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WORLD EYE REPORTS

BRAZIL



The next 100 years

Stroll down a street in Sao Paulo's Liberdade neighborhood and the signs of Japan's strong influence on Brazil are everywhere. Japanese street signs guide visitors through the bustling marketplace, where they can purchase Japanese-language newspapers, hear passers-by speaking Japanese, or drop into any of the neighborhood markets for some fresh sushi and seaweed.

And Japan's influence on Brazil does not stop at the lantern-lined streets of Liberdade. 2008 will mark 100 years of Japanese immigration to Brazil, and the "Nipo-Brasileiro" (Japanese-Brazilian) community, which currently numbers 1.5 million people, has historically played an important role in shaping the economy and by all measures will continue to do so for decades to come.

A "Brazil Boom" occurred in the 1970s within the Japanese business community following an influx of large investments in energy, mining and agriculture, but due to economic conditions in both countries during the 1980s and 1990s, the bilateral economic relationship failed to meet its full potential.

According to Japan's ambassador to Brazil, Ken Shimanouchi, conditions within the business climate today are causing a resurgence.

"This is an exciting time to be in Brazil. After 20 years of stagnation of economic ties, the last three years have gone from strength to strength. We are seeing increased activities and

investments in a number of sectors — automotive, aerospace, energy, mining, pulp and paper, and electronics. And a very promising area is energy and



Ken Shimanouchi, Japan's ambassador to Brazil

ethanol," he says.

An influential Nipo-Brasileiro has played a central role in shaping Brazilian energy policy. Shigeaki Ueki, a former minister of mines and energy

(1974-1979), led efforts to increase investment in oil exploration and production for on- and offshore facilities. Due to his initiatives, Brazil went from a country that imported 80 percent of its oil in the early 1970s to one of the world's most self-sufficient energy-producing nations.

Ueki also served as CEO of the state-owned energy giant, Petrobras, from 1979 to 1985. During his six-year tenure, he helped pioneer the company's ethanol program, which aimed to further reduce Brazil's dependency on foreign oil and save hard currency in terms of petrodollars.

"Brazil's major natural resource companies have enjoyed an enormous amount of support from the Japan Bank for International Cooperation and all Japanese financial institutions. They have always supported and answered positively when asked for project finance. We enjoy very good relations," Ueki says.

The international community is looking at Brazil's renewable energy model as a viable option



The Japanese have long been influential figures in Brazilian society. Here, Shigeaki Ueki, Brazil's ex-minister of mines and energy, and ex-CEO of Petrobras, fills up the first ethanol-fuel car. Ueki helped establish the ethanol program in the mid-1970s.

for reducing dependency on fossil fuels. Today, nearly every gasoline station in Brazil offers alcohol fuel. In 2007, an estimated 90 percent of cars sold will be "flex-fuel" vehicles that are able to also operate using alcohol produced from Brazilian sugar cane.

And relations extend well beyond the energy sector. In the Manaus Free Trade Zone, in the northwest, there are more

than 30 Japanese firms with manufacturing operations. Honda has more than 7,000 employees who produce more than 1 million motorcycles per year.

With a population of almost 200 million, Brazil is an attractive market for Japanese goods. Japan is the fifth-largest importer of goods to Brazil, comprising nearly 5 percent of

Panasonic sets the bar in Brazil

During the 2006 World Cup, Panasonic do Brasil President Masanobu Matsuda had Osaka headquarters pipe-in a test signal to one of his new high-definition plasma TVs in a Sao Paulo hotel. At that time, live digital broadcasts were not available in the country and Matsuda wanted to show off the amazing image quality of these HD plasma TVs during a special screening for his Brazilian customers and partners.

As luck would have it, Brazil and Japan faced off that day and when the Japanese team took a 1-0 lead in the first half, all eyes in the room turned to Matsuda and suddenly a well-intentioned marketing exercise threatened to become a huge disaster. In the end, Brazil won the match and Matsuda gained a unique perspective into the country's reverence for what living legend Pele has dubbed "the beautiful game."

Along with others in the electronics and broadcasting industry, Matsuda has since been working very hard to ensure that Brazilians everywhere will enjoy their beloved sport in HD when the next World Cup kicks off in South Africa in 2010.

Panasonic's head office also sees the promise of the Brazilian market. In fact, the country is part of a bold initiative aimed at boosting sales sharply. Unlike other growth models, wherein product development is standardized, Panasonic will develop new products specific to its local markets.

"We will be different. We would like to make appropriate goods for this market because without the appropriate goods we cannot grow. This is really the most important purpose of this new plan," says Matsuda, who predicts a 300 percent increase in plasma TV production.

"With the expansion of our production quantity, we can certainly make cost reductions," he adds. That has to be welcome news for the average Brazilian consumer.

On the customer service side, a vital component is keeping the 450 authorized service centers in Brazil up to date on the latest product developments. A dedicated call center will also relay customer inquiries and suggestions back to production managers in Manaus and Japan.

"My first hope for the future is to create better products for the Brazilian consumer, even in the conventional categories. My second hope is to create entirely new categories. Here in Brazil, we use just one small part of the Panasonic lineup. We would like to do certain feasibility studies in the future and bring as many products as possible here to Brazil." ◆

www.panasonic.com.br



Panasonic do Brasil President Masanobu Matsuda

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Hilux Pickup and SUV production.

Indaiatuba Plant, São Paulo, Brazil.
Corolla and F-elder production.

Every day Toyota reaffirms its commitment to Latin America. Every day it works to advance development and economic growth, always respecting the customs and traditions of each country in which it operates. Its two Mercosur plants, one in Brazil and the other in Argentina, are good examples of this determination. Together, the two plants manufacture 125,000 vehicles per year and employ 5,500 workers, always offering quality products and working in harmony with the environment. These two plants have also transformed themselves into a car exportation platform, serving over 20 countries in South and Central America, the Caribbean and Mexico. This is all part of Toyota's commitment to everywhere it is and everywhere it wants to be.

TOYOTA. RESPECTING AND GROWING WITH ITS COUNTRIES.

TOYOTA

Brazilian leadership and Japanese management philosophy guide Iharabras

Since 1965, Iharabras has remained one of Brazil's leading producers of agricultural support products for crop protection in the form of herbicides, insecticides and fungicides.

In those four decades, the company has grown to become the largest distributor of Japanese-developed molecules for the Brazilian agricultural market, and has set the standard for bilateral collaboration in research and development. Last year, it recorded sales of \$150 million.

More recently, Iharabras has gained attention for its successful implementation of Japanese management practices. In 2006, Iharabras edged out nearly 4,000 other companies around the world to win the Inamori Award, an annual prize given to a company that achieved extraordinary results using the principles of Japanese management guru Dr. Kazuo Inamori.

Receiving the award for Iharabras was then-President Kunikazu Ninomiya, who made the pivotal decision to adopt the philosophy 12 years ago and guided the company throughout its transition.

In addition to seeing its revenue grow, Iharabras was also named one of Brazil's best employers because of the recently adopted management principles.

"All of our 300 employees know and live this philosophy. Our way of managing people, our way of thinking is based on the 12 Inamori Principles. We use this to be good, correct, honest Japanese citizens acting in the Brazilian market," says Christiano Burmeister, who succeeded Ninomiya in late 2006.

Consolidating its growth strategy and further distinguishing it from local rivals, Iharabras implemented in 2007 a complementary management system.

The Ameba Management System involves dividing a company into separate and autonomous business units, and entails all team leaders running their divisions as if they were their own.

"The focus is not only to improve results but also to develop new leaders and make them understand that they are directly acting in the profit or loss of the company. This is helping us create a dynamic spirit and environment. We are sure this will lead to better results and continued growth," Burmeister explains. ◆

www.ihara.com.br



Iharabras President Christiano Burmeister

Local giant off to booming start in power sector

The 102-year-old REDE Group hopes to become Brazil's leading power-generation, distribution and trading company through a much-anticipated IPO scheduled within the next few years.

The planned share offering will finance further expansion of the group, which gained concessions in the central-west and north regions after it acquired state-owned power company CEL-TINS as part of an aggressive expansion plan in the late 1980s, according to CEO Evandro Cesar Camillo Coura.

REDE Group supplies electricity to 502 cities and towns covering a total area of 2.5 million sq. km, or 30 percent of the country. It serves approximately 3 million consumer households nationwide, largely in rural areas, through a network of hydroelectric plants.

Its main facilities are the 902.5-megawatt Lajeado Hydroelectric Power Plant in Tocantins state and the 120-MW Guapore Hydroelectric Power Plant in Mato Grosso state.

"We are about clean energy. REDE understands that thermal energy production is necessary but it is not an area we are interested in," says Coura.

Having led Brazil's Energy Bank before becoming the CEO of REDE five years ago, Coura

takes with him management objectives that emphasize social responsibility, environmental protection and good corporate governance.

During his tenure as CEO, REDE has garnered a number of prestigious awards, including the "Top Social Award" from the Brazilian Association of Sales and Marketing Executives for its work to "bring poor rural Brazilians to the job market and help Brazil's less urbanized regions realize the promise of development."

REDE defies expectations and in many ways epitomizes the new generation of progressive, technology-driven green companies in Brazil, poised to drive the economy to the top in the 21st century.

With an ambitious, sustainable growth plan in a region where energy consumption is growing around 6 percent every year, REDE's new bond offering and eventual public offering should spur investor interest. ◆

REDE Group CEO Evandro Cesar Camillo Coura



REDE Group CEO Evandro Cesar Camillo Coura



REDE Group Chief Financial Officer Carmem Campos Pereira

www.gruporede.com.br

'We are about clean energy. REDE understands that thermal energy production is necessary but it is not an area we are interested in' — Grupo REDE CEO Evandro Cesar Camillo Coura

Toyota keeps its eye on the long-term prize

Toyota has invested \$1 billion to increase its share in the Brazilian and Argentine markets during the next decade. In April, Toyota announced the opening of a second production facility in Brazil and a month later, launched its first Corolla flex-fuel vehicles.

"We have decided to set up this production base in Brazil because Latin America has very big potential for Toyota Motors," says Toyota do Brasil President Shozo Hasebe.

The top three automakers in Brazil — General Motors, Volkswagen and Fiat — each control around 20 percent of the local car market, which is the ninth largest in the world, with approximately 2 million cars sold annually.

"When I arrived I was surprised by the size of the Brazilian market. Maybe because of the distance from Japan or Asia, but I thought, 'Oh my goodness.' On the other hand, I was very disappointed because Toyota's market share was only around 3.5 percent. I thought that Toyota can expand," he says.

About 80 percent of new cars sold in Brazil are flex-fuel vehicles — cars capable of running on either 100 percent ethanol or 100 percent gasoline. Unlike Honda and the other majors in Brazil, until May this year, Toyota had yet to introduce a flex-fuel vehicle into the market, relying on the success of its traditional Corolla.

"While the hybrid engine has been Toyota's answer to environmental problems and also to the economy, it was high time that Toyota develop and introduce flex-fuel to the market," he says.

The Corolla Flex and Corolla Fielder Flex, the first marketed models that are 100 percent bioethanol-compatible, are locally assembled and achieve engine performance that surpass-

es that of the 1.8-liter gasoline engines of the Corolla and Corolla Fielder.

Hasebe feels the technology has tremendous potential not only for the domestic market but in other markets in the future.

Aside from the flex-fuel technology, Toyota sees other areas of expansion.

"In the Brazilian market, it's not only the definition of fuel but also the size of the car that is important. Some 65 percent of the market is so-called small cars. We have a specialization in this segment with our models, the Corolla 1.6 and 1.8, the Hilux and the pickups, and therefore we have huge growth potential," points out Hasebe.

Recently, Toyota surpassed GM as the leading global automobile manufacturer in terms of total sales volume, largely by focusing on technology, efficiency and service.

In Brazil, Hasebe hopes to mirror that feat and gain market share from the other leading automakers by maintaining a competitive advantage through high technology.

"I want to keep Toyota's lead for high technology here as for everywhere else. If we become a very local company, we will lose that, and I want to keep those connections and invite high technology to the Brazilian market," he says.

It is estimated that by 2020, the total auto market in Brazil will have grown to 3 million new cars sold per year compared to the approximately 2 million sold this year. ◆



Toyota do Brasil President Shozo Hasebe

Country File

Area: 8,511,965 sq. km
Population: 189 million (2006 estimate)

Currency: Brazilian real
Average exchange rate: \$1=1.9 real

GDP (PPP): \$1.66 trillion
GDP (official exchange rate): \$967 billion
GDP real growth: 3.7%
GDP per capita: \$8,000

Unemployment: 9.6%
Inflation: 3%

Total exports: \$138 billion (fob)
Total imports: \$95.83 billion (fob)

Major export commodities: Transport equipment, iron ore, soybeans, footwear, coffee, autos
Major import commodities:

Machinery, electrical and transport equipment, chemical products, oil
Main export partners (% share): U.S. (19.2%), Argentina (8.4%), China (5.8%), Netherlands (4.5%), Germany (4.2%)
Main import partners (% share): U.S. (17.5%), Argentina (8.5%), Germany (8.4%), China (7.3%), Japan (4.6%)



SOURCE: CIA World Factbook

eBox

The Japan External Trade Organization in Sao Paulo promotes trade and investment between Japan and Brazil through the nation's economic center. In line with its mission in Brazil, studies show that interest in Brazil from Japan's private sector has grown. www.jetro.go.jp/brazil

The Japanese Chamber of Commerce and Industry in Brazil, founded in 1926, represents over 300 Japanese companies in the country. Its main objective is to encourage increased economic exchange between its Japanese members and the Brazilian business community. www.camaradojapao.org.br

Moreira & Associados Auditores, among the 15 biggest auditing companies in Brazil, has developed a method and technology that guarantee total independence and service excellence to more than 1,000 clients. Its professionals are regularly requested to take part in work groups in governmental institutions and companies, forecasting trends, reviewing market regulations and proposing new guidelines. www.moreira-associados.com.br

Owned and run by two prominent "Nipo-Brasileiro" families, the Saekis and Uekis, **Shintori** has gained the reputation of being the only traditional-style Japanese restaurant in Sao Paulo. Most of the Japanese business community in the city eats there. www.shintori.com.br

VICTORY IS OUR BRAND.

2006 was the year of Yamaha. It was recognized as one of the strongest brands in Brazil, according to the Superbrands 2006, and also conquered various prizes awarded by the specialized media in the country, in all categories. With such power, you can already imagine what is coming ahead.

YAMAHA www.yamaha-motor.com.br

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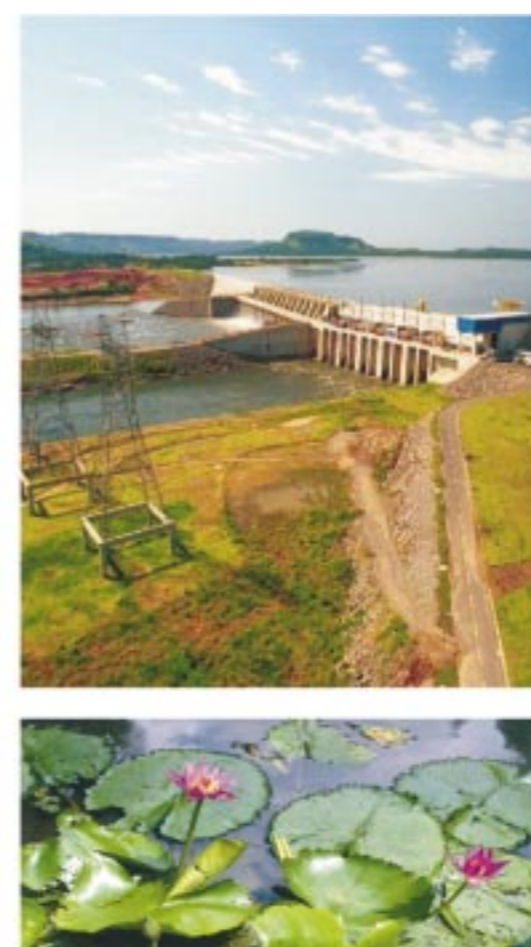
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- Sold Energy: 13,081 GWh
- 3.1 million customers
- Combined Population: 12 million inhabitants
- 9,918 direct and third-party employees
- Generated Energy: 2,300 GWh
- Installed Capacity: 530 MW
- Gross Revenues: R\$ 4,775 million
- EBITDA: R\$ 905 million
- Net Profit: R\$ 88 million
- Issuance of Perpetual Senior Note: US\$ 400 Million



Brazilian motorcycle market in high gear for Yamaha

Brazil represents Yamaha's largest operation in South America and is home to its second-biggest factory after Indonesia. Last year, it produced 250,000 motorcycles for a market that is expected to double in size in the next five years.

"Ten years ago, the total market size was only 50,000 units for Brazil. In 2005, the market size came to 1 million. In 2006, it was 1.25 million units. This year, we're talking about 1.5 million units in Brazil. We say it will reach 2 million units by 2010 and 3 million units by the end of 2013. The number of motorcycles per household is small, so there is more opportunity in this market," says Yamaha do Brazil President Yutaka Kume.

Yamaha holds a 15 percent market share in Brazil with 450 dealerships. Kume aims to increase market share to 20 percent and deliver 600,000 units to market as quickly as possible.

"To meet the demands of this market, we are shifting all of our production to Manaus.



Yamaha do Brasil President Yutaka Kume

We started our operations in Guarulhos 37 years ago and opened our production facilities in Manaus 22 years ago. But,

today one production base equals more productivity."

Eighty percent of Yamaha Brazil's market is domestic, with the remaining 20 percent exported to Argentina and the rest of South America, the United States and even back to Japan, all carrying the label "Made in Brazil" — a huge source of pride for Kume.

In addition to the 260,000 motorcycles produced in Brazil last year, Yamaha sold 10,000 outboard motors during the same period and is gaining ground in the all-terrain vehicle market. It has also made inroads with female consumers with the introduction of its scooter line.

More than size, the composition of the Brazilian market has gotten Yamaha excited.

"The price of the best-selling

product in Brazil is around 5,500 reais (around \$2,875). This is a 125 cc model. Two years ago, we introduced a 250 cc model at a price of 12,000 reais (around \$6,270). Since we introduced this model, the market size for this product doubled from 50,000 to 100,000 this year," Kume says.

Yamaha is also studying whether the flex-fuel alternative can be applied to motorcycles sold in Brazil.

"The Brazilian market is quite attractive. There is great potential for expansion. We are very serious about Brazil and the whole of Latin America. We would like to offer good products for Brazil and the other countries in the region, and after, offer these products worldwide," he says. ◆

www.yamaha-motor.com.br

A bridge for technology

"If Brazil really wants to develop its electronics industry, we cannot simply copy what Japan, South Korea and China did. We have to set up a long-term vision and adequate partnership. We need to pick a good partner. I think Japan is that good partner."

That is the prescription of Primotech21 co-founder and President Yasutoshi Miyoshi, whose company specializes in sales, engineering and logistics support within Brazil's electronics component sector.

Miyoshi knows the business firsthand. He worked for Japan-based Alps Electric, which closed its Brazil operations in 2003, and took over its operation and revived business through partnerships with several other large Japanese manufacturers, including Nichicon, Taiyo Yuden, HMP Hitachi Metals Precision and Eiden.

So, Primotech21 aims to take a leading role in the development of Brazil's electronics component industry by reaching out to Japanese companies and helping them facilitate business in the country.

"We want to be the virtual branch for these partners," he says.

The future looks auspicious as Brazil adopted the Japanese standards for an entirely unique terrestrial digital television system, and Primotech21 worked actively to promote the standards within the Brazilian decision-making process. The target date for Sao Paulo to start broadcasting is December 2007, the first phase of a massive overhaul of the country's broadcasting system.

Primotech21 continuously seeks opportunities to introduce new technologies, looking especially toward promising and thriving business areas in Brazil.

It also improves the management of the financial resources of its customers in line with objectives to strengthen the partnerships with them.

When enlisting Primotech21, set manufacturers can expect a contribution to the SCM (improve inventory management), and support for set design and overall improvement in set competitiveness within the marketplace, with the help of its Japanese

partners looking to expand business into the Brazilian market.

Its warehousing, distribution and logistics services are stationed in Manaus while its sales and engineering teams as well as administrative staff are based in Sao Paulo.

"Human resources and ideas are our most valuable assets, and the challenging and entrepreneurial spirit of our team will always keep Primotech21 ahead of the market," Miyoshi says. ◆

www.primotech21.com.br



Primotech21 co-founder and President Yasutoshi Miyoshi

Roland strikes the right note in Brazil

Roland Brasil marked its 15th year in the country in 2006 as it tripled revenue in the last five years and plans to enter the new digital broadcasting market. It has also distinguished itself as being the parent company's only joint venture in the high-growth BRIC countries (Brazil, Russia, India and China).

"It all began when my brother, Lucas Kenichi Shirahata, visited New York to buy a synthesizer. Roland synthesizers were new at the time and so were the electronic sounds of the 1980s. Lucas mailed a recording of his demo tape to President Ikuhiro Kakehashi of Roland. He was so surprised to hear these sounds coming from his instruments in Brazil where they had no exports at this early stage that he personally visited the home of my brother here in Brazil," recalls Roland Brasil President Takao Shirahata.

"Five years later, Lucas became a representative for Roland and in 1991, he estab-



Roland Brasil President Takao Shirahata

lished a 50-50 joint venture with Roland to cover the Brazil market," he adds.

Roland Brasil, has grown three-fold since Shirahata took over and generated \$26 million turnover in 2006, a 30 percent increase from the previous year.

It generates between 5 percent and 10 percent of Roland's total turnover internationally, 60 percent of which is generated through the sale of professional digital inkjet printers and the remaining 40 percent by musical instruments.

As Brazil adopts Japanese digital broadcasting standards in the next few years, Shirahata sees the opportunity to develop a new multimillion-dollar business segment through the digi-

tization of archived music.

Roland has been the choice of some of Brazil's most popular artists, including Salvador's headline carnival act, Chiclete com Banana and Marisa Monte. These top artists have reinforced Roland's aim not just to be the largest distributor of musical equipment but also the best.

"This anniversary recognizes the 20 years of vision that Kakehashi has shown. He trusted my brother and has given me the opportunity to produce talent to benefit the company and people. At Roland Brasil, we are moved by passion," Shirahata says. ◆

www.roland.com.br

'Kakehashi trusted my brother and has given me the opportunity to produce talent to benefit the company and people'

The next 100 years

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all Brazilian imports.

Recent developments in the electronics sector are sure to cause this number to rise in decades to come. In 2007, the Brazilian government adopted the Japanese digital broadcasting standards, which will replace the country's dated analog system.

The standards are currently being developed, but government and business leaders hope ordinary Brazilians will be able to watch their beloved national soccer team on high-definition TVs by the next World Cup in 2010 in South Africa.

Also helping the Japan-Brazil resurgence is its status as a member of the BRIC nations. In 2003, Goldman Sachs named Brazil, Russia, India and China as the four most important emerging markets in the developing world.

For several decades, predictions of Brazil's incredible potential have fallen short of their mark, and the country faces some major challenges, which include a complex tax and pension systems, complicated labor laws, infrastructure demands, and high rates of poverty and crime in its largest cities. But the last three years have

signaled to analysts that the country is now an attractive environment for foreign capital investment. Under the guidance of President Luiz Inacio "Lula" da Silva, Brazil has controlled inflation, stabilized its currency through a floating exchange rate, instituted tight fiscal policy and reduced unemployment.

Those conditions, coupled with its emergence as a major player in renewable energy, are the catalysts to put Brazil on the path to meet its high expectations.

According to the BRIC thesis, if Brazil's GNP averages 3.6 percent growth during the next 50

years, the size of the economy will overtake Italy by 2025; France by 2031; and the United Kingdom and Germany by 2036.

Shimanouchi believes it is important to put the challenges facing Brazil into context, especially when comparing them to those faced by other developing nations.

"Investors should look at the political environment. Brazil has a stable democracy and a vibrant society. There are no major destabilizing factors in Brazil or in the region. I certainly think in the long term, Brazil is the best bet for Japan," he says. ◆