much needed foreign exchange into the country.

"Exports have really taken off, pushed along by the devaluation of the real," says Jorge Esteve, the president of the Abecafé coffee exporter's association. "It looks like we could export as many as 21 million sacks. Brazil is the world leader in coffee production because of a revolution in planting practices since 1994," he explains.

Abecafé recently merged with another coffee exporter's group, Febec, to form the Conselho Exportador de Café Verde do Brasil.

Supplying the Staples

Rice and beans are basic staples in Brazil, and demand for these commodities is a good indicator of how

the local economy is faring. That is especially important for companies like Camil Alimentos, S.A., a leading supplier of rice and beans.

"When Brazilians' purchasing power began to improve five years ago, they bought other foods. But with the current economic difficulties, they're eating rice and beans again," says Camil President Jairo Santos Quartiero.

That's good news for the company, and he expects billings this year to climb by 12 percent. "Nationally, we have a market share of about 6 or 7 percent in rice and our leading rival only 12 percent," he explains. "In such a fragmented sector, it is natural that mergers and acquisitions will take place."

Caring for the Community

Reynaldo A. Brandt,
President of the A. Einstein Hospital



In the 1950s, a group of physicians and other prominent Jewish citizens of São Paulo decided to build the city's first truly modern hospital along U.S. lines. It would employ the best staff, feature the finest technology and treat all patients, rich or poor. Forty years later, those ideals still drive the Albert Einstein Jewish Hospital.

"The search for excellence and quality in all fields of medicine and the generation of knowledge are our main goals," explains chairman Dr. Reynaldo André Brandt. "Our goal is to restore health or prevent illness, whether the patient can pay or not."

The hospital, considered one of the best in Latin America, provides a wide range of health services, including oncology, organ transplants, emergency care, coronary care, treatment of nervous system diseases and general surgery. Besides treating its paying patients, the Albert Einstein Jewish Hospital is also active in a São Paulo slum called Paraisópolis. "There we have an advanced clinic that treats as many as 300 children daily," he says.

"Until now, those who were too poor to pay had their costs covered by our own assistance program, which was financed by some benefits we enjoyed from our tax-exempt status," Brandt says. "But now that the government is ending the tax exemptions, we are going to the public and the Jewish community abroad for help."

"There is a Hebrew word 'tzedakah' that means social justice or philanthropy, and this sums up our work in providing state-of-the-art health care, education and rehabilitation for those in need."

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