

Relatório Anual
Annual Report



2006

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Mensagem do Presidente

Message from the President

1. Message from the President

The good results attained by BNDES in 2006 are an important part of the acceleration growth momentum of the Brazilian economy. The country is experiencing an increase in the volume of private investments, a greater number of major projects and the flourishing of investments with a growing focus on innovation and on intangible assets. The penetration and democratization of credit have expanded in a fast pace. Exports are continuing to break records, and the capital market has never financed and harbored so many new companies.

The public sector puts great efforts into overcoming obstacles and increasing investments on infrastructure, which is likely to contribute in sustaining long-term private investments in the coming years.

We are proud to say that BNDES has responded with determination to the many challenges presented.

In supporting investment increases, we were able to expand the volume of disbursement by 11.3% and, which is even more noteworthy, increase approvals by 36% – a considerably superior growth as compared to the investment growth of the economy.

The Administration's commitment towards improving the performance also resulted in the reduction of the average direct operation processing time, which consistently dropped in 2006 and, in March 2007, reached the best level in the past ten years.

With a creative mindset, we started to untie the complex and well-known knots in infrastructure, such as in the financial and operational restructuring of Brasil Ferrovias and its subsequent controlling interest transfer to América Latina Logística [ALL]; in the economic-financial proportioning for the implementation of Nova Transnordestina; in the support for important gas ducts in the Southeast and Northeast regions; and in improving the financial conditions for energy generation investments.

We pushed forward a qualitative change in the incentives to innovation and to the increase of competitiveness. In 2006, BNDES boldly took risks in giving support to the pharmaceutical industry and the complex electro-electronic sector; it probed deeper into its network of instruments for giving support to emerging companies with new risk capital funds; and introduced FUNTEC, which provides non-reimbursable resources for applied research.

We moved onward to extend the democratization of credit. The operations with micro, small and medium-sized companies reached successive records; we reached the noteworthy milestone of 100,000 BNDES cards issued. We reactivated the microcredit program, having already disbursed approximately R\$ 48 million in 2006, which is especially highlighted when compared to the R\$ 10 million and R\$ 20 million from previous years.

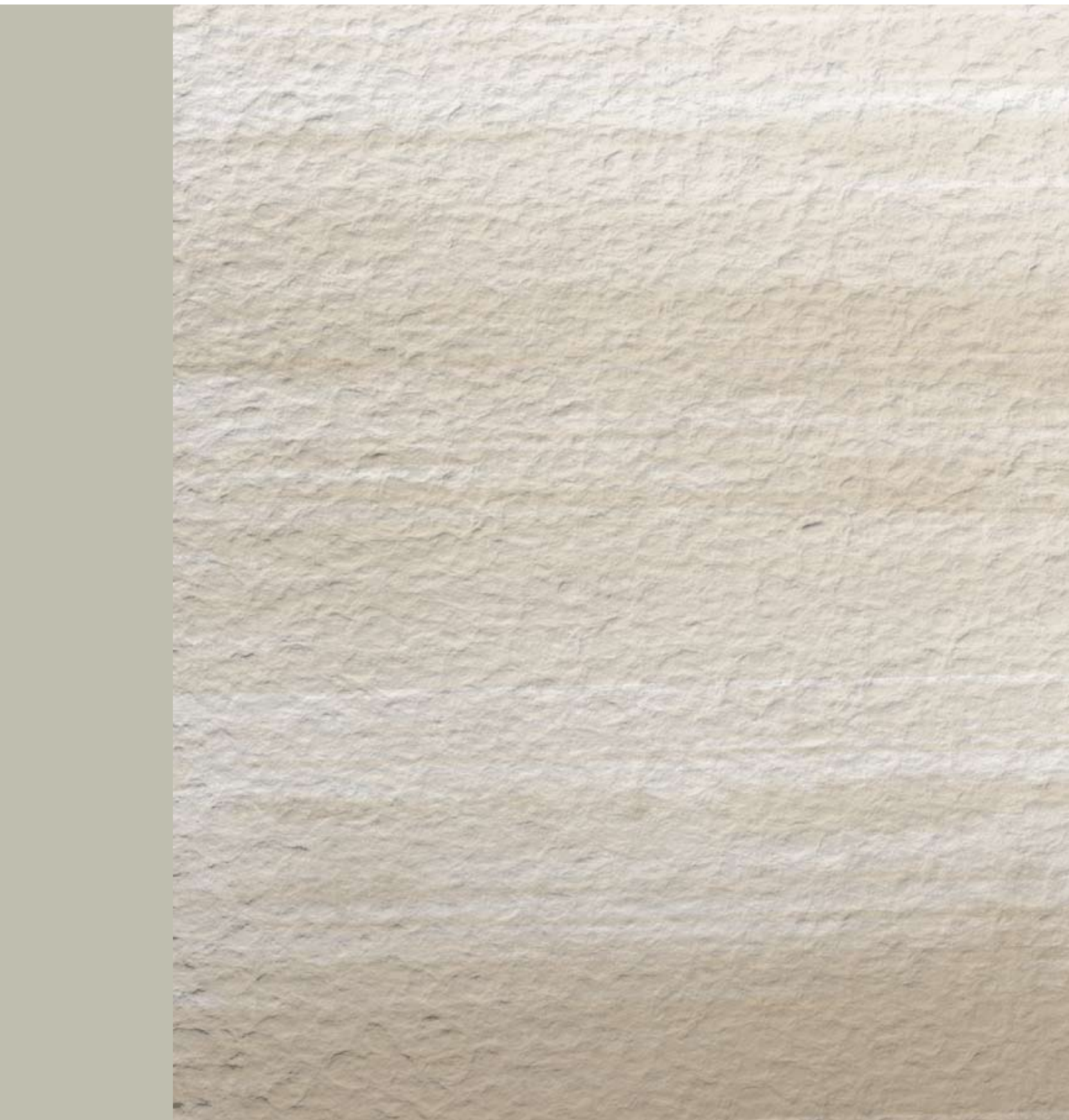
BNDES also contributed towards the sustainability of this growth, with a significant R\$ 6.4 billion in disbursements for exports and with consistent presence in the capital market – R\$ 11 billion in investments and disinvestments, including funds, direct investments, public offers with an emphasis on retail, initial public offers of companies and large restructuring operations.

It will come as no surprise if we manage to perform even better in 2007. We will promote additional changes in the credit granting processes with the aim of attaining a greater reduction of the approval time. We will also introduce human resources and management policies with an emphasis on performance evaluation and promotion, aligned with our strategic planning, as well as on the training of new executives and leaders.

The transition process towards an integrated resources management, called the AGIR project, which was concluded in 2006, resulted in the mapping of all the Bank's processes. In 2007, the review phase of those processes will take place as well as the definition and introduction phase of a technological architecture to provide support to a more agile and integrated organization.

BNDES wants to contribute in a decisive manner towards overcoming the main growth obstacles in the Brazilian economy and achieve legitimacy in a country that is congruent with investment levels, with low investment risk, better infrastructure conditions, world-class companies, vigorous capital market and democratized credit. Brazilian society can certainly expect from us the necessary boldness to carry out the job.

Demian Fiocca
President





A Economia Brasileira em 2006

The Brazilian Economy in 2006

2. The Brazilian Economy in 2006

In March 2007, the Brazilian Statistics and Geography Institute [IBGE] announced a new series of the Gross Domestic Product [GDP] with some alterations in the calculation methodology. Thus, there was a modification of the real GDP growth rate: the growth in 2006 was changed to 3.7%; a lot higher than the 2.9% computed using the old methodology. The expansion in 2006 was also much greater than the 2.9% rate recorded in 2005, already considering the new GDP calculation format. In the same manner, the Gross Fixed Capital Formation [FBCF] reached 16.8% of the GDP in 2006, higher than the 16.2% of the GDP in 2005.

Regarding industry, the physical production recorded growth of approximately 2.8% in 2006. One of the highlighted performances was the 5.8% increase in the production of durable consumer goods, driven mainly by credit expansion. Another important performance involved the capital goods result, in which physical production grew 5.7%.

Average unemployment – measured by IBGE's unemployment rate – was of 10% in 2006, which is relatively stable compared to the 9.8% of 2005. According to the Work and Employment Department, the formal employment index grew 4.7% on average in 2006 as compared to 2005. One may highlight the net creation of formal jobs in the transformation industry, which grew by 29% in 2006 compared to 2005.

With regards to inflation, the IPCA accumulated variation of 3.1% in 2006 was well below the goal for the year, which was 4.5%. This is the lowest recorded rate since 1998 [1.7%].

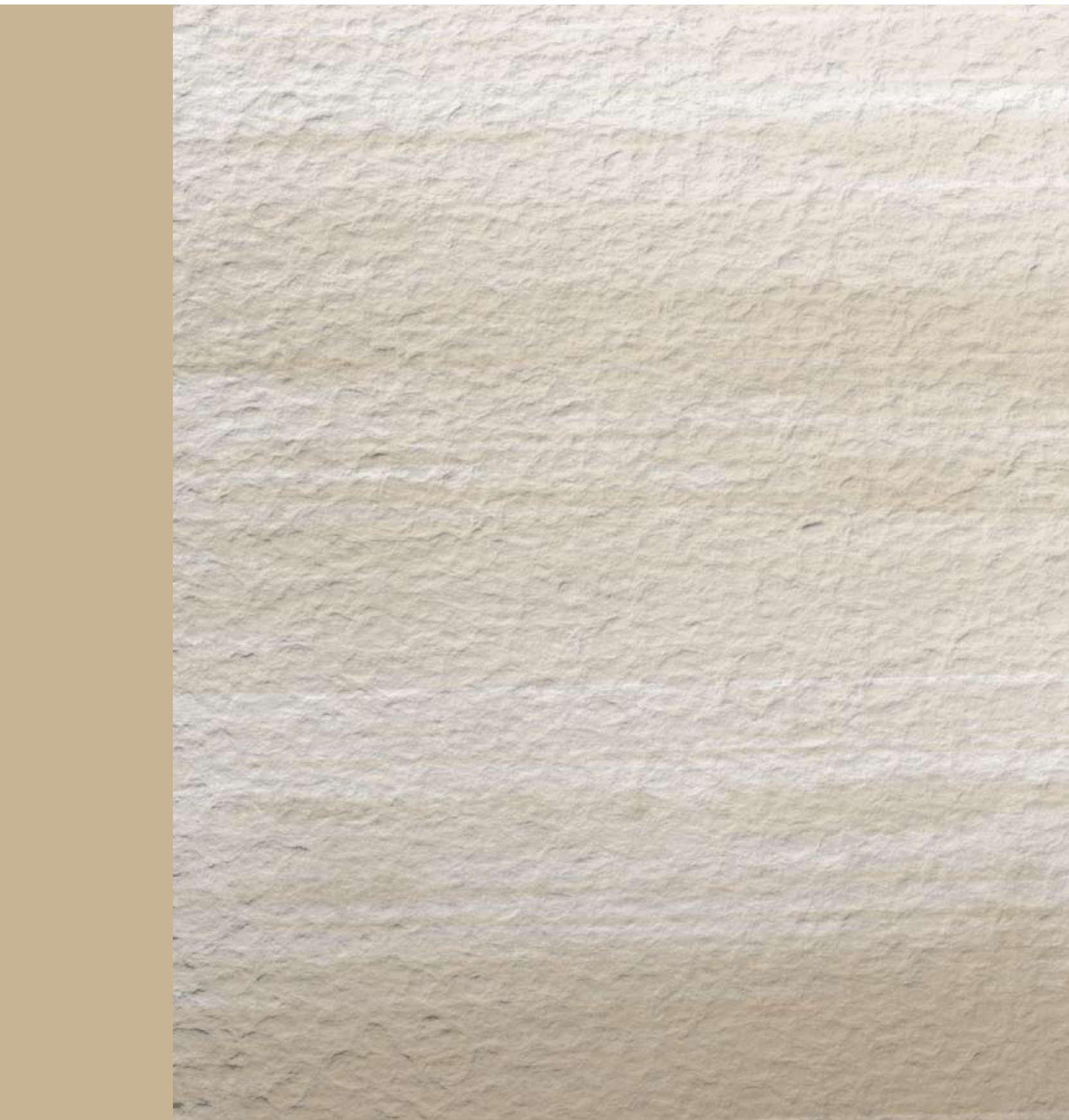
In 2006, Brazilian exports reached US\$ 137.5 billion; imports reached US\$ 91.4 billion and the trade balance was US\$ 46.1 billion. Exports and imports grew 16.2 and 24.2%, respectively, as compared to 2005. Those results are historic records and show that foreign trade reached a new high, with the sum of imports and exports reaching US\$ 228.9 billion in 2006, an amount that is 20.2% higher than the US\$ 191.1 billion recorded in 2005.

The excellent trade performance of the past years is being reflected into successive current account surpluses. In 2006, the positive balance was of US\$ 13.5 billion, equivalent to 1.41% of the GDP. The favorable foreign situation is confirmed by the strong reduction of foreign indebtedness indicators. For example, the total net debt/exports ratio dropped from 2.7 in 2002 to 0.5 in December 2006.

The strong adjustment of foreign accounts, within a context of accelerated world expansion and high international solvency, has allowed the Central Bank of Brazil and the National Treasury to recompose the level of international reserves, reduce the debt exposure to currency exchange rates and improve the internal debt profile. The net international reserves reached US\$ 86 billion in December 2006, 60% above what was recorded at the end of 2005.

The strengthening of macroeconomic bases in the past years contributed towards the strong reduction of the country-risk evaluation. Measured by the Emerging Markets Bond Index [EMBI+], the index was of 192 points, on average, in December 2006, compared to 311 average of the same month in 2005, and the peak of 1,439 percentage points recorded in 2002.

The PAC [Growth Acceleration Program] projections indicate real GDP growth of 4.5% in 2007 and of 5.0% per year until 2010. As for inflation, PAC projects a 4.1% rate in 2007 and a 4.5% rate between 2008 and 2010. With IBGE's announcement of new information about the GDP's evolution, the market forecasts became more optimistic and already point towards a real growth of between 4% and 5% from 2007 to 2010, and for accumulated inflation of around 4%.





BNDES – Destaques em 2006

BNDES – 2006 Highlights

3. BNDES – 2006 Highlights, Current Guidelines and Challenges for 2007

In 2006, disbursements by BNDES reached a new record: R\$ 52.3 billion, 11.3% higher than the amount released in 2005 – R\$ 47 billion. Thus, more expressively, the approvals reached a historical maximum of R\$ 74.3 billion, presenting 36% growth in comparison to the R\$ 54.5 billion of the previous year.

The expansion of approvals is explained in part by the investment growth in 2006 [8.7% in comparison to 2005, according to data from the IBGE]. However, it is also the result of the administration's efforts to take BNDES to a new performance level.

BNDES strategic planning for 2007 identifies the institution as an important instrument for the elevation of the Brazilian economy growth level.

In order to do that, the Bank has defined the main strategic objectives as: overcoming strangulations and expanding the infrastructure's installed capacity and the base industry's installed capacity; democratizing credit by broadening access to financing for micro, small and medium-sized companies; promoting growth with social inclusion and regional development; stimulating innovation and competitiveness by way of support to pioneer the modernization and competitiveness activities of Brazilian companies.

These objectives bear the support of BNDES tools towards sustained growth of the economy, development of capital markets, financing of the export sector and improvement of economic activities' performance.

Overcoming Strangulations and Expanding Infrastructure and Base Industry Installed Capacity

In 2006, BNDES put great emphasis on the expansion of the Energy supply [Section 4], having financed Electric Energy projects [R\$ 3.2 billion], Biofuel projects [R\$ 2.1 billion] and Oil and Natural Gas projects [R\$ 3.7 billion]. Together, these projects surpass the R\$ 9.1 billion mark.

For 2007, the challenge is to contribute towards the expressive growth of investments, especially in rendering large hydroelectric generation projects feasible, with power superior to 2,000 MW, such as those planned for the Madeira and Xingu Rivers. The support for finishing the construction of large gas ducts [Coari-Manaus, Gasene] is also a priority, due to the growing importance of gas for the Brazilian energy matrix. In Logistics and Urban Infrastructure [Section 5], one could highlight the restructuring and the investments picking-up in the old Brasil Ferrovias [currently ALL] and the formatting of the Transnordestina railway project.

BNDES is prepared for expressive increments in the level of financing for highway concession projects in the face of the perspective of realizing new concessions and of new private and public sector partnerships.

The Bank has reduced the spreads charged in its financial operations, with the aim of diminishing financing costs. As an example of this, the spreads of the structuring projects for hydroelectric generation, with installed power superior to 2,000 MW were reduced from 2.5% in 2005 to 0.5% in 2007. The same thing occurred with regards to the spreads of railroad network projects in the North and Northeast regions: they dropped from 2.5% in 2005 to zero from 2006 onwards.

In the Industry, Agribusiness and Services sectors [Section 6], the highlight was the return of BNDES's classic vocation under the financing of large projects, above all within the segment of Basic Inputs, where expressive financing amounts were approved totaling R\$ 6.4 billion, including: the iron and steel industry [R\$ 2.3 billion], the paper and cellulose industry [R\$ 2.7 billion], and the chemical and petrochemical industry [R\$ 1.3 billion].

For 2007, some of the challenges linked to expansion capacity are the economic-financial proportioning of the Petrochemical Complex of Rio de Janeiro [Comperj] and the fomentation of large iron and steel projects. BNDES will also continue to pro-actively support the internationalization process of large Brazilian companies, as it did while it was the controlling stockholder and financier of Companhia Vale do Rio Doce in the acquisition of Inco [R\$ 700 million] and in the approval of a bridge-loan of US\$ 500 million to support Companhia Siderúrgica Nacional [CSN] in the attempt to buy out Corus.

Credit and Growth Democratization

The year of 2006 was marked by an expressive growth of Social Investments [Section 7], especially on microcredit, with approved operations in the record amount of R\$ 48.1 million. For 2007, the main challenge is to significantly surpass that level, which seems to be very probable in the face of the current portfolio of framed projects.

In the Sanitation and Urban Infrastructure sector [Section 8], the challenge was to structure new financing models to the public sector – today subjected to contingency rules in its indebtedness. In 2006, expressive operations have been approved for the States of Goiás [R\$ 192 million], Pernambuco [R\$ 125 million] and Ceará [R\$ 72 million]. All together, 15 projects have been approved with financings that reach the amount of R\$ 596 million, which, in turn, will leverage investments of R\$ 2.5 billion.

As for the Bank's operation regarding micro, small and medium-sized companies, the highlight was, especially, the consolidation of the BNDES Card [Section 9]. In 2006, the number of cards issued surpassed the 103,000 mark, with a 127% increase compared to the previous year, and with disbursements superior to R\$ 225 million in 2006.

Promoting Innovation and Competitiveness

In 2006, BNDES's action as an innovation and competitiveness agent through support programs for technology and innovation was expressive [Section 10].

In the Pharmaceutical Sector, which is historically capital and scientific research intensive, the main objective was to provide continuity to the Profarma, a program created in 2004. In 2006, 11 projects were approved with a total investment of R\$ 1.1 billion, of which R\$ 533 million were financed by BNDES and from which R\$ 135 million have already been disbursed.

The Electronic and Digital TV sector also counted on BNDES's support through specific programs created in 2006. All together, investments of around R\$ 110 million were approved for the sector in the past year.

Among other important BNDES initiatives related to innovation, one finds the reformulation of the Technological Fund [Funtec], the establishment of the Seed Capital Program [Criatec] and the support for the capitalization of innovative emerging companies through investments around R\$ 53 million, and with BNDESPAR participation in three venture capital funds.

Contribution for Growth Sustainability

Among BNDES's actions towards the sustainability of economic growth one may highlight the Bank's actions in foreign trade [Section 11] where disbursements in the support line to exports – BNDES-*exim* reached US\$ 6.4 billion in 2006, a historical record amount and 9% superior to 2005, the previous record.

As for the Capital Market area [Section 12], besides creating incentives for micro-investors such as the support for companies' initial public offers, BNDES's actions also looked to render viable the carrying out of sizeable projects, above all in conjunction with public sector companies with the adoption of variable income operations [São Paulo Subway System and Cesp], as well as acting in heavy corporate restructuring operations [Brasil Ferrovias, Transnordestina, Grupo Brasileira de Energia and Paranapanema].

Another important initiative was the carrying out of operations with Shares Investment Funds [FIP], mostly in the Private Equity Funds and Venture Capital Funds, where BNDES rendered feasible the creation of 12 funds involving investments of up to R\$ 490 million from the Bank. Together with other shareholders, total investments were made of up to R\$ 3.2 billion.

Finally, with regards to environmental actions, BNDES approved a new Environmental Policy in 2006 with the explicit orientation to verify, promote and finance the continuous improvement of the environmental development of the productive and infrastructure sectors of the country. The main initiatives consist of the creation of an Environment Line and the Proesco Program, aimed at energy conservation service companies [Escos].





Energia Elétrica e Fontes Renováveis

Electric Energy and Renewable Sources

4. Electric Energy and Renewable Sources: Diversifying the Energy Matrix

The Electric Energy Sector

This sector encompasses the generation segment from hydroelectric plants, from small hydroelectric centrals [PCHs], from nuclear plants, from natural gas and coal thermoelectric plants, from biomass co-generation plants and wind complexes and solar energy; the transmission segment; and the electric energy distribution segment.

The Brazilian electric system, among various existing energy sources, bears a generation capacity of 96,000 MW distributed in 1,596 undertakings, from which 76.4% are derived from hydroelectric sources, 21.3% from thermoelectric sources and 2.3% from nuclear, wind and solar energy sources.

The country's continental dimensions enabled the creation of an interconnected national transmission system, currently with more than 84,000 km of transmission lines operated by 64 concessionaires.

Main BNDES Actions in the Sector

BNDES has developed an important role in the financing of the electric sector's expansion and modernization, which has enabled the execution of projects that need long maturity dates and elevated investment volumes.

In 2006, 32 new energy projects were approved. The approved financing for the electric energy sector reached R\$ 3.4 billion and the disbursements reached R\$ 3.2 billion, according to what is presented in the table below.

Approvals and Disbursements in 2006

[Amounts in R\$ Millions]

Projects	Installed Capacity	N°. of Projects	BNDES Financings	Approvals	
				Investment	Disbursements
1. Generation	530 MW	14	1,122	1,697	2,039
Hydroelectric	243 MW	1	582	876	597
Thermoelectric	0 MW	0	0	0	5
PCH	147 MW	9	334	524	782
Biomass	82 MW	2	50	61	272
Wind	58 MW	2	156	236	382
2. Transmission	2,308 km	10	1,328	2,190	548
3. Distribution	-	8	989	1,891	646
Total	-	32	3,439	5,778	3,233

Among the support programs to the sector, Proinfa is highlighted, which is a program that aims at the diversification of the Brazilian energy matrix, energy generation from renewable sources and the search for regional-oriented solutions. In 2006, BNDES approved financings for nine projects under the Proinfa ambit, which will be responsible for the generation of 225 MW, totaling financings of R\$ 419 million with R\$ 588 million in investments.

Main Operations Approved

a) Generation

São Salvador Hydroelectric: implementation of a hydroelectric plant by Companhia Energética São Salvador, with an installed capacity of 243.2 MW, located in the Tocantins River [in the State of Tocantins]. The investment is of R\$ 848 million, wherein R\$ 570 million is financed by BNDES.

b) Transmission Lines

The feasibility of transmission line [LT] projects is crucial to integrate the country's subsystems and to improve the usage of the generator complex.

Itumbiara Transmissora de Energia: implementation of the LT Cuiabá [State of Mato Grosso] – Ribeirãozinho [State of Mato Grosso] – Rio Verde Norte [State of Goiás] – Itumbiara [State of Minas Gerais], with a length of 808 km and 500 kV of voltage, the implementation of two substations and the expansion of two more substations. The investment is of R\$ 788 million and the approved financing of R\$ 490 million.

Vila do Conde Transmissora: implementation of LT Tucuruí [State of Pará] – Vila do Conde [State of Pará], with a length of 324 km and 500 kV of voltage. The project became operational on July 2006. The investment and financing were of R\$ 269 million and R\$ 188 million, respectively.

Empresa de Transmissão de Energia de Santa Catarina: implementation of LT of 525 kV, with a length of 359 km, interconnecting the municipalities of Campos Novos and Blumenau, both in the State of Santa Catarina. The investment is of R\$ 315 million, from which R\$ 203 million were financed by BNDES.

c) Distribution

Ampla Energia: investment on the expansion, efficacy improvement and modernization of the electric energy distribution. The investment is of R\$ 549 million with R\$ 301 million financed.

Elektro: investments with the purpose of supplying the growing energy consumption and assisting the client base from 2006 to 2008. The investment is of R\$ 406 million with R\$ 161 million financed by BNDES.

Celpe: an investment program for the expansion and improvement of subtransmission networks and energy distribution networks, connection to new consumers, investments on computer technology and automation. The investment is of R\$ 422 million, of which R\$ 243 million were financed by BNDES.

Rio Grande Energia: implementation of the company's expansion and modernization investments program, construction of transmission lines and distribution lines, purchasing of software and hardware from 2006 to 2007. The investment amount is of R\$ 201 million and approved financing of R\$ 110 million.

Main Projects Inaugurated

In 2006, hydroelectric plants became operational and added 2,387 MW of installed capacity generation to the country. Among the endeavors, the expansion of Tucuruí can be highlighted, as well as the projects presented below:

Corumbá Concessões: implementation of hydroelectric plant Corumbá IV, with an installed capacity of 127 MW in the Corumbá River [in the State of Goiás]. The investment totaled R\$ 680 million and BNDES financing was of R\$ 272 million.

Consórcio Capim Branco Energia: implementation of hydroelectric plant Capim Branco I, with an installed capacity of 240 MW, in the Araguari River [in the State of Minas Gerais]. The investment was of R\$ 464 million and financing of R\$ 102 million.

Peixe Angical: implementation of a hydroelectric plant with an installed capacity of 452 MW, located in the Tocantins River [in the State of Tocantins] and with 110 km LT construction, interconnecting the plant and the substation of Gurupi [also in the State of Tocantins]. BNDES's financial support was of R\$ 678 million.

Ventos do Sul: the project is made up of three wind complexes located in Osório [in the State of Rio Grande do Sul]. The electric energy generation capacity is of 150 MW. BNDES's credit of R\$ 465 million corresponded to 69% of the total investment amount.

Biofuel: Ethanol and Biodiesel

The world production of ethanol is centered in the USA and in Brazil, and biodiesel is centered in Europe. Brazil has produced ethanol for more than 30 years and its productivity has more than doubled during this period. In 2006, the country processed approximately 17 billion liters of ethanol.

The biodiesel market was practically inexistent in Brazil until 2005. Therefore, scale gains may be obtained as the production capacity increases. Law 11.097/2005 affixed a mandatory two percentage points of biodiesel in diesel, which will be in effect in 2008. In 2013, the mandatory percentage in the mix will be 5%.

For the production of biodiesel, BNDES approved four projects in 2006, which add up to R\$ 149 million in financings and have total investments of R\$ 182 million for the production capacity of 420 million liters per year. Also in 2006, BNDES disbursements for biodiesel projects were of R\$ 81 million.

Main Operations Approved

Granol: financing of R\$ 63 million to implement a biodiesel production unit with a capacity for 100.000 m³/year from soybean oil and cotton seed oil in Anápolis [in the State of Goiás]. The company obtained the Social Framing, the initial step for obtaining the Social Fuel Seal granted by the Department of Agrarian Development [MDA].

Caramuru Alimentos: financing of R\$ 43 million to build an industrial unit of 100.000 tons of biodiesel/year using soybean oil in São Simão [in the State of Goiás]. The company also obtained the Social Framing.

Petroleum and Natural Gas Sector

The Brazilian production of oil grew 5.5% in 2006, with daily average of 1.78 million oil barrels. Among the factors that contributed to the production increase were the start of operations of certain Petrobras platforms: P-50, in the Campos Basin [180,000 barrels/day of oil and 4.2 million m³ of gas/day], FPSO Capixaba, in the Golfinho Field [100,000 barrels/day]; and P-34 in the Jubarte Field [60,000 barrels/day].

In the case of natural gas, the country consumed the equivalent of 53.9 million m³/day. The internal available supply grew 5% in 2006. Importation from Bolivia grew 9% and is equal to the Brazilian production of natural gas.

Main BNDES Actions in the Sector

BNDES, aware of the need to reduce external vulnerability, elevated the priority level for natural gas development, production and processing projects in its Operational Policies.

BNDES's financing encompasses the national portion of all investments on the productive chain of oil and gas industry, with the exception of the research and exploration stages. The exploratory activities, given their elevated risk, are not the object of the Bank's financing, being supported essentially by risk capital.

The main sub-sectors that received financings in 2006 were the natural gas transportation and distribution segments, refinery, and support embarkations to the platforms.

Projects Approved in the Sector

In 2006, the approved financings for the oil and gas sector totaled R\$ 4.2 billion, while total investments reached R\$ 9.9 billion.

[R\$ Millions]

Sector	N. of Projects	Financings	Investments	Disbursements
Gas transportation	1	1,363	3,780	1,236
Gas distribution	4	1,107	1,727	345
Refinery	1	853	3,237	862
Support navigation	9	806	1,050	525
Exploration and production	1	83	131	764
Total	16	4.212	9.925	3.732

The disbursements towards oil and natural gas in 2006 reached R\$ 3.7 billion, much greater than the R\$ 900 million disbursed in 2005. The refinery sector and support navigation sector were the main ones responsible for the increment of the resource releases. Nevertheless, one must also highlight the maintenance of elevated disbursements for the natural gas transportation and distribution segments.

Gasene: BNDES approved two financing operations in the total amount of R\$ 1.4 billion for the Southeast-Northeast Gas duct Project [Gasene]. One of the financings will be applied upon the acquisition of 940 km of pipes for the Gascac Gas duct of Cacimbas [State of Espírito Santo] and Catu [State of Bahia], with investments of R\$ 3.5 billion. The other one is destined to the completion of the Gascav Gas duct of Cabiúnas [State of Rio de Janeiro] – Vitória [State of Espírito Santo], with a length of 300 km, and investment of R\$ 1.5 billion.

Natural Gas Distributors: in 2006, BNDES approved four financings totaling R\$ 1.1 billion for the expansion of 2,089 km of gas ducts network of the following distributors – Comgás, CEG, Gás Natural São Paulo and CEG-Rio, enabling investments of R\$ 1.7 billion.

Main Projects Inaugurated

Refinaria Alberto Pasqualini, of Canoas [in the State of Rio Grande do Sul]: received a financing of R\$ 852 million for an investment of R\$ 3.2 billion. The project aims to widen the petroleum processing capacity from 20.000 m³/day to 30.000 m³/day, to improve the quality of the fuel produced and to use a greater quantity of national heavy oil.

Oil Ship Fleet: at the end of 2003, Petrobras launched the fleet Renewal Plan. The objective was to hire 30 new vessels and 21 vessel-modernizations, with investments of about US\$ 500 million. From those 30 new embarkations, only 15 endured public biddings, given that BNDES, until now, has approved financings for 8 of them in the amount of US\$ 133 million. Besides those financings in the ambit of the Fleet Renewal Plans, in 2006 BNDES approved the building of 3 new vessels with financings of US\$ 113 million to operate in the Brazilian market.





Logística

Logistics

5. Logistics: The Year for Brasil Ferrovias and Nova Transnordestina

The main BNDES strategic guidelines and actions in the transportation and logistics sector were centered on the following objectives in 2006: bringing balance to the transportation matrix in order to increase the participation of railway and waterway modals; untangling the country's main logistics corridors; integrating the railroad system access infrastructure to terminal ports and waterways; providing support to resume naval construction; improving the capacity and the efficiency of Brazilian ports; and developing cabotage transportation along the Brazilian coastal line.

Railroad Concessions

The concession of the railroad system of the old Federal Railroad Network occurred between 1996 and 1999, and, from 2000 on, the sector entered into a phase of increased supply capacity and the promotion of logistics services.

Two major financing operations marked the year of 2006: the support for ALL's investment program within the concession area of the old Brasil Ferrovias; and the structuring of the corporate engineering project to render Nova Transnordestina feasible.

Main Operations Approved

América Latina Logística [ALL]: investments on four railroad networks, repair of freight carts and locomotives, improved capacity and modernization of permanent railways, implementation of crossing yards, modernization of information systems, acquisition of operational equipments and elimination of logistics bottlenecks with investments of R\$ 2.9 billion and financing of R\$ 1.1 billion.

Companhia Ferroviária do Nordeste [CFN]: the financing of R\$ 900 million to implement the Nova Transnordestina project with the construction of new railroad tracks and the remodeling of existing tracks within the Northeast Network ambit, with investments of R\$ 4.5 billion.

BNDES worked alongside Banco do Nordeste [BNB] and the Northeast Development Agency [Adene] for the approval of the project; they rendered viable the corporate restructuring of CFN/Transnordestina, through which BNDESPAR became a stockholder of the Companhia Ferroviária do Nordeste, hence allowing incentive resources from FINOR to be redirected to the project.

MRS Logística: investments on the reduction of railroad logistic bottlenecks, with the elimination of level passages and blocking of the dominion strip. The main objective is to reduce the number of accidents in urban areas. The investments were of R\$ 55 million and financings of R\$ 50 million.

Highway Concessions

BNDES has been supporting the expansion, duplication, pavement, modernization and recovery of the Brazilian highway network through financings to private and state-owned highway concessionaires.

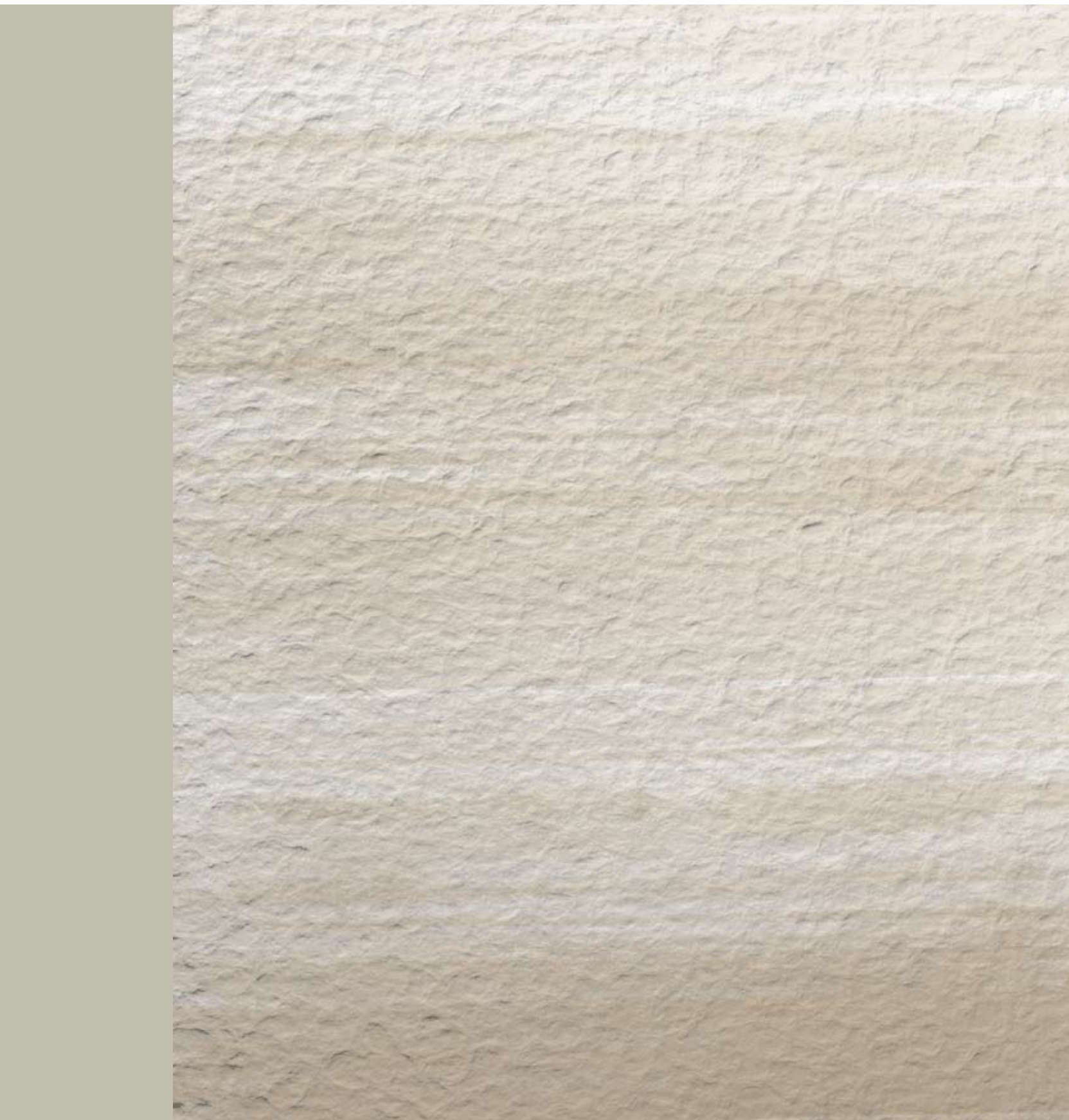
In 2006, BNDES approved the first Public and Private Sector Partnership [PPP] in the highway sector – the MG-050 – in the State of Minas Gerais. For 2007, the beginning of the second stage of the federal highway concessions program has been planned, contemplating the concession of about 3,320 kilometers, and the continuity of the State of São Paulo program, as well as 1,078 kilometers regarding projects within the federal and state PPP ambit.

Main Operations Approved

State of Pará: financing of R\$ 66 million for the recovery and pavement of three highway portions in the State of Pará, totaling 124 km. The investments are of R\$ 82.5 million.

Renovias Concessionária: financing of R\$ 53 million to the concessionaire investment plan of R\$ 87 million, carried forth from June 2005 until May 2007, in many São Paulo highways.

Triângulo do Sol Auto-Estradas: financing of R\$ 39 million to investments of R\$ 113 million on various highways in the State of São Paulo for the improvement of traffic and safety conditions.





Indústria, Agronegócio e Serviços

Industry, Agribusiness and Services

6. Industry, Agribusiness and Services: Resuming Large Projects

In 2006, BNDES continued to support some undertakings representative of the phase that had begun in 2005, involving a new cycle of large investment projects. Among the large financial operations approved by BNDES, one could highlight the Suzano Bahia Sul [Mucuri project] projects, whose inauguration is planned for 2007, and the Coari–Manaus and Gasene gas ducts.

After these investments, the implementation of projects from Companhia Siderúrgica do Atlântico [an association between the Thyssenkrupp and Vale do Rio Doce groups] are expected, as well as the Atlântico Sul shipyard, in the port industrial complex of Suape [in the State of Pernambuco], the Petrochemical Complex of Rio de Janeiro – Comperj, in Itaboraí [in the State of Rio de Janeiro], the hydroelectric plants of Santo Antônio and Jirau, both in the Madeira River [in the State of Rondônia], as well as the expansion of the national iron and steel park, whose installed capacity of steel production will surpass the current 36 million tons/year to 72 million tons per year by 2011.

Basic Inputs

BNDES performance in the support to investment plans to the iron and steel sector, metallurgic sector, mining sector, cement sector, chemical and petrochemical sector, and cellulose and paper sector – the so-called basic inputs – is a reflex of the favorable investment cycles and growth cycles of those sectors in Brazil.

Throughout 2006, BNDES played an important role in the financing to the above-mentioned sectors. The disbursements carried out by the Bank for the year reached R\$ 5.9 billion, 103% higher than the R\$ 2.9 billion of 2005.

The total of financings approved by BNDES also presented strong growth; it increased from R\$ 6.4 billion in 2005 to R\$ 13.4 billion in 2006, a 108% increase. The approved financings of 2006 correspond to investments of R\$ 46.1 billion.

Credit Limit

With the goal of speeding up the concession of financings to companies qualified as low credit risk, BNDES created, in June 2005, the operational modality Credit Limit, which consists of opening up rotation credit of up to R\$ 900 million per economic group, destined to the realization of current investments in the country.

In 2006, credit limits in the amount of R\$ 3.7 billion were contracted in the basic inputs sector, and disbursements of R\$ 574 million were made.

Iron and Steel Sector

BNDES played a relevant role in the financing to the base industry [iron and steel, mining, metallurgy and cement]. In 2006, the disbursements made by the Bank reached R\$ 2.7 billion – 213% more than the R\$ 900 million of 2005.

The financings approved by BNDES also presented great expansion. In 2006, 16 operations were approved coming to a total of R\$ 6 billion, which represents a 225% increase in comparison to the R\$ 1.9 billion approved in 2005. Such approvals correspond to investments of approximately R\$ 34 billion.

Main Operations Approved

Companhia Siderúrgica Nacional [CSN]: expansion of 23.9 million tons/year of iron ore production of the Casa de Pedra mine, in the city of Congonhas [in the State of Minas Gerais], with investments of R\$ 1.6 billion and financing of R\$ 842 million.

Companhia Siderúrgica de Tubarão [CST]: production expansion of steel sheets in the total of 2.5 million tons/year, with investments of R\$ 2.6 billion and financing of R\$ 719 million, in the industrial unit of Serra [in the State of Espírito Santo].

Gerdau Açominas: increase of the production capacity of liquid steel of the industrial unit of Ouro Branco [in the State of Minas Gerais] to 1.5 million tons/year through investing in a new cocking plant, new synthesization and new blast-furnace. BNDES's financing is of R\$ 345 million.

Grupo Usiminas: a credit limit of R\$ 900 million, destined towards modernization, environmental protection and technological development projects in the industrial units of Usiminas and Cosipa.

Companhia Usina Tecpar [Aços Villares Group]: implementation of the first module, in industrial scale, of the plant for the production of pig iron with a capacity of 75,000 tons/year, in the city of Pindamonhangaba [in the State of São Paulo]. The investment is of R\$ 62 million and financing of R\$ 32 million. The project was approved within the Innovation-Production line of financing due to its use of an innovative productive process, capable of increasing metallic production competitiveness in Brazil.

Main Completed Projects

Companhia Brasileira de Alumínio [CBA]: increase of the primary aluminum production capacity to 60,000 tons/year, in the Aluminum unit [in the State of São Paulo]. The investment is of R\$ 414 million and financing of R\$ 234 million.

Gerdau Açominas: implementation of an industrial unit with a production capacity of 900,000 tons/year of steel in Araçariguama [in the State of São Paulo]. The investment is of R\$ 282 million and financing of R\$ 74 million.

Paper and Cellulose Sector

According to estimates from the Brazilian Paper and Cellulose Association [Bracelpa], the Brazilian production of paper and cellulose reached 11 and 9 million tons in 2006, respectively. Thus, Brazil became the 6th largest world producer of all kinds of cellulose, the largest short fiber market cellulose producer and the 11th largest paper producer.

BNDES provides support for plantations under the Forestry Foment format. At the same time, this modality allows for the efficient allocation of capital from cellulose producer companies and the fixation of the rural worker, thanks to the income increment.

In 2006, BNDES's disbursement to the sector reached R\$ 2.3 billion, an 82% increase when compared to the previous year. Eight operations were approved with total financings of around R\$ 3.8 billion, larger than amount approved in 2005, of R\$ 3.6 billion. The projects approved in 2006 correspond to investments of R\$ 5.7 billion.

Main Operations Approved

Aracruz Celulose: an increase of the cellulose production capacity of the unit located in Aracruz [in the State of Espírito Santo] in 200.000 tons/year; the implementation, repair and forestry fomentation of approximately 104.000 hectares of eucalyptus forests in the period of 2006-2007, in the states of Espírito Santo and Bahia. The investment is of R\$ 878 million and the financing is of R\$ 596 million.

Klabin: an increase of 420.000 tons/year upon the production capacity of papers and cards; a plantation of 34.000 ha of pinus bark and eucalyptus; and the installation of seedling hotbeds of clones for eucalyptus, in the city of Monte Alegre [State of Paraná]. The investment is of R\$ 2.6 billion and financing is of R\$ 1.7 billion. A credit limit operation in the amount of R\$ 827 million was also approved.

Bahia Pulp: an increase upon the productive capacity of soluble cellulose of 250.000 tons/year, from the industrial unit of Camaçari [in the State of Bahia], totaling investment of R\$ 986 million and financing of R\$ 450 million.

Main Project Completed

Industrial Complex of Xapuri: the undertaking was implemented by the state government of Acre and managed by a public and private sector partnership. The flooring factory of Xapuri possesses a production line of heavy-duty flooring and decks for exportation and uses 14 species of native woods of the region, obtained through sustainable forest handling. The state government invested R\$ 30 million, from which R\$ 24 million were financed by BNDES.

Chemical and Petrochemical Sector

The net earnings of the Brazilian chemical industry in 2006 is estimated at R\$ 174 billion [US\$ 80 billion], with a 1.7% growth upon last year's numbers.

New investment in the São Paulo, Bahia and Rio Grande do Sul centers started using raw-materials alternative to naphtha. The joint investment by Petrobras and Grupo Ultra in the Petrochemical Complex of the State of Rio de Janeiro [Comperj], in Itaboraí [in the State of Rio de Janeiro], will use national heavy petroleum and national technology developed by Cenpes/Petrobras.

In 2006, the Banks' disbursements for the sector reached R\$ 849 million, 12% higher than the previous year. BNDES approved 15 operations totaling financings of R\$ 3.5 billion. Such projects involve investments of R\$ 6.2 billion.

Main Operations Approved

Petroquímica Paulínia: implementation of a factory with a production capacity of 300.000 tons/year of polypropylene from 2008 onwards, in Paulínia [in the State of São Paulo]. The investment is of R\$ 901 million and financing of R\$ 566 million.

Petroquímica União: expansion of the productive capacity in 233.000 tons/year of ethylene for the use of Light Refinery Hydrocarbons [HLR] and naphtha, in the unit located in Santo André [in the State of São Paulo]. The investment is of R\$ 884 million and financing of R\$ 433 million.

M&G: implementation of the PET [polyethylene terephthalate] production unit with capacity of 475.000 tons/year in the industrial and port complex of Suape, in Ipojuca [in the State of Pernambuco] with investments of R\$ 708 million and financing of R\$ 350 million. The project will supply the internal demand, eliminating the dependence on imports.

Cimentos Liz: modernization of the unit located in the municipalities of Vespasiano and Lagoa Santa [both in the State of Minas Gerais], with an increase in the production capacity of clinker and cement by 1.2 million tons/year; the modernization of two distribution terminals [in the states of Rio de Janeiro and São Paulo] and the implementation of two new terminals in São Paulo, with investments of R\$ 525 million and financing of R\$ 412 million.

Main Project Completed

Rio Polímeros: a gas-chemical complex in the State of Rio de Janeiro, located in the city of Duque de Caxias, with investments of around US\$ 1.8 billion and financing of US\$ 290 million. The plant was inaugurated in 2005 and its operational acceptance occurred in March 2006.

Agribusiness

Brief History of the Sector

Agribusiness encompasses the research, machine supply, inputs and service activities in rural properties, production activities in agricultural properties and those linked to food processing industries and rural raw-materials.

Brazil is the third largest agricultural exporter in the world, only standing behind the United States and the European Union. Among the tendencies for the future, one could highlight the role played by the sugar cane and alcohol sector due to the recent world search for alternative fuel sources.

Main BNDES Actions

Support investment projects within the agricultural industry sector, aiming at increasing its competitiveness and insertion within the national and international markets. In 2006, BNDES disbursements for the sector totaled R\$ 1.5 billion, with highlight to the sugar cane and alcohol segments [R\$ 555 million] and meat segment [R\$ 954 million].

During the year of 2006, BNDES approved financings totaling R\$ 2.1 billion to the agricultural sector, in which the amount of R\$ 1 billion was disbursed to sugar and alcohol plants and R\$ 879 million to the meat sector.

The seven operations carried out under the Prodecoop [Cooperative Development Program for the Addition of Value to Farming Production] ambit, which was approved in 2006, reached the financed amount of R\$ 200 million.

Main Operations Approved

Netuno: investments of R\$ 211 million to expand the productive capacity through the implementation of two new tilapia processing lines [25.000 tons/year] and shrimp processing lines [15.000 tons/year] in the city of Recife [in the State of Pernambuco] and Itaporanga d'Ajuda [in the State of Sergipe]. Furthermore, the project provides for the construction of a larviculture center and of eight support centers to the tilapia producer. BNDES will finance R\$ 60 million and BNDESPAR will invest 32% of company capital.

Perdigão: credit limit operation in the amount of R\$ 367 million for the carrying forward of R\$ 821 million in investments, in the period encompassing 2006-2009.

Sadia: under the Program Operation ambit, BNDES granted financing of R\$ 213 million for the application of investment of R\$ 223 million. The project consists in the implementation of 132 farms [poultry for slaughter, incubated eggs and pork for slaughter] in the Lucas do Rio Verde region [in the State of Mato Grosso].

Usina Alto Alegre: R\$ 258 million in financing and R\$ 334 million in investments for the implementation of a sugar cane and ethanol plant in Santo Inácio [in the State of Paraná],

with a milling capacity of 2.4 million tons/year of sugar cane and for the plantation of sugar cane in 27.5 thousand ha of land. The project includes an electric energy co-generator unit with 35 MW of installed power.

Main Projects Inaugurated

Usina São João: financing of R\$ 167 million and investment of R\$ 292 million to increase the alcohol production capacity and to expand the cultivation area by 17.000 ha. The project forecasts the implementation of an electric energy co-generation unit of 22.5 MW in the municipality of Quirinópolis [in the State of Goiás].

Cooperativa Itambé: financing of R\$ 63 million and investments of R\$ 154 million to implement an industrial manufacturing unit of powdered milk, with a capacity to process one million liters/day of milk and produce 122 tons/day of powdered milk in the city of Uberlândia [in the State of Minas Gerais], under the Prodecoop ambit.

Cooperativa Lar Paraguai: financing of R\$ 6 million and investments of R\$ 9 million to implement two grain warehousing and processing units, located in Caaguaçu and Alto Paraná, in Paraguay. The international trade of the cooperative will enable Brazilian exports of agricultural inputs and equipments to raise poultry, and the imported grains from Paraguay will be used as feed for poultry.

Telecommunications Services

Sector Overview

The expansion of the telecommunications sector in 2006 occurred mainly due to the increase in the number of mobile phone users, which went from 86 million in 2005 to almost one hundred million in 2006, corresponding to a density higher than 51 terminals per one hundred inhabitants. The fixed telephony base remained stable with approximately 40 million subscribers.

Also in 2006, the federal government regulated the Brazilian Digital TV Terrestrial System – SBTVD-T. The digital terrestrial TV will enable broadcasting in high definition, with better sound and image quality and standard definition in the same channel.

Main BNDES Actions

The purpose of BNDES's operation in the telecommunications sector is to stimulate the demand of the mobile phone providers for equipment and software supplied by the local industry, to promote the country's technological development and as well as stimulate the universalization of telecommunications services.

In 2006, BNDES created the Support Program for the Implementation of the Brazilian Terrestrial Digital TV System under differentiated financing conditions for the sectors involved in the implementation of SBTVD-T in order to strengthen Brazilian companies during the transition period, among these, the companies operating in the area [generation, broadcasting and re-broadcasting companies].

This year, BNDES approved financings of R\$ 4.5 billion for telecommunications projects corresponding to investments of R\$ 11.7 billion. From the total approved amount, R\$ 400 million were for subcredits destined to the purchasing of cutting-edge national technological equipments.

BNDES disbursements for seven sector companies in 2006 totaled R\$ 2.1 billion. From that total, 79% was destined to fixed telecommunications operators, 20% to mobile telecommunications operators and 1% to cable TV operators and remaining segments.

Main Operations Approved

Brasil Telecom: financing of R\$ 2.1 billion for investments of R\$ 5 billion to be carried out between 2006 and 2008 for the expansion of the network infrastructure [voice, data and image] and of information technology.

Telemar Norte Leste: financing of R\$ 2 billion for investments of R\$ 5.3 billion in the period between 2006 and 2008 to modernize and technologically update the fixed telecommunications network in order to provide new services.

TNL PCS [Oi]: financing of R\$ 467 million to provide support for investments of R\$ 1.4 billion in order to expand and technologically update and increase the network coverage of mobile telecommunications in the period between 2006 and 2008.





Investimentos Sociais

Social Investments

7. Social Investments: Credit Democratization

Microcredit Sector

In Brazil, the first microcredit initiatives were carried out by institutions affiliated to international networks and date back to the 1970s. With the stabilization of price levels from 1994 on, the state and municipal governments started to become interested in supporting institutions specialized in job and income generating policies. Hence, BNDES started its operation in the microcredit sector in 1996.

Currently, the entities which operate in the sector – called Oriented and Productive Microcredit Institutions [Impos] – encompass diversified formats, such as: non-governmental organizations [NGOs], public interest civil society organizations [Oscip], micro-entrepreneur credit societies [SCM], public financial institutions, foment agencies and credit cooperatives.

Main BNDES Actions

In 2006, BNDES reached historical levels in the approval and release of resources for the microcredit program. Financings of R\$ 50 million, corresponding to 16 approved operations in the year, represent an amount superior to the sum of amounts approved in the previous years.

From 2004 to 2006, BNDES provided support to 20 institutions, with a total volume of R\$ 75 million. It is estimated that with these resources, in the next five years, 335,000 productive microcredit operations can be performed, in the global amount of R\$ 400 million.

The Bank's action is done through the strengthening of the Impos, both of those first-floor Impos [direct transference to micro-entrepreneurs] and those second-floor Impos [transference to first-floor Impos]. There are two programs responsible for these activities in BNDES: the Microcredit Program [PMC] and the Institutional Development Program [PDI].

The PMC follows the governmental guidelines of Law 11,110/2005, which regulates the National Oriented and Productive Microcredit Program [PNMPO]. The PMC's objective is to finance the broadening of the active Impos portfolio in their credit transference to micro-entrepreneurs for fixed or working investments under certain conditions, such as: a financed amount up to R\$ 10,000, a maximum cost of 4% per month and a credit opening rate of up to 3% of the loan amount.

The PDI was created in 2000, within the Technical Cooperation Consortium between BNDES and the Inter-American Development Bank [BID], related to the support for Impos. In 2006, BNDES approved three financings under the ambit of that consortium.

With the forecast of ending the consortium with BID, BNDES has elaborated a support line for institutional development projects with resources from the Social Fund. The new program aims at

the improvement of the Oscip management and transparency to attract new sources of resources for those Institutions, as well as the oriented and productive microcredit offer expansion by the credit cooperatives.

Main Operations Approved

Desenbahia [PMC]: financing in the amount of R\$ 12 million and total investments of R\$ 14.1 million for [1st floor] oriented and productive microcredit directly with small entrepreneurial companies [individuals and legal entities] in 215 municipalities in the State of Bahia, within the ambit of the Credibahia Program.

Ande [PMC]: financing in the amount of R\$ 6 million and total investments of R\$ 7.1 million to carry out oriented and productive microcredit operations, destined directly [1st floor] to individuals and legal entities in 78 municipalities of the states of Pernambuco, Ceará, Bahia, Rio Grande do Norte and Minas Gerais.

Cresol Baser [PDI]: financing in the amount of R\$ 956,000 and total investments of R\$ 1.1 million to promote the institutional strengthening of Cresol and of its singular rural solidary credit cooperatives. Its area of operation encompasses various municipalities in the State of Paraná, where there are currently 50 singular cooperatives and in the State of Santa Catarina, with nine singular cooperatives.

Main Project Inaugurated

Banco Sicredi [PMC]: financing of R\$ 8.1 million and total investments of R\$ 9.5 million to provide oriented and productive microcredit to individuals and legal entities that are small-sized entrepreneurships, linked to singular credit cooperatives, affiliated to the Credit Cooperative System, Sicredi [2nd floor operation], in 390 municipalities in the State of Rio Grande do Sul.

Health Sector

The health sector in Brazil is very heterogeneous; there are profitable private companies operating alongside non-profit organizations [assistance and philanthropic organizations], public and mixed model institutions, as well as medical-hospital service buyers [health plan operators, health insurance companies and self-management companies in health assistance].

The organization of health assistance in Brazil privileges the hospital establishment as the main means of entry into the system [that is, a hospital-centric model]. For a significant portion of the Brazilian population, getting a medical exam, making a medical appointment and getting attention in small and medium emergencies mean looking for a hospital. Today, on average 30% of the Brazilian population has a health insurance plan, given that in more developed regions, that index may reach 45%.

The public expenditure with health as a GDP percentage was of 3.4% in 2003, equivalent to a per capita expenditure of R\$ 296.00. The public health network system budget in 2006 was of R\$ 44.3 billion and the budget approved for 2007 is of R\$ 49.7 billion. The system counts on 1.61 doctors per thousand inhabitants, with considerable regional variance. In the Southeast, this ratio is of 2.19 while in the North it is only 0.77. Brazil counts on 2.67 hospital beds per thousand inhabitants, from which 0.83 are public hospital beds and 1.84, private hospital beds. The number of hospital beds destined to the Single Health System [SUS] is of 2.45 hospital beds per thousand inhabitants.

Main BNDES Actions

Since 1996, BNDES has operated in the basic social health sector, education sector and integral assistance sector. Throughout these past ten years, the Bank has studied and designed forms to provide coherent support with the working model of each sector in a way to establish priorities. BNDES support is done through both reimbursable resources and with non-reimbursable resources.

In the reimbursable resources ambit, the Bank offers a line of specific financing that provides support for strengthening projects of the assistance system to the population, both in the private and public sector. There is also SUS's Integrating Philanthropic Entities Modernization and Strengthening Program, whose objective is to strengthen the management of those institutions by contributing towards the reduction of their indebtedness and, consequently, to the strengthening of the assistance to the population by way of the public health system.

Under the non-reimbursable resources ambit, the health sector may receive BNDES support given that the initiative would be aligned with the public policies and would comply with the utilization norms of the Bank's Social Fund.

Main Operations Approved

State of Piauí: financing in the amount of R\$ 12 million and a total investment of R\$ 14.5 million with Social Fund resources, destined to carrying out the reorientation plan of small-sized hospitals and the regionalization of health assistance in the State of Piauí. The project encompasses 103 out of the 223 municipalities, bringing direct and indirect benefits to approximately 2 million people, i.e., two thirds of the local population. The project involves, among other things, the adaptation of the small hospital assistance profile for basic attention; rationalization of the occupation and operational costs for people committed to the hospital with adjustment of the number of hospital beds; installation of equipments and integration of those hospitals to regionalized, integrated and hierarchical health network systems.

State of Pará: financing in the amount of R\$ 162 million and a total investment of R\$ 257 million to implement four average and high complexity hospital units, of regional reach, in Altamira, Santarém, Redenção and Breves; to expand the Ophir Loyola Hospital in the city of Belém; and to implement a micro-regional general hospital in the municipality of Tailândia.

Fundação Ary Frauzino for Cancer Research and Control: financing and total investments in the amount of R\$ 4.1 million, from Social Fund resources. The project aims at beginning the structuring of BrasilCord Network, a public network of stem cell vials with Placental and Umbilical Cord Blood [SCUP] for use in hematopoietic stem cell transplants. The objective is to expand the capacity of the Bone Marrow Transplant Center of the National Cancer Institute, and develop the Renacord System for the recording of cells stored in the BrasilCord Network. This, in turn, will be constituted by ten public SCUP stem cell processing and storing banks, located in geographical regions that reflect the epidemiological needs and the ethnical and genetic diversities of the Brazilian population, according to criteria defined by the Health Department.

Main Projects Inaugurated

At the end of 2006, three hospitals financed by BNDES were inaugurated in the State of Pará, in the towns of Altamira, Redenção and Santarém. The Altamira hospital will benefit the lives of 285,000 people, with the creation of 94 hospital beds. In the municipality of Redenção, 358,000 people will be benefited, and in Santarém, assistance will be available for 877,000 people with 124 new hospital beds.





Saneamento e Infra-Estrutura Urbana

Urban Sanitation and Infrastructure

8. Urban Sanitation and Infrastructure: A New Investment Cycle

Environmental Sanitation

According to data from the 2000 National Basic Sanitation Research and IBGE's 2000 Demographic Census, the water supply network assists 76% of the Brazilian population, the sanitary sewage network reaches 40% of the population and less than 16% of the generated wastewater is treated. To reach the universalization of those services, the country needs to invest approximately R\$ 178 billion in the next 20 years, or an average of R\$ 9 billion every year, according to recent surveys.

Main BNDES Actions

In the year of 2006, BNDES's actions in the environmental sanitation sector have included the environmental recovery of degraded areas and the adoption of hydrographical basins as basic planning units.

In 2006, BNDES approved 15 projects in these performance lines, with R\$ 596 million in financings, which will leverage investments of R\$ 2.5 billion.

Main Operations Approved

Goiás Sanitation, Saneago: financing in the amount of R\$ 192 million and total investments of R\$ 392 million to implement and promote the expansion of water supply systems and sanitary sewerage systems in the Metropolitan region of the city of Goiânia and in other five municipalities of the State of Goiás.

State of Pernambuco: financing of R\$ 125 million and total investments of R\$ 143 million for interventions in 13 municipalities, particularly to end the water supply rationing in the Metropolitan region of Recife.

State of Ceará: financing in the amount of R\$ 72 million, supplementary to a previous financing of R\$ 137 million, resulting in a total investment of R\$ 926 million for projects that aim at promoting the efficient and integrated management of water resources in the State of Ceará.

CTR Nova Iguaçu: financing of R\$ 15.5 million in a total investment of R\$ 27 million to expand the Waste Treatment Central in Nova Iguaçu [in the State of Rio de Janeiro]. This was the first project recorded in the United Nations [UN] as a Clean Development Mechanism, according to Kyoto Protocol premises.

Project Inaugurated in 2006

Copasa: inauguration of the wastewater treatment station [ETE] of the Ribeirão do Onça basin, in Belo Horizonte, and of the sanitary sewage collector system in Várzea da Palma, in the northern part of the State of Minas Gerais. The investments for both projects was of R\$ 81 million, from which R\$ 36 million were financed by BNDES.

Urban Infrastructure

Among the urban infrastructure operations, one could highlight BNDES's support to the expansion of the Subway System of São Paulo, with a project approval in the amount of R\$ 313 million. The resources are destined to the expansion of Line 2 in the Ana Rosa–Sacomã–Tamanduateí track, with a length of 6.7 km encompassing five stations. This was a variable income operation through the subscription of debentures issued by the Subway System, permutable into Cesp preferential stock. The Bank already financed the subway-railroad system of São Paulo on many other occasions, including investments for the implementation and expansion on Lines 1, 2 and 3, the acquisition of working material and various other investments in the Subway System and in the Companhia do Metropolitano de São Paulo, as well as the execution of origin/destination travel research in the Metropolitan Region.





Micro, Pequenas e Médias Empresas

Micro, Small and Medium-Sized Companies

9. Micro, Small and Medium-Sized Companies: Consolidation of the BNDES Card

BNDES finances micro, small and medium-sized companies [MPMEs] through indirect operations, implemented by a network of banks and accredited financial entities to operate with financial agents. In general, the indirect operations are approved in an automatic manner as they do not require the agents' previous consultation.

The automatic indirect operations support investment projects with financings of up to R\$ 10 million per client, at each 12-month period, as well as finance the acquisition or production of machines and equipments manufactured in the country with a minimum nationalization index.

BNDES also offers a rotating pre-approved credit card – the BNDES Card – which is a product directed towards micro, small and medium-sized companies, destined for the acquisition of production goods with maturity dates between 12, 18, 24 or 36 months at fixed installment payments with a credit limit of R\$ 250 thousand. In December 2006, the interest rate for the BNDES Card was of 1.07% per month.

The BNDES System Operations Portal only makes available on the Internet a separate space for carrying out business between holder companies of the BNDES Card and the accredited national manufacturing goods suppliers. The products financed through the BNDES Card can be found in a catalogue of displaying products, exclusively in the BNDES System Operations Portal.

The disbursements of automatic indirect operations are distributed through various sectors, regions and sizes, according to the profile of the benefiting company or individual. In order to assist the different needs of the MPMEs, BNDES offers various products: FINAME, FINAME Leasing, FINAME Agricultural, BNDES Automatic and BNDES Card, as well as the federal government's Agricultural Programs [Moderagro, Moderinfra, Prodeagro, Prodecoop, Prodefruta, Propflora, Prolaptec and Pronaf].

In its support to micro, small and medium-sized companies, BNDES also offers the guarantee of part of the credit risk of financial institutions in the operations contracted with those companies through the Guarantee Fund for Competitiveness Promotion, a surety fund created with National Treasury resources and managed by the Bank.

Main BNDES Actions

In 2006, BNDES changed its operational policies and implemented various actions to better meet the needs of the national productive sector and to improve the relation between the Bank and its financial agents.

Alterations in its Products and Programs

BNDES increased the maturity dates of the financings and the different types of possible parties benefiting from the assistance, in such a way as to increase the number of users.

In 2006, the BNDES credit card gained new attractions to adapt to the demand: the credit limit was expanded from R\$ 100 thousand to R\$ 250 thousand; the financing maturity date was increased to up to 36 monthly installments; and the categories of financed products was also extended to inputs acquired by the textile and garment sectors, as well as allowing for the purchase of tires. After those measures, the number of benefiting buyers and accredited suppliers increased.

Since 2006, the Moderfrota Program has agreed to finance used and revised tractors and harvesters with warranty certificate issued by authorized concessionaire.

The National Industry Modernization Program [Modermaq] had its scope broadened with the permission from the health sector to acquire machines and equipment. The financial conditions were also altered: the fixed annual interest rates dropped from 13.95% per year to 12% per year and the option of financial costs equaling TJLP +0.5% per year were given, with the addition of up to 3.5% per year of financial agent compensation.

The FINAME Leasing product had its interest rate reduced with BNDES's compensation from 5% to 2% per year. The Bank also made the financial costs to foreign-owned leasing companies equal to those attributed to nationally owned companies: all leasing companies may be financed with resources indexed by the TJLP.

Creation of Programs

In 2006, BNDES also created the following new programs:

Procaminhoneiro – Financing Program for Truck Drivers: financing of the acquisition of trucks, chassis and national-made truck wagons for individuals, individual businessmen, microcompanies in the highway cargo transportation segment and for mercantile leasing societies or for banks with a mercantile leasing portfolio. In 2006, 260 operations were approved in the amount of R\$ 31 million.

Procomp – Competitiveness Program for Industrial Sector Enterprises: financing of working capital for industrial sector companies with an annual gross operational income inferior to R\$ 300 million and who made investments on fixed assets in the past three years. In this program, 124 operations were approved and R\$ 409 million were financed.

Alterations in the Guarantee Requirements

In the BNDES Automatic product, the guarantees provided by final borrowers are now defined exclusively by the financial agents.

Realization of Announcement and Training Events

Under the announcement ambit of its products, one could highlight BNDES's participation in fairs, lectures, training of its financial agents and in Advanced Posts.

In 2006, BNDES participated in the following fairs: International Mechanics Fair; International Agricultural Technology Fair; International Food and Beverage Industries Fair; International Hospital Products and Equipments Fair; and International Machines and Accessories Fair for the Furniture Industry.

BNDES also carried out 27 institutional lectures, 19 presentations regarding the announcement of support lines to MPMEs and 44 operational trainings, with a total of 1,705 trained participants in the country's most important cities.

Operational Performance

In 2006, BNDES approved 119,099 indirect automatic operations in the total amount of R\$ 17.5 billion. This distribution, by borrower size, is presented below.

Examined under the viewpoint of the resource borrowers' size, from the total of R\$ 16.7 billion disbursed in 2006 in automatic indirect operations, BNDES destined 62% for MPMEs, out of which R\$ 3.0 billion [or 18%] were financed to individuals, R\$ 3.9 billion [or 23%] released to micro and small-sized companies and R\$ 3.5 billion [or 21%] to medium-sized companies.

Under the viewpoint of product lines, from the total of R\$ 16.7 billion disbursed for BNDES's automatic indirect financial operations in 2006, 64.5% of the total was destined to FINAME; 12.7% to BNDES Automatic; 8.9% to FINAME Agriculture; 8.8% to agricultural programs; 3.8% to FINAME Leasing; and 1.3% to the BNDES Card.

The product that presented the best performance in 2006 was the BNDES Card. The 214% growth presented in its disbursements as compared to 2005 was due to the extension of the financing maturity dates and to the increase in the quantity of financed items. In 2006, BNDES issued 57,378 new cards, corresponding to R\$ 1.1 billion in granted credit in the year and surpassed the 100.000 cards mark in the hands of clients. The release of resources this year was of R\$ 225 million through 17,656 transactions.

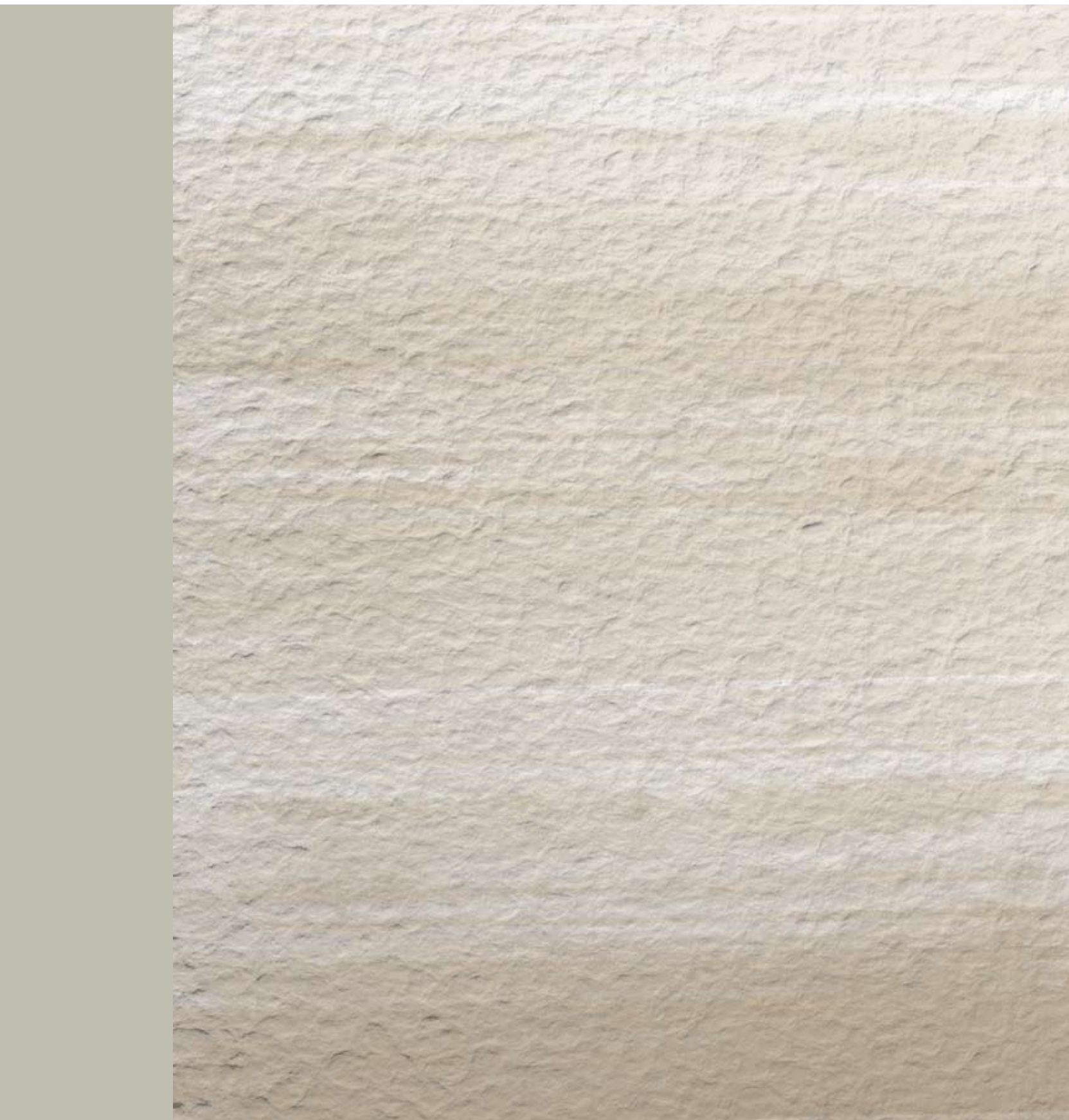
The product that presented the second best performance was FINAME Leasing, with a 35% growth. In third place came BNDES Automatic, with an 18% increase due to support programs to working capital – Progeren and Procomp – and, in fourth place, there is FINAME's disbursements, with a 15% increment, with emphasis on the Modermaq [14% increase]. The agricultural financings, due to the problems faced by the farming and cattle raising sector, presented strong decrease in 2006. FINAME Agriculture dropped 32% and the agricultural programs drew back 21%.

Among the sectors financed by BNDES, five received 68% of the resources in 2006: Terrestrial Cargo Transportation [24%], Farming and Cattle Raising [20%], Terrestrial Passenger Transportation [11%],

Food and Beverage [7%] and Construction [6%]. The capital goods producer sector, which benefited indirectly by the financings directed to the remaining sectors that made investments, did not demand large volume of resources, having received 1.6% of the total disbursed by the Bank in 2006, an inferior result when compared to the 1.9% reached last year.

In regional terms, the distribution of disbursements presents strong correlation with the regions' GDP. Thus, in 2006, it was up to the Southeast to have 51% of the disbursements; the South had 26%; the West-Central region presented 10%; the Northeast had 9% and the North showed 4%.

From the viewpoint of guarantees granted through the FGPC, in 2006 BNDES contracted 77 operations, which totaled R\$ 11.7 million directed to micro and small-sized companies.





Tecnologia e Inovação

Technology and Innovation

10. Technology and Innovation: Complete Portfolio of Support Products

The BNDES Operational Policies establish as a priority the support to investments that promote technological innovation. Those opportunities represent a new growth frontier centered in innovation and, therefore, fully in-synch with the Industrial, Technological and Foreign Trade Policy of the Industrial and Trade Development Department [MDIC].

Based on that new competitiveness approach, BNDES broadened its concept of innovation. Until 2005, the lines for research and development were restricted to specific programs such as Profarma [a support program for the development of the pharmaceutical productive chain] and Prosoft [a program for the development of the national software and related services industry].

The innovation concept resulted in the reactivation of Technology Fund [Funtec], with non-reimbursable resources, and in the creation of two new financing lines for Innovation [R, D & I and Production], contemplated with the lowest costs charged by BNDES. BNDES reactivated its investment funds program on emerging companies, approving amounts in three technology-based funds.

Pharmaceutical Sector

Brief History of the Sector

From the supply perspective, the Brazilian pharmaceutical market has changed significantly in the past years. Nationally-owned companies, which in the year 2000 were responsible for approximately 28% of the medication sales amount, had already increased their participation to 41% by March 2005, according to IMS Health, the company that audits the performance of the pharmaceutical sector.

The new scenario is confirmed in 2006. From the 12 main companies of the sector, four are nationally-controlled companies [Aché, EMS Sigma Pharma, Medley and Eurofarma], whereas in 2003 there was only one.

Main BNDES Actions

In 2004, the Bank launched Profarma, which presents the following objectives:

- give incentive to increase the production of medications for human use and their inputs in the country;
- improve the quality standards of medications produced for human use;
- stimulate research, development and innovation;
- strengthen the economic, financial, commercial and technological position of nationally-controlled companies.

In order to supply the needs of the sector, Profarma was divided up into three subprograms that provide support to distinct investments. They are: a] Profarma – Production; b] Profarma – R, D & I; and c] Profarma – Strengthening Nationally-Controlled Companies.

Based on the Profarma portfolio of projects, it is possible to get a picture of how the Brazilian pharmaceutical industry has been reacting to governmental stimuli. The table below shows the distribution of the Profarma portfolio through its subprograms and considers the entire stock of the portfolio since its creation in 2004.

Profarma Portfolio for its Subprograms – Until December 2006

[In R\$ Millions]

Profarma Subprograms	N. of Projects	Investment Amounts	Financing Amounts
Production	33	1,063	447
R D & I	10	159	115
Strengthening nationally-controlled companies	1	491	295
Total	44	1,713	857

BNDES's Profarma support to the pharmaceutical productive chain in 2006, presented the following performance:

- number of approved operations: 11.
- approved financings: R\$ 533 million.
- disbursement amount: R\$ 135 million.
- investment amount: R\$ 1.1 billion.

Main Operations Approved

Aché: financing of R\$ 295 million in an investment of R\$ 375 million, in relation to the first operation in the Profarma – Strengthening of Nationally-Controlled Companies subprogram ambit. Aché bought out the company Biosintética Farmacêutica and consolidated its position as Brazil's largest nationally-controlled pharmaceutical laboratory.

Biolab: financing of R\$ 45.5 million in an investment of R\$ 63.4 million related to the largest financing operation for research, development and innovation under the Profarma R, D&I ambit.

Main Projects Inaugurated

Asem – NPBI Produtos Hospitalares: through the Profarma-Production ambit, BNDES financed R\$ 11.5 million in an investment of R\$ 14 million destined to relocate the industrial plant and expand the productive capacity of blood collection vials, filters and reagents, of the company located in the city of Itapecerica da Serra [in the State of São Paulo].

Nortec Química: financing of R\$ 6 million for an investment of R\$ 6.7 million, approved under the Profarma R,D&I subprogram ambit. The purpose of the project was the development of processes for the production of pharmaceutical active principles. The company from the city of Duque de Caxias [in the State of Rio de Janeiro] has developed and already commercializes 12 new active principles, one of which received a patent request.

Electronic Complex and Digital TV

Brief History of the Sector

The electronic complex encompasses segments that share the same technological basis, but with their own characteristics and dynamics – computer assets, software, telecommunications equipment, medical equipment, components and consumer electronic goods.

With the goal of driving the development of the national software industry and the related services industry, BNDES operates Prosoft through the following subprograms: Prosoft-Company, Prosoft-Commercialization and Prosoft-Export. The objectives of Prosoft are to broaden the participation of national companies in the internal market; promote export growth; strengthen the R&D and innovation processes in the software sector; and promote the growth and the internationalization of national software companies and companies of related services.

At the end of 2006, the Prosoft Program accumulated, since its creation in March 1997, 130 financing operations that comprise an investment portfolio in the amount of R\$ 609 million in BNDES participation in projects of the software sector, which totaled R\$ 810 million. The portfolio consolidates operations of the following subprograms: Prosoft-Company – with a total of R\$ 366 million, Prosoft-Commercialization – totaling R\$ 25 million, and Prosoft-Exports – totaling R\$ 218. The direct support to investments in software companies, the object of the Prosoft-Company, totaled R\$ 167 million in the same period with regards to approved and contracted operations. Through the BNDES Card, pre-approved credit directed towards micro, small and medium-sized companies amounted to 473 operations related to the acquisition of software carried out by the end of 2006, with financings of about R\$ 9.5 million.

Decree 5,820, dated 6.29.2006, approved the implementation rules of the Brazilian Terrestrial Digital TV System [SBTVD-T] in the country. It refers to an opportunity for the establishment and growth of the national electronics and software industries. The technological innovations inherent to the new system enable the development and thickening of the electronic chain, building links that are still non-existent in the country.

Based on technical studies, BNDES approved the PROTVD – Support Program to the Implementation of Brazilian Terrestrial Digital TV System, whose subprograms are directed towards: software producers, electronic component producers, equipment and infrastructure for the broadcasting network, reception equipment and content production equipment; broadcasting companies' investments [generating companies, broadcasting companies and re-broadcasting companies]; and for the production and development of audiovisual works for TV by independent broadcasters and producers.

Main Operations Approved

Gradiente: expansion of the television business unit through the acquisition of the brand and industrial assets of Philco. The investment amount is of R\$ 156 million, with R\$ 63 million in BNDES financings.

União Brasileira de Educação e Assistência [Ubea]: expansion of the infrastructure to carry out research and development in the Technological Complex of PUC-RS [TecnoPUC]. BNDES financing is of R\$ 26 million with investments of R\$ 28 million. BNDES's support, approved under the Innovation-Production Line, was the first one directed towards a technological complex.

Padtec: the financing of R\$ 3.8 million and stock participation of R\$ 17 million and investments of R\$ 27 million under the Prosoft-Company – Program for the Development of the National Software and Related Services Industry ambit.

Funtec

In 2006, BNDES approved the reformulation of the Technology Fund [Funtec], destined to provide financial support for projects that aim at technological development and innovation under strategic interest for the country, in conformity with the federal government's public programs and policies.

The operations within the Funtec ambit are done under direct support, in the non-reimbursable modality, limited to 90% of the total project amount.

The projects eligible for financial support must be related to:

- renewable energy from biomass;
- semiconductors, software and biotechnology solutions;
- medications and inputs for neglected diseases and medications obtained through advanced biotechnology.

Funtec's target audiences are technological institutions and support institutions working on research development, technological development and innovation projects with the intervention of companies participating in the research.

Funtec Operation Approved in 2006

Ubea [PUC-Rio Grande do Sul], Ceitec and RF Telecomunicações: the purpose of the project is to develop and integrate a tri-systemic chip for open digital TV signal modulators. The total investment is of R\$ 17 million, with financings of R\$ 10.3 million to Ubea [PUC-Rio Grande do Sul] and R\$ 4.3 million to Ceitec. RF Telecomunicações will be responsible for taking to the market the signal modulator that will use the developed chip.

Technology-Based Funds

BNDES, through its subsidiary BNDESPAR, supported the capitalization of innovative emerging companies through investments of R\$ 53 million, with its participation in three venture capital funds approved in 2006. Those funds will invest resources in emerging companies in the medications area, services area and information technology area, new materials area, biodiversity area, biotechnology area and the environment. These inversions are presented in Section 12, which deals with BNDES's operation in the capital market.

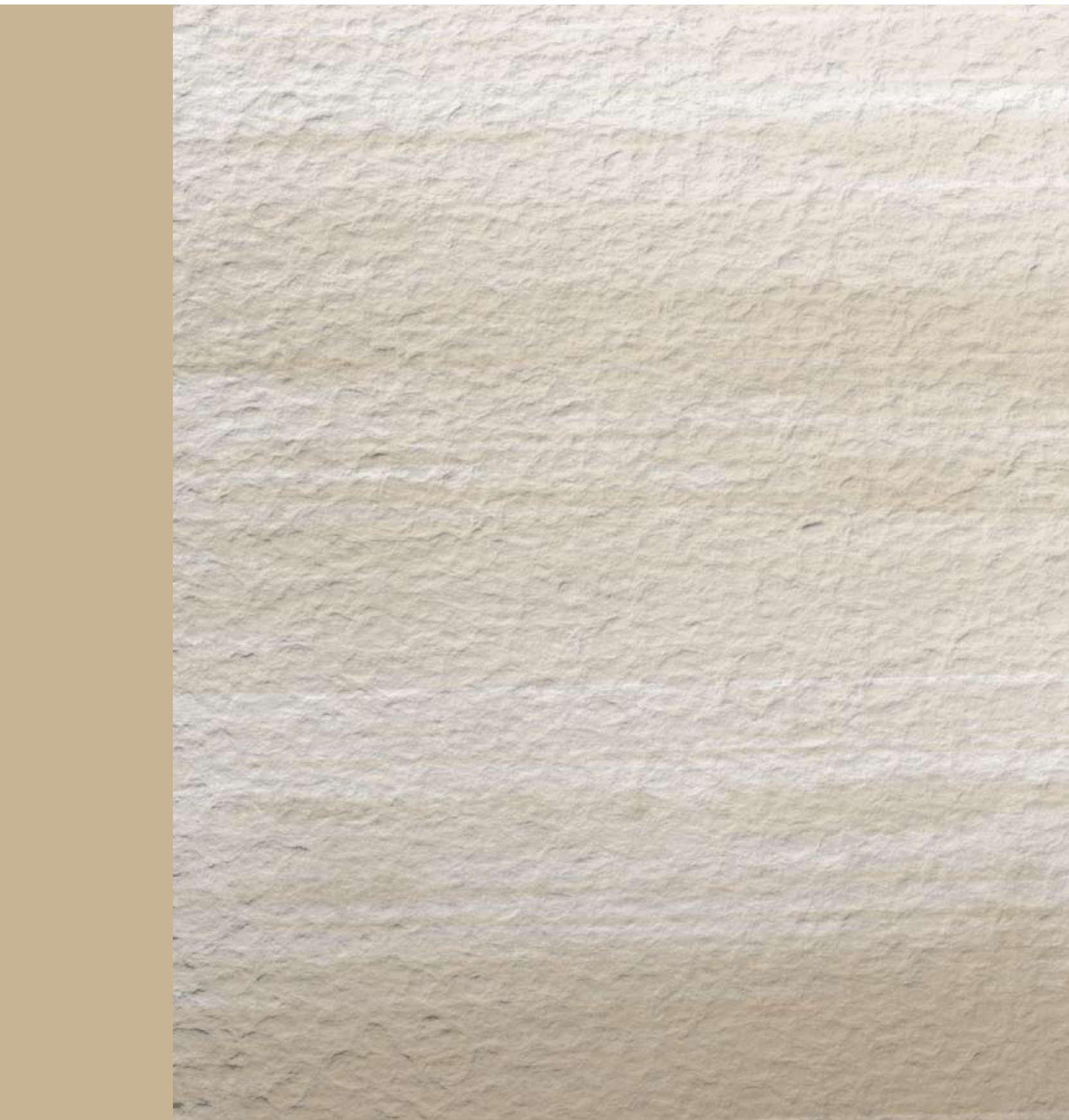
Criatec

In 2006, BNDES concluded the creation of the Seed Capital program [Criatec] through the constitution of the Closed Mutual Investment Fund, destined toward the capitalization of innovative micro and small-sized companies in their embryonic stages.

The program basically focuses on businesses guided towards Information Technology, Biotechnology, New Materials, Precision Mechanics, Nanotechnology and Agribusiness.

Criatec will have a budget of R\$ 80 million with an investment period of four years.

The perspectives are that the program will enable the capitalization of up to 60 innovative micro and small-sized companies, with an average investment of between R\$ 500,000 and R\$ 1 million.





Comércio Exterior

Foreign Trade

11. Foreign Trade: Integration with Latin America Is a Priority

Promoting an increase in foreign sales is the country's fundamental objective. For more than 15 years, BNDES has been actively participating in this successful effort. Through BNDES-*exim*, the Brazilian production of goods and services with greater added value has been granted financing with differentiated costs and maturity dates, enabling its insertion in highly competitive international markets.

Among the actions implemented by BNDES-*exim*, one could highlight the growing stimulus for operating Brazilian companies in Latin America, in a strategy that meets the needs of increasing the commercial and financial ties in the continent.

Main Accomplishments and Performance in 2006

The disbursements of the support lines to exportation of BNDES-*exim* reached US\$ 6.4 billion in 2006, a historical record, which is 9% higher than in 2005, the previous record. The increment in the absolute amount, superior to US\$ 500 million in comparison to 2005, occurred from an extremely broad base. In that year, the disbursements had grown more than 50%, reaching an annual amount of US\$ 5.9 billion.

The BNDES-*exim* lines are present both in the financing to production [pre-shipment] and to commercialization [post-shipment]. In the pre-shipment financing, the company raises funds to produce the good to be exported. In 2006, 71% of the disbursements were made under the Pre-Shipment Line and 29% were made under the Post-Shipment Line.

In 2006, important measures were taken with the purpose of simplifying and reducing costs in the BNDES-*exim* lines, which enabled the widening of the support to Brazilian exporters.

In the Pre-Shipment Line, BNDES adopted an amortization model with fixed installment payments. With the new measures, the amortizations may be programmed in a single installment at the end of the financing or, alternatively, in up to five monthly and consecutive installments from the shipment limit date.

In the Special Pre-Shipment Line, the main measure consisted in increasing the scope, from 12 to 36 months, of the exports history of the company considered to establish its exportation goal.

In the pre-shipment phase, BNDES also created the Pre-Shipment Agile Line, mainly guided towards companies that manufacture goods in series. BNDES also promoted reductions in the practiced interest rates: BNDES's basic spread for the Pre-Shipment lines that support the production for exports of consumer and intermediary goods was reduced from 3.5% to 2.5% per year. The exportation of capital goods already presented a basic spread of 2% per year.

The average spread applicable upon the Pre-Shipment Automobile Line for financing the production for exportation of passenger vehicles was reduced from 4.2% to 3.6% per year.

A specific program for the footwear sector was also created, presenting a reduced basic spread [2% per year] and financial costs entirely based on TJLP [Long-Term Interest Rate].

The reduction of costs also occurred in the Post-Shipment Line: the flexibilization and reduction of BNDES's basic spread from 2% to at least 1% per year. Also under the Post-Shipment Line, in addition to the cost reduction, the alternatives of guarantees accepted by BNDES were broadened, rendering it possible to make operations via short-term credit insurance in operations of up to two years and with guarantees from private insurance companies.

Micro, Small and Medium-Sized Companies

The disbursements for exportations by micro, small and medium-sized companies [MPMEs] reached US\$ 44.5 million in 2006, an amount that represents a 23% growth in comparison to the previous year. The main sectors assisted were the food sector [US\$ 14.9 million], electric material sector [US\$ 7.1 million] and footwear sector [US\$ 6.3 million].

The Pre-Shipment Anchor Company Line was one of the main reasons for this result. In 2006, US\$ 25.4 million were disbursed in assisting more than 630 companies from various sectors, such as the footwear, furniture, textile and fishing sectors.

Sector Distribution

In 2006, BNDES-*exim* lines provided support mainly to the various capital goods sector segments, which represent 62% of the total, keeping as its main focus the exportation lines. BNDES disbursed US\$ 4 billion in the support for exportation of industrial machines, agricultural equipments, aircrafts, oil platform rigs, buses, trucks, railway vehicles and telecommunication devices.

Disbursements of BNDES-*exim* Lines according to Business Sectors

[Amounts in US\$ Millions]

Sectors	% Participation in 2006	Disbursements 2006	Disbursements 2005	% Variation 2006-2005
Capital goods	62.4	3,980.8	4,010.3	-0.7
Consumer and intermediary goods	34.7	2,213.0	1,560.3	41.8
Services	2.9	183.4	292.1	-37.2
Total	100.0	6,377.1	5,862.8	8.8

In 2006, BNDES continued its support to the oil exploration sector. The semi-submersible platforms P-51 and P-52 received disbursements of US\$ 314 million in the year. Those platforms are destined to the Petrobras's Roncador and Marlim Sul fields.

In 2006, there was the approval of US\$ 1.8 billion in operations for the aviation sector, corresponding to financings in the buyer credit modality for exports of aircraft models EMB-175 and EMB-190 from Embraer. BNDES-*exim* had, by the end of 2006, an active portfolio with a balance of framed operations and approved operations in the year in an amount superior to US\$ 3 billion of financing for exports to the United States, Argentina, Uruguay, El Salvador, Ecuador and the Dominican Republic.

The disbursements destined towards exports of consumer and intermediary goods reached US\$ 2.2 billion in 2006. The main assisted segments were the vehicles and auto parts sector [US\$ 803 million], the food sector [US\$ 664 million] and the electronic and communication equipments sectors [US\$ 309 million].

The service sector was responsible for US\$ 183 million, notably due to the operations with importers in Latin-American countries. There were disbursements for the exportation of Brazilian service goods for civil construction projects in Ecuador, the Dominican Republic, Uruguay and Venezuela.

South-American Integration

Continuing the activities which began in 2003, when BNDES incorporated the support to South-American integration to its attributes – above all due to the priority given to the region in the Brazilian foreign policy – BNDES's operation has been consolidating itself through two vertexes: institutional actions and financial support towards exports.

Institutional Action

Among the structured actions throughout the year that will result in the strengthening of the institutional milestone of BNDES support to South-American integration, the following are highlighted:

- Signing of the Cooperation Protocol between BNDES and Fonplat – Fondo Financiero para el Desarrollo de la Cuenca del Plata.
- Signing of the Cooperation Agreement with Brou – Banco de la República Oriental del Uruguay.
- Broadening the gamut of financial institutions in South America with credit limit to operate with BNDES.
- Support towards monitoring activities and intra-regional commercial promotion initiatives, promoted by MDIC and MRE.

Financial Support

The disbursements for financings to exports to South-American countries totaled US\$ 220 million in 2006. The active operations in the BNDES portfolio towards the support to exports destined to South America reached US\$ 5.8 billion, with release projections of up to US\$ 2 billion in the next three years.

It is worth highlighting that the operations whose releases began in 2005, as well as those that were approved or framed in 2006, will help the releases to the region surpass the US\$ 500 million mark in 2007.

Main Operations Approved

Gasodutos Albanesi [Argentina]: financing of US\$ 279 million for the exportation of goods and services for the expansion capacity of natural gas transportation of the gas ducts integrating the systems operated by Transportadora de Gas del Norte [TGN] and Transportadora de Gas del Sur [TGS], responsible for Argentina's primary gas transportation system.

Gasodutos Cammesa [Argentina]: financing of US\$ 411 million for the exportation of goods and services for the expansion capacity of natural gas transportation of the gas ducts integrating the systems operated by TGN and TGS. The investments are made by the gas selling company Cammesa [Compañía Administradora del Mercado Mayorista Eléctrico].

Hidrelétrica Las Placetas [Dominican Republic]: financing of up to US\$ 71.2 million for the exportation of goods and services in the implementation of a hydroelectric plant with an installed capacity of 91.2 MW.

Hidrelétrica Palomino [Dominican Republic]: financing of up to US\$ 81.3 million for the exportation of goods and services for the construction of a hydroelectric plant with an installed capacity of 99 MW.

Aqueduto Samaná [Dominican Republic]: financing of Brazilian exportation of goods and services in the amount of US\$ 71.2 million for the construction of an aqueduct. The construction work is a priority for the Dominican government and will assist approximately 100.000 people.

Rodovia Maddén-Colón [Panama]: financing of up to US\$ 153 million for the exportation of Brazilian goods and services to build the new highway that crosses the country in a route parallel to the Panama Canal, in the city of Panama City, on the Pacific Ocean, to the Free Trade Zone of the country, on the Atlantic Ocean. The construction work will consist in the building of the remaining 45 km from a total of 60 km of roads.





Mercado de Capitais

Capital Market

12. Capital Market: Incentives to the Micro Investor

BNDES operates in the capital market through its wholly-owned subsidiary, BNDESPAR, with the following purposes:

- a) stimulating the development and the modernization of the Brazilian capital market through the support for company capital opening [democratization];
- b) increasing the access to small investors and to MPMs to the capital market; and
- c) contributing towards the increase in profitability and augmentation of the multiplier effect of its applications.

In 2006, BNDES carried out 41 investment operations in the capital market, totaling R\$ 4.2 billion, and 45 disinvestment operations, totaling R\$ 6.8 billion.

BNDES made feasible the incorporation of 12 new private equity funds and venture capital funds. Seven of them have already been approved and the other five already have selected managers. In those funds, BNDES will invest up to R\$ 577 million, which, in addition to the investments of the remaining shareholders, come to a total of up to R\$ 3.6 billion.

In 2006, BNDES approved the constitution of its first fund under the ambit of the Seed Capital program [Criatec] to assure the appropriate financial and managerial support to micro and small innovative companies still in the embryonic stage.

In 2006, BNDES also created the Debentures Investment Program, which projects the participation of the Bank in the public offer of simple debentures and in the negotiation of bonds in the secondary market. The objective is to provide support to the development of the corporate fixed income bonds market, issued by open capital companies. Within this program's ambit, the Bank already subscribed R\$ 1.3 billion in primary issues of ten companies.

The operational income of BNDESPAR's stock participation portfolio, derived from dividends, interests upon capital and return on debentures, reached approximately R\$ 4.3 billion.

Main Investment Operations

São Paulo Subway System: subscription of debentures issued by the Subway System, permutable into PNB and Cesp stock, in the amount of R\$ 313 million. The resources were destined to the financing of the Line 2 expansion, in the Ana Rosa–Sacomã–Tamanduateí line tracks with a length of 6.7 km encompassing five stations.

Suzano Papel e Celulose: subscription of convertible debentures in the total amount of R\$ 210 million. The operation is part of BNDES's R\$ 2.6 billion support to the duplication project of the cellulose line of the Mucuri manufactory facility [in the State of Bahia].

Companhia Energética de São Paulo [Cesp]: subscription of stocks in the amount of R\$ 91.4 million. The initial public offer is part of the leveraging of R\$ 3.2 billion for the financial restructuring of this hydroelectric energy generation company.

Netuno: subscription of 33% of company capital in the amount of R\$ 60 million of a company that operates in the fishing sector. The project forecasts the implementation of two lines to process 43,000 tons/year of fish and shrimp in Recife [in the State of Pernambuco] and Paulo Afonso [in the State of Bahia] and for the construction of a Larviculture Center and of eight support centers for tilapia producers.

The following BNDESPAR investment operations are highlighted through the acquisition of medium-sized company stock in 2006: Fiagril: subscription of R\$ 22 million; Mectron: subscription of R\$ 15 million; Padtec: subscription of R\$ 17 million; and Lifemed: subscription of R\$ 10 million.

Disinvestment Operations

Banco do Brasil: sales of 23 million ordinary stocks with fixed priced under the bookbuilding procedure. The offer attracted approximately 100 institutional investors and more than 52,000 small investors. The retail demand was the largest ever in the history of operations without the use of any type of incentive.

Embratel Participações: BNDES disposed, in a capital closing Volunteer Public Offer, the total of its participation in the company capital and obtained R\$ 119 million.

Net Serviços: the Bank sold, in the Stock Market Exchange, the representative lot of 6% of the total capital of the company and amassed R\$ 285 million.

Brasil Telecom: BNDES received approximately R\$ 620 million through the sales of stocks and convertible debentures of the company.

VBC Energia: the group endured a corporate restructuring process in 2006. The company bought from BNDESPAR, on credit, the lot of permutable debentures in CPFL Energia stock. With that operation, BNDES made R\$ 1.2 billion.

Small and Medium-Sized Companies

BNDESPAR sold its stock participation on the following companies: Totvs [former Microsiga], in the amount of R\$ 30 million; Lupatech, in the amount of R\$ 48 million; and Getec Guanabara Química Industrial, in the amount of R\$ 30 million.

Corporate Restructuring Operations

Brasil Ferrovias: after the corporate and financial restructuring in 2005, 2006 saw the disposal of the company's stock control by América Latina Logística [ALL]. The acquisition was made formal through a bidding in the price of R\$ 1.3 billion.

Grupo Brasileira de Energia: in 2006, there was a corporate and financial restructuring process of the Grupo AES/Brasileira. BNDES holds 53.85% of the company which controls the Group, Companhia Brasileira de Energia. The restructuring allowed for the reduction of the holding's indebtedness level, which dropped from R\$ 2.2 billion to R\$ 800 million.

Paranapanema: BNDESPAR participated in the agreement for the financial restructuring of the company, which involved the debt acknowledgement with its main creditors in the amount of R\$ 1.2 billion [from which R\$ 408 million was a portion kept by BNDESPAR] and the realization of primary initial public offer in the amount of R\$ 400 million.

Companhia Ferroviária do Nordeste [CFN]: the Transnordestina railroad is an infrastructure project that will connect the ports of Suape [in the State of Pernambuco] and Pecém [in the State of Ceará] to the south region of Maranhão, northeast of Bahia and north of Tocantins, an agro-industry region that is growing rapidly. BNDES and its subsidiaries, BNDESPAR and FINAME, are committed towards directing Finor tax incentives to Transnordestina until 2012, in the amount of up to R\$ 723 million, to be transformed into CFN stock participation.

Main Operations in the Investment Fund Participation Program [FIP]

Private Equity and Venture Capital Funds

BNDES rendered feasible the creation of 12 funds in 2006. The seven new funds approved – two private equity funds, two infrastructure funds and three emerging company funds – rely on BNDES investments of up to R\$ 490 million, which in conjunction with other shareholders total an investment of up to R\$ 3.2 billion.

Five other emerging company funds already had their managers selected. In these funds, BNDES participation will be up to R\$ 87 million and the investment of all shareholders are likely to reach R\$ 440 million.

Funds in Disinvestment Process

The Brasil Private Equity and Bradesco Templeton funds ended their activities in 2006. The Institutional Investors Fund [FIA] is undergoing a legal dispute with the previous manager over the effective control of the operational companies of its portfolio. The Fator Sinergia fund was transformed into a fixed return fund in 2006, to accompany the legal outstanding issues from two participations.

Investment Fund on Credit Rights [FIDC]

FIDC Abimaq: is the first Receivables Fund evaluated by the Bank. The first series of shares in the total amount of R\$ 20 million was fully paid up in April 2006, having a 25% participation to BNDESPAR [R\$ 5 million]. The second series is projected for January 2007. The Fund will probably reach an equity of R\$ 200 million [R\$ 50 million of BNDESPAR]. By the end of 2006, approximately 140 operations of receivables acquisition were carried out without presenting bad debts.

FPS

Administration of Social Participation Fund – FPS portfolio: at the end of 2006, the equity of the fund reached R\$ 2.8 billion, corresponding to participation in 58 companies and debentures of five companies. In 2006, approximately R\$ 820 million was amassed with the sales of 17 assets of that portfolio, following the orientation of the Curator Council of PIS-Pasep to extinguish FPS investments on variable return until 2011.





Ações Ambientais em 2006

Environmental Actions in 2006

13. BNDES Environmental Actions in 2006

Upon approving the new environmental policy, BNDES highlighted the environmental theme as one of the milestones of its operation in 2006. The Bank reaffirmed its commitment towards offering appropriate resources to promote the sustainable development of the country and to condition the credit to the environmental regularity of the benefiting party. From 2006 on, BNDES environmental actions started to show the explicit orientation to verify, promote and finance the continuous improvement of the environmental performance of the productive sectors and of the country's infrastructure.

Environment Line

BNDES's Environment Line for the support of environmental projects was launched in 2006. The Line has one of BNDES's lowest basic rates for financing – 1% upon the TJLP [Long-Term Interest Rate]. The Bank's participation in those operations may reach 90% of the investment.

The Line may be used, among other things, for investments on environmental sanitation [sanitary embankments, water and sewerage projects], rational use of energy, recovery and conservation of ecosystems and biodiversity, environmental planning and management, carbon credits projects under the Clean Development Mechanism ambit and the recovery of environmental liabilities.

Proesco – Support to Energy Efficiency Projects

Due to the importance of stimulating energy efficiency in the country, BNDES launched an innovative credit line, especially for projects that save on energy: Proesco, directed towards energy end users and towards Energy Conservation Services Companies [Esco]. This type of company invests on the physical facilities of its clients and shares the financial results obtained with the greatest attainable energy efficiency.

Environmental Performance Indicators

Qualitative Aspects

BNDES holds a commitment towards the environment and towards sustainable development, publicly expressed in its Operation Principles.

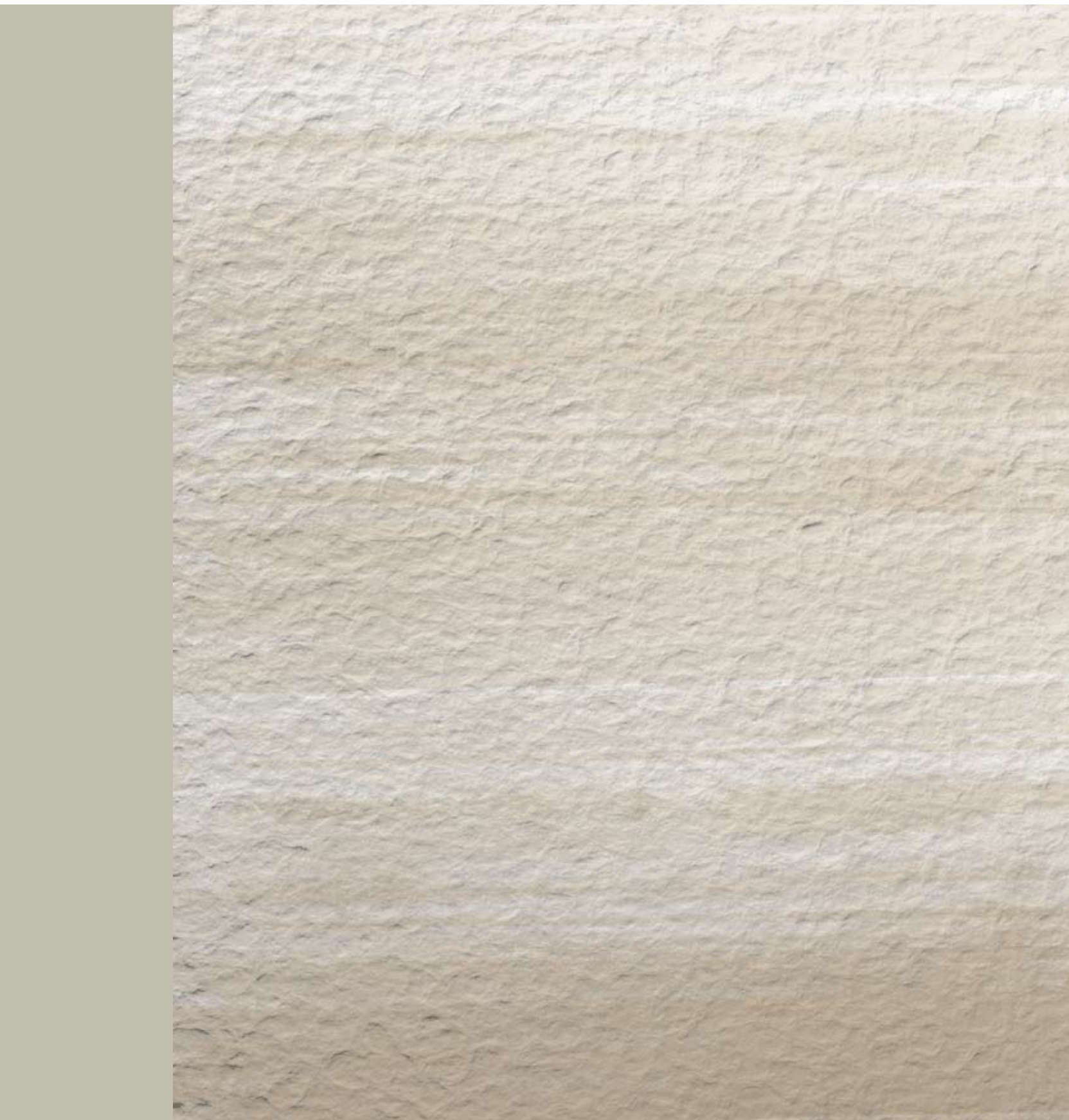
The Bank's financing action in the environmental area is based on three main vertexes:

- conditions the credit to the borrower's environmental regularity;
- offers resources for environmental adaptation projects;
- supports undertakings with the goal of environmental recovery and conservation with economic return.

Internal Environment – “Green Building”

BNDES’s commitment towards the environment is also expressed in its internal activities.

BNDES has been carrying out studies and actions to transform the facilities of its Service Building in Rio de Janeiro into a “green building”, a concept adopted by companies concerned with the quality of life of its employees.





Desempenho Econômico-Financeiro

Economic-Financial Performance

14. Economic-Financial Performance: Record Profit

Fiscal Year Profit

The BNDES System accumulated profits of R\$ 6.3 billion in 2006. It represents the best historic performance of the Bank, 97.7% higher than the R\$ 3.2 billion recorded in 2005, which had already experienced a 113.7% increase as compared to the profits seen in 2004. The above performance contributed for the extraordinary profitability of 36.4% upon average stockholder equity [21.5% in 2005] and 1.89% upon average total asset [0.43% in the previous year].

BNDES's profitability in 2006 is the result of a combination of positive factors. Among them, the low bad debt level [0.68%], which reflects the excellent quality of the credit operation and transference operation portfolio, and the expressive performance of the variable return portfolio.

The credit operation and transference operation portfolio provided a never-before-seen income with reversion of provision for credit risk of R\$ 1 billion, mainly derived from renegotiations and corporate restructuring, which enabled the improvement of risk classification of a group of companies. In 2005, that provision represented an expense of R\$ 845 million.

In the composition of the variable net income result, which reached R\$ 2.7 billion in 2006 [R\$ 1.8 billion in 2005], one could highlight the income with bond disposals and securities of R\$ 1.5 billion, as well as the income from dividends and interests upon the private capital of R\$ 1.8 billion.

Cash Flow

The net resources generated by BNDES in 2006 were of approximately R\$ 53.7 billion. The graph below illustrates the net contribution of the main source groupings to the execution of the 2006 budget.

Return – Net tax expenses, administrative expenses, dividends and negative contributions of other sources	72%
Fixed Income and Variable Income Portfolios	16%
FAT – Leverages minus debt service	12%

The contribution of the credit operations return, net return of tax and administrative expenses, and payment of dividends to the Union, discounting from that amount the negative contributions from other sources, was of 72%, which shows the importance of the quality of BNDES's credit portfolio in its annual budgetary execution.

The gross income from the returns and from the monetization of Fixed and Variable Income assets represented 16% of the net cash generation, which was the second most important source of net resources, second only to the return on credit portfolio.

The net contribution of the Worker Support Fund [FAT], expressed by the inflow of new resources discounted from the service of the respective debt, represented 12% of the net cash generation in 2006. From the R\$ 13.7 billion leveraged by BNDES in conjunction with FAT, R\$ 6.1 billion correspond to new special deposits. The debt service in conjunction with FAT was of R\$ 7.1 billion.

The foreign source of funds represented a negative contribution of 1% of net cash generation in 2006, since fund raising through multilateral agencies was inferior to the external debt service. The negative contribution reflects BNDES's redirection to the domestic capital market, in which BNDESPAR carried out leverages of R\$ 600 million.

Worker Support Fund [FAT]

The FAT continues to be the main external source of financing of the BNDES System's Investments Budget.

On December 31st, 2006, the FAT balance of resources in BNDES was of R\$ 98 billion, wherein, R\$ 73 billion constituted FAT's Constitutional balance and R\$ 25 billion made up the FAT Special Deposits balance.

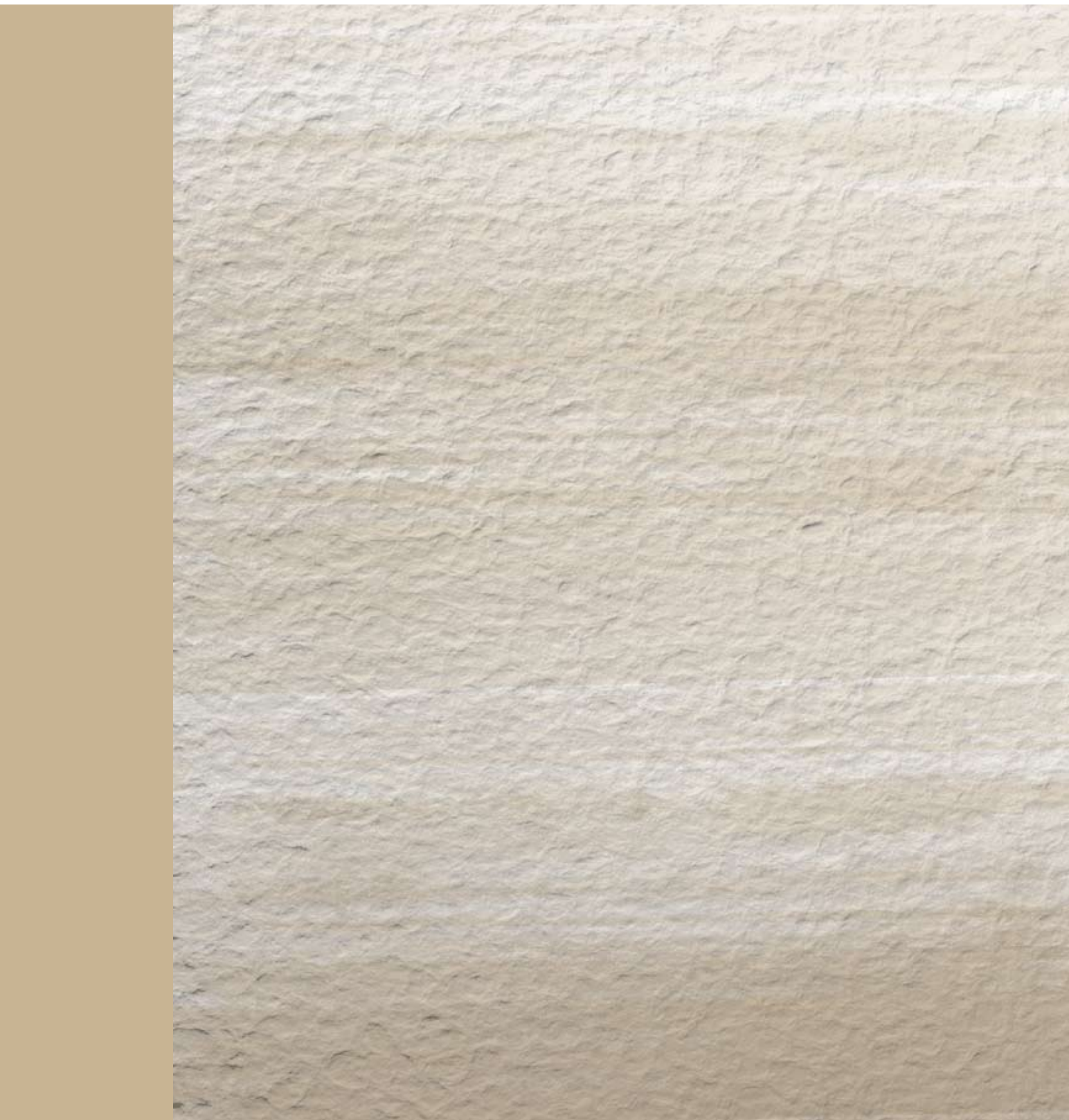
Throughout 2006, R\$ 13.7 billion of new funds from FAT entered the BNDES accounts, from which R\$ 7.6 billion were from FAT Constitutional and R\$ 6.1 billion from FAT Special Deposits.

BNDESPAR Issuance of Debentures in the Local Market

In December 2006, BNDESPAR concluded the first public offer distribution in the domestic market of simple debentures [non-convertible into stocks]. In the operation, R\$ 540 million was raised. The offer was increased by 20% due to the elevated demand presented by retail and institutional investors. The operation is part of the total program worth R\$ 2 billion.

The maturity date of the principal amortization will be on 1.15.2012, with annual interest payment from 1.15.2009. The bond will pay 6% coupon per year, equivalent to a real profitability of 8.525% per year. The credit risk rating of this offer corresponded to the lowest risk rating in the Brazilian Market [Aaa.br/Moody's].

As for non-institutional investors' participation, it was the largest debentures retail offer already made in the country, both in terms of financial volume and in terms of the number of investors. The total volume of retail orders corresponded to 33% of the initial offer.





Desempenho Gerencial

Managerial Performance

15. Managerial Performance: Expressive Approval Time Decrease

BNDES is publicly known for the technical excellence and for the high ethical standard of its staff; consequently, it is also known for its capacity to propose creative solutions to finance complex investment projects. Nevertheless, BNDES recognizes that there are opportunities to assist its clients even faster, with the agility required by an ever more competitive environment.

Hence, the year of 2006 was marked by relentless emphasis on the reduction of operation processing times. Some important measures were introduced, such as:

- The introduction of changes that allowed improving and operating the Credit Line product introduced in 2005, which resulted in contracting the first operation in 2006. The Credit Limit enables the approval and release of resources in a time limit below 30 days.
- The implementation of a Managerial Committee, a group of CEOs of BNDES areas in permanent contact with the Bank's Board of Directors, working in the proposition of measures to improve performance, overcome obstacles and operational pending items between areas.
- The elimination of personal guarantees or real guarantees for open capital companies of the New Market or of Bovespa or for closed companies with low risk level.
- The elimination of task overlap in different units [framing, risk classification and analysis].
- A reduction by one third of the quantity of documents requested to approve operations [in the case of clients with more than five years relationship with the Bank and without a bad debt history, the number of documents were reduced from 13 to 8].

As a result, the average time trajectory between consultation and approval of direct operations is equivalent to a continuous drop, having reached, in March 2007, the lowest level in ten years.

The expectation is that the tendency will remain, with the aim of further deepening the review work of the credit granting processes, which began in 2006.

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Minister of Development, Industry and Foreign Trade

Luiz Fernando Furlan

BNDES

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