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Message from the Minister of Development, Industry and Foreign Trade
Once again, the operational performance of the Brazilian Development Bank – BNDES broke another record, contributing to the strengthening of its name as the country’s main development agent, particularly in area of infrastructure. In 2010, the Bank’s disbursements totaled R$ 168.4 billion. This represents a 22.6% increase compared to 2009, when releases totaled R$ 137.4 billion.

Worthy of note is the fact that, of this amount, releases for infrastructure increased more than 7.8%, rising from R$ 48.7 billion to R$ 52.4 billion. This result practically places this sector on par with the industrial sector, which received R$ 54 billion over the same period.

Growth in financing from the BNDES is directly related to the growth of the Brazilian economy.

There were also large increases in releases to the trade and services sector, which has shown a strong upward trend in disbursements since 2008. In 2010, the amount totaled R$ 27.1 billion with a growth rate of 56.4 % compared to 2009.

Highlights in the industrial sector in 2010 were the foodstuff and beverage, transport equipment and mechanical segments, with disbursements totaling R$13.5 billion, R$ 10.2 billion and R$ 5.3 billion, respectively. In infrastructure, the most prominent sectors were transport and electric energy – accounting for approximately 28% of the BNDES’ total releases.

These numbers reinforce the Bank’s commitment to financing infrastructure projects of high importance to the country.

In June 2009, the most significant highlight was the launch of the Investment Maintenance Program (BNDES-PSI), aimed at combating the effects of the financial crisis.

At the end of 2010, the portion of the Bank’s portfolio related to the PSI totaled R$ 124.5 billion. More than 75% of the total portfolio was earmarked for the machinery and equipment segment, used to finance the acquisition of buses and trucks, as well as capital goods for several segments.

It is important to mention that disbursements to micro, small and medium-sized companies (MSMEs), as well as to individuals, increased 91% in 2010, totaling R$ 45.7 billion. This amount corresponded to 27% of the BNDES’ total releases throughout the year. Among the approximate 610,000 financing operations conducted by the Bank in 2010, some 93% were earmarked for MSMEs.

The BNDES Card, an important instrument in the democratization of credit, stood out due to its sharp increase in disbursements. Total Card disbursements rose from R$ 846 million in 2008 to R$ 4.3 billion in 2010, while the number of transactions exceeded the 320,000 mark.

Once again, we see that the BNDES’ performance, as shown in this Annual Report, is vital in carrying out the public and private investments that Brazil requires so much.

Fernando Pimentel
Minister of Development, Industry and Foreign Trade
Message from the President of the BNDES
In 2010, the Brazilian economy consolidated its successful efforts for economic recovery, leaving behind the slump resulting from the international financial crisis, which interrupted, at the end of 2008, the strongest growth cycle ever, underway since 2004.

The domestic market – strengthened not only by solid macroeconomic fundamentals, but also the federal government’s anti-cyclical efforts and the policies for increases in minimum wage and income transfers to the poorer percentage of the population – was the main engine driving toward recovery. Internal demand contributed to real GDP growth of 7.5% in 2010 with 10.6 percentage points, more than offsetting the drop of 3.1 percentage points in foreign demand. The recovery in investments was even more expressive, climbing 21.8% from 2009 to 2010, significantly ahead of GDP growth, a key element in sustaining economic growth.

As in recent years, the BNDES played a crucial role in strengthening corporate trust and investment. Investments leveraged by the Bank’s financing operations represented 21% of the country’s Gross Fixed Capital Formation (GFCF). Almost 4.5 million direct and indirect jobs were created or maintained during the implementation of these investments.

Once again, the BNDES’ disbursements reached a record amount: R$ 168.4 billion, up 22.6% over 2009 and 85.3% over 2008. The R$ 52.4 billion disbursed for infrastructure and the R$ 54 billion for industry are worthy of note, as is the R$ 25 billion for the Petrobras capitalization operation.

To enable this level of performance, the BNDES counted on the contribution from loans announced by the National Treasury, thus reinforcing the Bank’s fundraising operations, which reached the amount of R$ 105 billion in 2010. The Bank’s partnership with the Ministry of Finance was also made evident through the continuation of the Investment Maintenance Program (PSI), which offers interest rates equalized by the National Treasury. This resulted in a significant decrease in the financial cost for credit lines, such as those for acquiring capital goods, innovation and the Financing Program for Truck Drivers (Procaminhoneiro), a determining factor in the expressive return to positive investment decisions. Disbursements related to the PSI totaled R$ 67.9 billion in 2010, more than half of which was earmarked for micro, small and medium-sized companies (MSMEs).

In its role as a public development bank, the BNDES was an important factor in the federal government’s anti-cyclical strategy; however, its performance in 2010 also reflects its strategic priorities.

The BNDES has provided increasing support to micro and small-sized companies and individuals, with disbursements reaching R$ 32 billion in 2010, almost twice the record amount of R$ 16.6 billion recorded in 2009. The BNDES Card continues to present strong growth, reaching R$ 4.3 billion in disbursements last year (74% more than in 2009), with a total of more than 320,000 operations (84% more than last year). Similar to the PSI, the BNDES Card enables the BNDES to expand its territorial coverage, particularly in the North and Northeast regions. In 2006, some 12% of the municipalities in these regions were served by the Bank. This number rose to 60% in 2010. Disbursements to the North and Northeast regions totaled R$ 29 billion.

In 2010, the BNDES established the Investment Guarantee Fund (FGI), an instrument used to complement guarantees and collateral that, like the BNDES Card, will be
decisive in expanding the Bank’s reach to micro and small-sized companies. During its first six months, some 2,737 operations were performed with the use of the FGI, totaling R$ 500 million in financing operations. More than 97% of these operations (90% in value) were carried out with individuals or micro companies, and approximately 65% of the clients had never before accessed credit provided by the BNDES.

The BNDES’ Policy for Social and Environmental Responsibility (RSA) was issued in 2010, as well. The RSA seeks to continuously develop and improve financial products, methodologies and other instruments that incorporate social and environmental criteria and that contribute, in particular, to local and regional sustainable development. The BNDES also plans to monitor and assess not only the social and environmental impacts, but also the results generated by the Bank itself and by the activities it supports.

The agenda for 2011 is by no means less challenging. The various Operational Divisions and corporate strategic projects have been mobilized and are designed to face challenges such as: collaborating to maintain the investment growth rate ahead of economic expansion, so as to extend the aggregate offer; supporting the export of goods and intensive engineering services to achieve a more varied balance of trade; financing complex infrastructure projects to mitigate disparities in the economic development process; collaborating in the modernization of public administration; fostering investments in innovation and social and environmental sustainability; and actively participating in the fostering of local development, inclusion of production and expansion of access to credit, all of which are essential tools for the eradication of poverty.

To comply with this agenda, the BNDES has invested in the incorporation of best practices in terms of resources and people management, besides seeking to complete the implementation of integrated systems by means of the AGIR project. Throughout this year, in particular, the BNDES will focus on strengthening its executive and technical competencies. With this in mind, 2011 has been marked as the “year of management”.

This is not an easy agenda, but, throughout its history, the BNDES has proven its ability to take on considerable challenges. Development is a mission that requires mobilizing multiple efforts and players. The BNDES will continue to strive to fulfill its role and commitment to Brazil.

Luciano Coutinho
President of the BNDES
The BNDES played a crucial role in strengthening corporate trust and investment.
Presentation
About this Report

This Annual Report aims at presenting the BNDES’ operations in 2010, focusing on its economic, social and environmental scope. The reporting period ranges from January to December 2010 and includes not only the operations of the BNDES, but also those of its subsidiaries BNDES Participações S.A. – BNDESPAR and the Special Agency for Industrial Financing – FINAME. The efforts of the representative office in Uruguay and of the Bank’s subsidiary in London (BNDES Limited) are also included in this publication (in accordance with the report presented by the International Division in Operational Performance section).

The principles and guidelines of the Social and Environmental Responsibility Policy, which will certainly present new challenges to the BNDES over the upcoming years, were approved in 2010. The policy was developed based on the 2009-2014 Strategic Plan, adopting ISO 26000 as one of its references.

The foresight of sustainability is present in the very nature of the BNDES, an institution in which analysis and approval of operations are conditioned to their economic, social and environmental feasibility. This report covers the company’s performance considering, in addition to the operational highlights, the strategic aspects of governance, transparency, risk management, support for culture and people management.

The complete Financial Statements of the BNDES and those of its subsidiaries FINAME and BNDESPAR are included in the report available on electronic media (CD attached), which will facilitate navigation and inquiries for all interested parties. The contents of the report will be available at the BNDES’ website (www.bndes.gov.br). This report will also be published in English and Spanish versions, which may also be found on the internet.
Profile

The Brazilian Development Bank – BNDES is a federal public company, governed under private law, with its own assets. The BNDES is an entity linked to the Ministry of Development, Industry and Foreign Trade.

The BNDES in the federal structure

According to the BNDES’ Statute, established by Decree Nº. 4,418, of October 11, 2002, the BNDES is the main instrument for implementing the federal government’s investment policy and has the main aim of supporting programs, projects, works and services related to the country’s economic and social development.
The BNDES system comprises four companies: the BNDES, FINAME, BNDESPAR and BNDES Limited, the latter recently created with the objective of fostering the internationalization of Brazilian companies and raising funds abroad.

The Bank currently has four offices in Brazil (Rio de Janeiro, São Paulo, Brasília and Recife) and two abroad, in Montevideo and London.

The BNDES grants long-term financing, subscription of securities, non-reimbursable investments and offers of guarantees and collateral, operating by means of products and funds, according to the modality of the operation. The products define the general rules on financial conditions and the long-term financing and operating procedures, subscription of securities and offers of guarantees and collateral.

The BNDES provides financial support to individuals, corporations and public administration entities. Due to its diversified operations, these client groups can be subdivided according to the characteristics of the products offered and/or of the sectors served.

For each product, credit lines and programs can be created to establish specific rules according to the client, sector and/or project to be supported. The credit lines are linked to a single product and are designed to satisfy permanent demands for support. The programs may be linked to more than one product and are designed to support specific demands, with previously established expiration dates and budgeted amounts.
The funds are statutory or legal sources of funds, governed by internal resolutions that define the specific operational conditions and procedures. The statutory funds are earmarked for non-reimbursable investments. The efforts of the BNDES extend across the entire national territory and its policy seeks to foster the demand for financing in less developed regions.

The BNDES’ main clients

<table>
<thead>
<tr>
<th>Group</th>
<th>Clients</th>
<th>Service provided</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies</td>
<td>• Companies in agriculture/cattle-raising, industry, trade or service</td>
<td></td>
<td>• Capacity to pay back reimbursable operations</td>
</tr>
<tr>
<td></td>
<td>• Cooperatives or associations</td>
<td></td>
<td>• Registration as required by the BNDES</td>
</tr>
<tr>
<td></td>
<td>• NGOs, OSCIPs (Civil Society Public Interest Organizations) or foundations</td>
<td></td>
<td>• Up-to-date with tax and social security obligations</td>
</tr>
<tr>
<td>Individuals</td>
<td>• Rural producers</td>
<td>Granting of financial support</td>
<td>• Not in default with the BNDES nor under judicial reorganization or bankruptcy</td>
</tr>
<tr>
<td></td>
<td>• Independent cargo transporters</td>
<td></td>
<td>• Availability of guarantees and collateral to cover the risk of the operation</td>
</tr>
<tr>
<td></td>
<td>• School transporters</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Micro-entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public administration</td>
<td>• Municipalities</td>
<td></td>
<td>• Comply with environmental legislation</td>
</tr>
<tr>
<td></td>
<td>• States</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Federal government</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The operations performed by the Bank are divided into two main groups: direct and indirect operations. Direct operations are those contracted directly with the Bank, while indirect operations are carried out by accredited financial institutions, when the BNDES transfers the funds to the institution.

Product and services offered

<table>
<thead>
<tr>
<th>Type of operation</th>
<th>Product</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>BNDES Finem</td>
<td>Financing of undertakings valued at a minimum of R$ 10 million</td>
</tr>
<tr>
<td></td>
<td>Credit limit</td>
<td>Credit for non-defaulting clients</td>
</tr>
<tr>
<td></td>
<td>Subscription of securities</td>
<td>Purchase of minority and temporary corporate shares (stakes), convertible debentures or investments in closed funds</td>
</tr>
<tr>
<td></td>
<td>Internationalization of companies</td>
<td>Investments in nationally-owned companies abroad</td>
</tr>
<tr>
<td></td>
<td>Project finance</td>
<td>Financing supported by a project’s cash flow</td>
</tr>
<tr>
<td></td>
<td>BNDES Automatic</td>
<td>Financing of undertakings valued up to R$ 10 million</td>
</tr>
<tr>
<td></td>
<td>BNDES Finame</td>
<td>Production and commercialization of machinery and equipment</td>
</tr>
<tr>
<td></td>
<td>BNDES Finame Agricultural</td>
<td>Production and commercialization of agricultural machinery and equipment</td>
</tr>
<tr>
<td></td>
<td>BNDES Finame Leasing</td>
<td>Leasing of machinery and equipment</td>
</tr>
<tr>
<td></td>
<td>BNDES Export</td>
<td>National production intended for export</td>
</tr>
<tr>
<td></td>
<td>BNDES Card</td>
<td>Revolving, pre-approved credit for the purchase of products, raw materials and services</td>
</tr>
</tbody>
</table>
The BNDES’ employees are selected by means of public sector recruitment exams and are contracted under the Consolidated Labor Laws (CLT). The BNDES workforce also includes temporary employees and interns.

Temporary employees include executives appointed by the President of the Republic for a specific mandate (board members, president, vice-president and managing directors), employees who hold positions of trust, and employees assigned to the Bank from other institutions.

Staff profile

<table>
<thead>
<tr>
<th>Staff</th>
<th>Number of people</th>
<th>Target area</th>
<th>Support area</th>
<th>Elementary</th>
<th>Middle school</th>
<th>High school</th>
<th>Undergraduate</th>
<th>Master’s</th>
<th>Doctorate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>2635</td>
<td>1230</td>
<td>1405</td>
<td>21</td>
<td>38</td>
<td>272</td>
<td>1977</td>
<td>293</td>
<td>34</td>
</tr>
<tr>
<td>Temporary staff</td>
<td>35</td>
<td>28</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>8</td>
<td>18</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Interns</td>
<td>312</td>
<td>159</td>
<td>153</td>
<td>-</td>
<td>-</td>
<td>312</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Ethics is the foundation on which the BNDES has been built since its creation.
Mission, Vision and Values

MISSION

To foster sustainable and competitive development in the Brazilian economy, generating employment while reducing social and regional inequalities.

VISION

To perform its duties as the development bank of Brazil, an institution of excellence, innovative and proactive in light of the challenges in our society.

VALUES

Ethics

Ethics is the foundation on which the BNDES has been built since its creation. With this, the BNDES requires that its professionals maintain impeccable ethical conduct when carrying out their assignments. Such conduct is translated into, above all, responsibility and honesty. We preserve the respect and trust in our relations, and our efforts are characteristically transparent. Our main principle is that development is only possible when accompanied by ethics.

- In all circumstances, we operate with responsibility, correctness, integrity, honesty and a sense of justice.
- We respect individuality, dignity and the privacy of all; we value diversity and reject any form of prejudice.
- We have a vital commitment to the human rights of all participants in our relations.
- We build a work environment underscored by respect, plurality of ideas, dialog and the capacity to put ourselves in someone else’s shoes.
- We establish and maintain our relationships through respect, reliability and transparency.
- We encourage discretion and confidentiality when dealing with information used in the BNDES’ activities.

Commitment to development

The challenge to be the Brazilian Development Bank requires all of us to maintain a professional and personal commitment to fomenting and supporting the growth of a diversified, integrated, dynamic, inclusive, sustainable and competitive production structure.

We aim for cooperation between the public and private sectors, as well as to strengthen undertakings, regardless of their size. Innovation is the driving force
behind this competitive and sustainable development. Promoting socio-environmental sustainability and reducing inequalities in the nation and in Brazilian society are the guidelines of our project for the future.

- We support our operations through accurate knowledge of reality and with a long-term foresight.
- We develop a strategic outlook that guides the desired results, while aligning and integrating all our efforts.
- We promote economic and socio-environmental sustainability in all our activities.
- We work for the reduction of social and regional inequalities, generating employment and income, and improving the standard of living.
- We encourage the innovative and entrepreneurial spirit.

**Public principles**

Our operations are guided by public principles, evident through the irreversible commitment to the interests of Brazilian society, a focus on the collective and the care taken when using public resources.

- Our operations are guided by the interests of Brazilian society, maintaining a focus on the collective and in compliance with the priorities democratically established by government policies.
- We establish our decisions and efforts on impersonality, equality and transparency when conducting public management.
- We advocate the proper use of the BNDES’ resources, with attention to costs, efficiency, effectiveness of the processes and no waste.

**Excellence**

We aim at achieving excellence in all we do, in the effort to carry out the Bank’s mission. Excellence is due to a combination of technical competence, applied knowledge, focus on relevance and innovating capacity, all propelled by persistent efforts to reach our goal.

- We constantly seek technical advancement and innovation.
- We value capacity in the form of pro-activeness, pragmatism and methodological precision.
- We encourage the production of knowledge guided by the challenges in Brazilian society.
- We encourage the will to learn and the dissemination of knowledge.
- We value team work, sharing knowledge and experiences, as well as cooperation.
- We pursue quality, consistency and efficiency in efforts through collective discussions and shared decisions.
- We encourage a sense of professional and personal accomplishment in teams by acknowledging their contributions.
The BNDES in numbers

Disbursements

The BNDES’ performance in 2010 was associated with two specific processes: (i) continued financing of long-term investment projects, especially in industry and infrastructure, boosting the recovery of gross fixed capital formation (GFCF) in the economy; and (ii) the process of “the democratization of credit”, with a large increase in the number of operations earmarked for the acquisition of machinery and equipment and for micro, small and medium-sized companies (MSMEs).

As shown in the chart below, disbursements reached a record amount of R$ 168.4 billion in 2010. This represents a 22.6% increase in relation to 2009, when releases totaled R$ 137.4 billion. Even without taking into consideration the Petrobras capitalization – in the amount of R$ 25 billion –, there was an increase in disbursements, totaling R$ 143.4 billion, that is, a 4.4 % increase when compared to 2009.

BNDES Disbursements – 2008-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>92.2 billion</td>
</tr>
<tr>
<td>2009</td>
<td>137.4 billion</td>
</tr>
<tr>
<td>2010</td>
<td>168.4 billion</td>
</tr>
</tbody>
</table>

Source: BNDES.

Sectors

As shown in the following table, industry and infrastructure accounted for more than 63% of the BNDES’ disbursements in 2010 (excluding the Petrobras operation which was accounted for in “other market operations”), totaling R$ 106.4 billion. The trade and services sector is also a highlight, with a strong upward trend in disbursements since 2008. In 2010, the amount reached R$ 27.1 billion with a growth rate of 56.4 % compared to 2009.
### BNDES disbursements per operational division

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>39.0</td>
<td>63.5</td>
<td>54.0</td>
<td>62.8</td>
<td>-15.0</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>35.1</td>
<td>48.7</td>
<td>52.4</td>
<td>38.6</td>
<td>7.8</td>
</tr>
<tr>
<td>Trade/services</td>
<td>11.2</td>
<td>17.3</td>
<td>27.1</td>
<td>55.2</td>
<td>56.4</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5.6</td>
<td>6.9</td>
<td>10.1</td>
<td>22.5</td>
<td>47.7</td>
</tr>
<tr>
<td>Other market operations</td>
<td>1.4</td>
<td>1.0</td>
<td>24.8</td>
<td>-23.4</td>
<td>2,275.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>92.2</td>
<td>137.4</td>
<td>168.4</td>
<td>49.0</td>
<td>22.6</td>
</tr>
</tbody>
</table>

### BNDES disbursements per sector

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>39.0</td>
<td>63.5</td>
<td>54.0</td>
<td>62.8</td>
<td>-15.0</td>
</tr>
<tr>
<td>Food and beverages</td>
<td>10.1</td>
<td>8.8</td>
<td>13.5</td>
<td>-12.6</td>
<td>53.0</td>
</tr>
<tr>
<td>Transport material</td>
<td>7.5</td>
<td>8.8</td>
<td>10.2</td>
<td>16.9</td>
<td>15.6</td>
</tr>
<tr>
<td>Mechanic</td>
<td>3.4</td>
<td>4.2</td>
<td>5.3</td>
<td>23.2</td>
<td>26.7</td>
</tr>
<tr>
<td>Metallurgy</td>
<td>3.7</td>
<td>5.3</td>
<td>4.9</td>
<td>42.5</td>
<td>-7.0</td>
</tr>
<tr>
<td>Textile and apparel</td>
<td>1.3</td>
<td>0.6</td>
<td>2.2</td>
<td>-52.0</td>
<td>232.2</td>
</tr>
<tr>
<td>Other</td>
<td>12.9</td>
<td>35.7</td>
<td>17.9</td>
<td>176.7</td>
<td>-49.8</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>35.1</td>
<td>48.7</td>
<td>52.4</td>
<td>38.6</td>
<td>7.8</td>
</tr>
<tr>
<td>Transport (*)</td>
<td>18.8</td>
<td>27.2</td>
<td>33.6</td>
<td>44.5</td>
<td>23.4</td>
</tr>
<tr>
<td>Electric energy</td>
<td>8.6</td>
<td>14.2</td>
<td>13.6</td>
<td>63.9</td>
<td>-4.0</td>
</tr>
<tr>
<td>Other</td>
<td>7.6</td>
<td>7.3</td>
<td>5.3</td>
<td>-4.5</td>
<td>-27.8</td>
</tr>
<tr>
<td><strong>Other sectors</strong></td>
<td>18.1</td>
<td>25.2</td>
<td>62.0</td>
<td>39.2</td>
<td>146.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>92.2</td>
<td>137.4</td>
<td>168.4</td>
<td>49.0</td>
<td>22.6</td>
</tr>
</tbody>
</table>

**Source:** BNDES.

**Note:** Data referring to the totals was calculated considering all the decimal points.

(*) Includes railway and roadway transport, auxiliary transport activities and other transport, according to the BNDES sectorial classification.

The sectorial highlights of the industry sector in 2010 were the food and beverages, the transport equipment and the mechanical segment, with disbursements of $ 13.5 billion, R$ 10.2 billion and R$ 5.3 billion, respectively. In infrastructure, the most prominent sectors were transport and electric energy – accounting for approximately 28% of the total BNDES releases.
The Investment Maintenance Program

Aiming at containing the drop in investments in the Brazilian economy that occurred during the fourth quarter of 2008, due to the escalation of the international financial crisis, the federal government launched the Investment Maintenance Program (PSI) at the end of June 2009. The program reduced financing costs for the capital goods, innovation and export segments, and lengthened the repayment and grace periods for the use of resources.

The following table shows the Bank’s PSI portfolio, differentiated per segment. In late 2010, the PSI stock of the Bank’s total portfolio reached R$ 124.5 billion. More than 75% of the total portfolio was earmarked for the capital goods segment, for bus and truck financing (R$ 33.5 billion) and the acquisition of other capital goods items (R$ 60.8 billion) for several segments.

<table>
<thead>
<tr>
<th>PSI Portfolio</th>
<th>R$ billion</th>
<th>Participation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Capital goods</td>
<td>94.3</td>
<td>75.7</td>
</tr>
<tr>
<td>1.1 Capital goods – other items</td>
<td>60.8</td>
<td>48.8</td>
</tr>
<tr>
<td>Agriculture and cattle-raising</td>
<td>8.8</td>
<td>7.0</td>
</tr>
<tr>
<td>Food and beverages</td>
<td>5.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Paper and pulp</td>
<td>3.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Coke, petroleum byproducts and bio-fuels</td>
<td>2.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Chemical products</td>
<td>1.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Rubber and plastic</td>
<td>1.2</td>
<td>0.9</td>
</tr>
<tr>
<td>Non-metallic ores</td>
<td>1.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Metallurgy</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Vehicles</td>
<td>1.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Other transport equipment</td>
<td>1.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Electricity and gas</td>
<td>8.9</td>
<td>7.1</td>
</tr>
<tr>
<td>Infrastructure works</td>
<td>1.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Construction services</td>
<td>1.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>1.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Retail trade</td>
<td>1.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Land transport</td>
<td>2.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Air transport</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Auxiliary transport activities</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>2.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Other</td>
<td>8.1</td>
<td>6.5</td>
</tr>
<tr>
<td>1.2 Capital goods – bus and truck</td>
<td>33.5</td>
<td>26.9</td>
</tr>
<tr>
<td>2. Innovation</td>
<td>0.8</td>
<td>0.7</td>
</tr>
<tr>
<td>3. Exports</td>
<td>22.1</td>
<td>17.7</td>
</tr>
<tr>
<td>4. Procaminhoneiro</td>
<td>7.3</td>
<td>5.9</td>
</tr>
<tr>
<td>Total (1+2+3+4)</td>
<td>124.5</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: BNDES.
Notes: (1) Data for the PSI portfolio up to January 1, 2011.
(2) Note: Data referring to the totals was calculated considering all the decimal points.
Micro, small and medium-sized companies (MSMEs)

Disbursements to micro, small and medium-sized companies (MSMEs) and individuals increased 91% in 2010, totaling R$ 45.7 billion. This amount represented 27% of the total of the BNDES’ releases over the year. Among the approximate 610,000 financing operations performed by the Bank in 2010, some 93% were earmarked for MSMEs. Therefore, there was a clear expansion in the volume of credit released.

Disbursements to MSMEs and individuals – 2008-2010

The PSI has contributed significantly to the expansion of financing to smaller sized companies. In 2010, PSI disbursements to MSMEs and individuals totaled R$ 37.5 billion.

BNDES Finame, BNDES Automatic and BNDES Card Disbursements

The BNDES supports MSMEs and individuals primarily with the assistance of financial agents, due to the greater reach of these institutions, providing broader dissemination of operations. Financing is carried out through the following lines of credit: (i) BNDES Finame, with financing for the production and commercialization of machinery and equipment; (ii) BNDES Automatic with financing for projects with values up to R$ 10 million; and (iii) BNDES Card, pre-approved revolving credit for micro, small and medium-sized companies to acquire goods and inputs.

The following chart shows the BNDES’ disbursements in these operations in 2010. The significant upward trend in the volume of releases and in the number of operations is clear, except the number of operations of the BNDES Automatic. Note the sharp increase in disbursements by the BNDES Card, from R$ 846 million in 2008 to R$ 4.3 billion in 2010. The number of operations has exceeded 320,000.
Disbursements – BNDES Finame, BNDES Card and BNDES Automatic

Source: BNDES.
The BNDES Card has become an important instrument for the democratization of credit. The following chart shows that between 2008 and 2010, its coverage went from 43.9% (that is, some 2,442 municipalities) to 76%, covering 4,229 municipalities.

BNDES Card coverage – Comparison between 2008 and 2010
(number of municipalities)

<table>
<thead>
<tr>
<th>Year</th>
<th>Nº. of municipalities</th>
<th>% of coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>2,442</td>
<td>43.9%</td>
</tr>
<tr>
<td>2010</td>
<td>4,229</td>
<td>76%</td>
</tr>
</tbody>
</table>

Source: BNDES.
The BNDES Card has become an important instrument for the democratization of credit.
As a public company, the BNDES’ financial operations, balance sheets and management policies are overseen by collegiate bodies comprising representatives from the government, external entities and civil society. These collegiate bodies include the Advisory Board, the Auditing Committee and the Fiscal Council. The main duties of each are as follows:

Advisory Board

- To issue opinions, at the request of the Minister of Development, Industry and Foreign Trade, on issues important to the country’s economic and social development which are more directly associated with the BNDES’ scope of operations;
- to counsel the Bank’s president on the general guidelines of his/her actions;
- to examine and approve, when proposed by the Bank’s president, the general policies and long-term operation programs;
- to approve the general resources and expenses budget, and to monitor its execution, as well as review the annual auditing reports and information on the results of the Bank’s efforts; and
- to approve the institution’s balance sheets and financial statements.

Auditing Committee

- To recommend, to the Bank’s administration, the independent auditing firm to be contracted;
- to review the biannual financial statements prior to their publication;
- to assess the effectiveness of the internal and independent audits; and
- to provide the BNDES’ Board of Directors with recommendations on the correction or improvement of policies, practices and procedures identified within the scope of their duties.

Fiscal Council

- To examine and issue opinions on the balance sheets and other financial statements, as well as on the half-yearly rendering of accounts by the BNDES Board of Directors; and
- to perform other duties provided for in the Corporations Act.

The BNDES’ Board of Directors is made up of eight members: the president, the vice-president and six managing directors, all appointed by the president of the Republic.
The activities performed by the BNDES are organized into divisions, which are subdivided into operational divisions – responsible for granting credit and monitoring –, as well as support divisions – aimed at corporate support activities.

In the Operational Divisions, work is carried out by multidisciplinary teams, with the objective of ensuring effective and comprehensive project analyses using the technical qualifications of each professional. This multidisciplinary approach allows employees to become aware of the entire process in which they are inserted and not just of a part of it.

In the Operational Divisions, work is carried out by multidisciplinary teams, with the objective of ensuring effective and comprehensive project analyses.
The main decisions are made by the BNDES’ Board of Directors, in keeping with the aims and objectives set forth in its Articles of Incorporation and the senior guidance of the BNDES’ Advisory Board, when proposed by the divisions and their respective managing directors, in regular weekly or extraordinary (convened by the president) meetings, in the form of decisions (concerning specific subjects) or resolutions (subjects of a general nature). However, there are other collegiate bodies with deliberating power that involve, in addition to the managing directors, the deputy managing directors as shown in the table below:

The BNDES’ main executive committees

<table>
<thead>
<tr>
<th>Committee</th>
<th>Members</th>
<th>Duties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning Committee</td>
<td>president; vice-president; managing directors; deputy managing directors.</td>
<td>• to coordinate the design and monitoring of the Corporate Strategy and foster its yearly update; • to assess results as well as discuss adjustments and improvements to the Corporate Strategy.</td>
</tr>
<tr>
<td>Management Committee</td>
<td>deputy managing directors; head of the general secretariat of the President’s Office; head of the Planning Division’s corporate Strategy Department.</td>
<td>• to ensure the efficient implementation of the operational, credit, financial and corporate policies; • to foster the strengthening of relations between the Fundamental Units; • to ensure performance of the managerial decisions and resolutions issued by the Board of Directors.</td>
</tr>
<tr>
<td>Eligibility and Credit Committee (CEC)</td>
<td>deputy managing directors of the Planning, Credit, Industrial, Infrastructure, Basic Inputs, Social Inclusion, Foreign Trade, Indirect Operations, Capital Markets, Venture Capital, Environment, Financial, International and Legal Affairs Divisions.</td>
<td>• to assess requests for financial support in the consultation letters; • to decide on their eligibility within the Operational Policies, and report to the Board of Directors.</td>
</tr>
<tr>
<td>Budget Committee</td>
<td>president; vice-president; managing directors; head of the President’s Office;* head of Auditing Committee;* deputy managing directors.</td>
<td>• to establish guidelines in the preparation of the budget proposal; • to monitor budget performance; • to approve measures aimed at maximizing the Bank’s cash position.</td>
</tr>
<tr>
<td>Risk Management Committee (CGR)</td>
<td>president; vice-president; managing directors; head of the President’s Office;* deputy managing director of the Risk Management Division.*</td>
<td>• to propose policies for managing market, liquidity, credit and operational risks; • to assess the risk environments.</td>
</tr>
<tr>
<td>Financial Affairs Committee (CAF)</td>
<td>Financial, Credit, Planning, Risk Management,* Capital Market* and International* deputy managing directors.*</td>
<td>• to review the model for determining the basic spread; • to suggest scenarios for the targeted growth goal for Shareholders’ Equity; • to suggest eventual financial and credit policy changes to the Board of Directors.</td>
</tr>
<tr>
<td>Production Systems, Innovation, Local, Regional and Socio-Environmental Development Committee (CAR-IMA)</td>
<td>head of the President’s Office; deputy managing directors of divisions, such as Industrial, Basic Inputs, Infrastructure, Indirect Operations, Planning, Social Inclusion, Venture Capital, Credit, Financial, and Environment; advisor appointed by the president.</td>
<td>• to assess the instruments adopted by the BNDES with potential to impact on production and innovation systems, on innovation itself and on local, regional and socio-environmental development.</td>
</tr>
<tr>
<td>Funtec Consulting Committee (CCTEC)</td>
<td>deputy managing director of Planning; career employee; representative from the federal government; external specialists.</td>
<td>• to assess requests for financial support in the previous consultations submitted to the BNDES within the scope of Funtec.</td>
</tr>
</tbody>
</table>

* Non-voting rights.
Granting credit is understood as the BNDES’ main process. In light of the main credit granting modalities practiced by the Bank, this process allows for two possibilities: (i) granting credit by means of direct operations (those in excess of R$ 10 million in which the credit risk is assumed by the BNDES) and indirect non automatic operations (in general, operations in excess of R$ 10 million, in which the credit risk is assumed, in whole or in part, by the financial agents); and (ii) granting credit in indirect automatic operations (transactions up to R$ 10 million where the credit risk is assumed by the financial agents).

The main components of the former process are: (i) analysis of requests and eligibility of operations; (ii) analysis of operation projects; (iii) contracting of operations; and (iv) monitoring and release of operations. The main components of the latter process are: (i) analysis of consultations of operations; (ii) receipt, analysis and approval of operations; (iii) release of funds for operations; and (iv) monitoring of operations.

Controlling the process to grant credit in non-automatic direct and indirect operations brings together several parts and several levels of the organization. Requests for financial support are submitted to the BNDES by means of formal consultations and are forwarded to an organizational unit – the Planning Division’s Department of Priorities (AP/DEPRI) – charged with the task of analyzing and submitting them to the Eligibility and Credit Committee (CEC). This committee meets on a weekly basis to assess the consultations and decide on other credit matters. Once eligibility is approved, the operation is forwarded on to departments within the Operational Division for project analysis. The resulting analysis report is submitted to the BNDES’ Board of Directors, which also meets on a weekly basis. Should the operation be approved, it is then contracted, provided that the previous conditions are met. The Department within the Operational Division, which is responsible for the operation, releases the funding in accordance with the established timetable and periodically monitors its use. The payments (interest and amortizations) are monitored until the debt is totally paid off.

The monitoring process influences the mitigation of credit risk in the financing operations undertaken by the BNDES, besides playing an important role in building the Bank’s relationship with its clients, since it allows greater understanding of the companies and the projects. In addition, this fosters new operations in the Operational Divisions, enabling the identification of the need for new mechanisms and support processes. The following figure summarizes the main stages of the process to grant credit.
Credit concession process flowchart

Process Stages

Level 6 – Perspective | Level 5 – Previous Consultation | Level 4 – Eligibility
Level 3 – Under analysis | Level 2 – Approved | Level 1 – Contracted
Indirect automatic operations are subject to operational flows that include fewer actors and levels within the organization than the non-automatic direct and indirect operations. The requests for credit by individuals and companies are presented directly to the on-lending financial agents, who analyze and design them in accordance with the selected product terms.

The resulting credit proposals are forwarded by the financial agents directly to the Operational Departments within the Indirect Operations Division (AOI) responsible for the product, which review them and decide on their approval or return. The upper levels – the Division’s Managing and Deputy Managing Directors – endorse the approvals or return the proposals to the previous level. If approved, the credit proposals are contracted, becoming operations, and bring about the releases of the requested funds. Due to the volume of non-automatic indirect operations and to the characteristics of this type of operation, the Operational Division monitors samples from the portfolios to verify the correct and effective use of the funds. Similarly to what occurs with the non-automatic direct and indirect operations, payments (interest and amortization) are tracked until the debt is paid off.

In addition to the direct and indirect modalities, the financial support operations granted by the BNDES System can be classified according to the instruments that are used: fixed or variable income. In the latter case, the BNDES System, by means of its wholly-owned subsidiary, BNDESPAR, uses tools that are commonly used throughout various sectors of the economy, disseminating the concept and fostering practices of corporate governance in companies, as well as strengthening the Brazilian capital market.

Ethics management

The BNDES System is aligned with Decree Nº. 6,029, of February 1, 2007, which established the Ethics Management System of the Federal Executive Branch, updated competencies and included the Executive Secretariat in the structure of the ethics committees, and with Resolution Nº. 10, of September 28, 2008, of the Public Ethics Committee, which establishes the operating rules and procedural rite for ethics committees.

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1 Since most Brazilian banks are part of this network of agents, they are therefore accredited to operate with the BNDES credit lines. In indirect operations, the Bank on-lends the financial resources to commercial, public or private banks, development agencies and cooperatives accredited by the BNDES, and these agents are responsible for examining and approving the credit and for defining the guarantees and collateral. Businesspeople usually go to institutions where they are already registered and/or have some kind of banking relationship. The risk of the operation is undertaken by the financial agents who analyze the project.
Ethics management within the BNDES is formalized in the BNDES System’s Code of Ethics approved by the Bank’s Board of Directors on April 28, 2009, substituting the document that had been in effect since 2002. Based on this standard, efforts of an educational nature are fostered, in addition to the updating and improvement of procedures coupled with the assessment and application of penalties in the event of any ethical breaches. It is worth noting that the presentation of this code, in the words of the BNDES president, begins with the words “development only exists with ethics.”

Under the terms of the BNDES System’s Code of Ethics, ethics management is conducted by the Ethics Committee, comprising three members and three deputies, in addition to the head of the Ethics Committee’s Executive Secretariat.

Assessing breaches of ethics respects the norms outlined in the Ethics Committee’s Internal Regulations, approved on September 23, 2008, by the BNDES’ Board of Directors. Such assessment takes into account the principles that protect the honor and the image of the person investigated, and that guarantee not only contestation and legal defense, but also the independence and impartiality of the members of the Ethics Committee.

A summary of the activities carried out by the ethics management in 2010 is presented below.

- Preliminary proceedings – some 60 preliminary proceedings were filed at ethics management, including clarification of consultations, counseling and the assessment of allegations of ethical breaches. As a consequence of the development of ethics management, five Personal and Professional Conduct Agreements (ACPP) were signed with the Ethics Committee, two of which arose from proceedings initiated in 2009, and one proceeding converted into an Ethics Assessment Proceeding (PAE), which will occur in 2011. The following tables show the nature and development of such proceedings.

### Preliminary proceedings in ethics management

<table>
<thead>
<tr>
<th>Preliminary proceedings in 2010</th>
<th>Occurrences</th>
<th>Concluded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultations</td>
<td>41</td>
<td>40 (1)</td>
</tr>
<tr>
<td>Investigations of possible breach of ethics</td>
<td>14</td>
<td>8 (2)</td>
</tr>
<tr>
<td>Counseling, guidance, reviews and suggestions</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>53</td>
</tr>
</tbody>
</table>

(1) One of the consultations resulted in a Personal and Professional Conduct Accord (ACPP) with the Ethics Committee.

(2) Two investigations resulted in a Personal and Professional Conduct Accord (ACPP) with the Ethics Committee, five were dismissed and one resulted in an Ethics Assessment Proceeding (PAE).
Regular Meetings – 34 regular meetings were held by the Ethics Committee, with records of a summary on the matters discussed in meeting minutes available on the ethics management page of the BNDES’ website.

Training of the Ethics Committee members – the four newest members took part in courses in Ethics Assessment 2010, on August 30 and 31, and November 29 and 30, held by the Public Ethics Committee in Brasilia (DF).

Lectures – 12 lectures were held in partnership with the Human Resources Division to disclose ethical management within the BNDES besides disseminating the code of ethics and its values, targeted primarily at new employees.

Contribution to the BNDES’ internal transversal activities, with representatives taking part in the BNDES’ Corporate Planning for 2009-2014; in the Values Project 2010, the year of Values at the BNDES, in which ethics is one of the four main principles; in the Strategic Governance and Environmental Responsibility Project; in the workgroups on gender equality and psychological harassment.

National Forum on Ethics Management in State-Owned Companies, with representatives taking part in the 12 monthly regular meetings, held at the headquarters of each company; in the Sixth Seminar on Ethics Management in State-Owned Companies, organized by the Banco do Nordeste, at its headquarters in Fortaleza (CE) on June 10 and 11; in the workshops on psychological harassment, institutional ethical risks and conflict of interests.

Federal Executive Branch’s Ethics Network: three members and the head of the Executive Secretariat took part in the XI Meeting of Network Members at the XI International Seminar on Ethics in Management – Ethics, Law and Democracy held by the Public Ethics Committee on September 27 and 28 in Brasilia (DF).

<table>
<thead>
<tr>
<th>Nature of matters</th>
<th>Occurrences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of securities</td>
<td>13</td>
</tr>
<tr>
<td>Interpersonal and professional conflicts</td>
<td>6</td>
</tr>
<tr>
<td>Distribution of gifts and giveaways</td>
<td>5</td>
</tr>
<tr>
<td>Public and private conflicts of interest</td>
<td>4</td>
</tr>
<tr>
<td>Stakes in businesses</td>
<td>4</td>
</tr>
<tr>
<td>Teaching at preparatory courses for admission to the BNDES</td>
<td>4</td>
</tr>
<tr>
<td>Exercise of parallel activities</td>
<td>2</td>
</tr>
<tr>
<td>Inappropriate use of material resources</td>
<td>2</td>
</tr>
<tr>
<td>Payment of travel expenses</td>
<td>2</td>
</tr>
<tr>
<td>Activities of the BNDES’ retirees</td>
<td>2</td>
</tr>
<tr>
<td>Other matters (each with one occurrence)</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
</tr>
</tbody>
</table>
The BNDES considers the principle of transparency a pillar in the relationship with those outside the Bank. This aspect is also seen as an opportunity to release the results of its efforts to Brazilian society. This commitment is formally expressed in the BNDES’ Code of Ethics:

Art. No 2. The participants of the BNDES System undertake to base their behavior and acts on: (...) XI. the principle of transparency and visibility, as a commitment to serving civil society, by providing information, being accountable, disclosing results, always respecting the confidentiality standards provided for in law.

On the BNDES Portal on the internet, the BNDES Transparent section is totally dedicated to disclosing information about the Bank, among which we highlight the following pages:

- consultation of the BNDES’ operations, where information is made available, provided it is not subject to banking secrecy, on the latest projects contracted with the BNDES, as well as information on ongoing projects with direct public administration entitie;
- operational statistics including files that summarize the BNDES System’s monthly and yearly operational performance at current values, without the inclusion of investments in the secondary market, as of 1997; and
- goods and services purchasing procedures, both performed and to be performed by the company, including information related to the purchases and agreements entered into by the BNDES, in chronological order.

New websites in English and Spanish

The new versions of the BNDES institutional sites in English and Spanish were launched in June. The aim of the reformulation, which includes content, information design and the overall layout, is to strengthen the Bank’s presence abroad, after the opening of the Montevideo office and the incorporation of the BNDES Limited subsidiary in London.

The new pages maintain a focus on the Bank’s audiences abroad, seeking to attend potential clients and partners as well as to disclose activities to stimulate exports and increase international fundraising.
With audiences quite different to those that access the Brazilian version, the new websites are not limited to translated content, and feature exclusive sections such as The BNDES Abroad/BNDES International, focused on the Bank’s activities abroad.

The information design focuses on matters of greater interest to foreign audiences.

Selected data on visits to the English and Spanish sites, from July to December 2010, can be seen below.

### Visits to the English and Spanish sites

<table>
<thead>
<tr>
<th></th>
<th>Single visitors</th>
<th>Total visits</th>
<th>Page views</th>
<th>Main countries of origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site in English</td>
<td>3,034</td>
<td>13,795</td>
<td>664,156</td>
<td>US (37%), UK (16%), Italy (14%) and France (11%)</td>
</tr>
<tr>
<td>Site in Spanish</td>
<td>842</td>
<td>3,122</td>
<td>544,495</td>
<td>Italy (68%), US (10%), Brazil (6%) and Argentina (4%)</td>
</tr>
</tbody>
</table>

*Single visitors: number of different individuals who accessed the site.
Total visits: sum of all hits from all site visitors during a given period.
Page views: number of page views (measured by the number of clicks made by the web user).*

### Communication channels

### Business assistance

The BNDES offers several service channels that allow direct contact by the Brazilian business community to receive information on the available financing programs.

- **BNDES Portal on the internet**

  Today, a company’s website is no longer limited to communication with its various audiences; it also works as a new business environment. Aware of the growing demand for financing by Brazilian businesses, the BNDES has structured its website according to the main visitor profiles: micro, small and medium-sized companies and individuals; large companies; public administration; and accredited financial institutions.

  The page designed for the micro, small and medium-sized companies and individuals warrants a special mention due to its strategic importance. This page is usually among the five most visited pages on the website, reflecting the search for credit information by these types of businesses or businesspeople.

  In 2010, the BNDES website reached a new level. Since July, the page has been host to more than 200,000 visitors per month. The increase in visits is attributed to the constant exposure of the BNDES in the media, by means of advertising campaigns throughout the year.
Also noteworthy was the peak in portal visits that occurred in May, with 1,625,000 page views. On the other hand, the month of December, with 897,000 page views, had the least traffic, confirming the seasonal trend recorded in previous years.

• Contact Us

With the growing reach of the internet, the Contact Us icon on the BNDES Portal is becoming one of the main channels for corporate assistance.

Most of the support provided through this channel involves answering questions and clarifying doubts related to the Bank’s financing methods. These contacts also serve as an indicator of the easy access to information for internet users and enables continuous improvement of the content available on the portal.

In 2010, the Contact Us icon received approximately 100,000 visits, considering all the departments and divisions that provide assistance at the BNDES (Communications Department, Indirect Operations Division and Financial Division).

• In-person assistance

The BNDES provides in-person assistance at its headquarters located in Rio de Janeiro and at its regional offices in Brasília, Recife and São Paulo.

During these contacts, it is possible to assist businesspeople in determining the most adequate and least expensive ways to provide funding in order to meet their investment needs, provided these alternatives are within the Bank’s scope of operations.

The business assistance technical team in Rio de Janeiro handled 656 requests in 2010, in areas ranging from access to microcredit to guidance on large infrastructure projects.

• BNDES Closer to You

With the aim of expanding knowledge and maintaining closer contact with the Brazilian business community, the BNDES annually promotes a series of lectures entitled the “BNDES Closer to You”, geared to the needs of micro, small and medium-sized companies.

Throughout 2010, the BNDES’ technical teams held 12 lectures for a total audience of 1,660 people in the following cities: Rio de Janeiro (RJ), São Paulo (SP), Fortaleza (CE), Sobral (CE), Cuiabá (MT), Natal (RN), Aracaju (SE), Maceió (AL), Porto Velho (RO), Teresina (PI), Campinas (SP) and Blumenau (SC).
Ombudsperson’s office

The Ombudsperson’s office receives and processes messages submitted by citizens, who may or may not be BNDES clients, addressing topics and duties that fall within the Bank’s mission, classified as requests, doubts, suggestions, acknowledgment/praise, complaints and reports of abuse not resolved by the other assistance channels.

In 2010, the Ombudsperson’s office received and handled, with the assistance of relevant divisions, 1,712 valid messages, that is, those related to the BNDES’ areas of operation. Once these demands were analyzed, they were classified as follows: 50.3% were complaints, 23.8% were motivated by doubts, 13.7% consisted of varied requests, 7.9% were reports of abuse, 2.9% as acknowledgment or praise related to aspects of the Institution’ performance and, finally, 1.4% included varied suggestions.

Of the messages received during the period, 64.2% addressed the lines and programs operated by the Bank, particularly those classified as complaints by individuals or micro and small businesses reporting difficulties in accessing the BNDES’ products operated by means of the accredited financial institutions.

Some 16.4% of the messages consisted of doubts related to the Bank’s performance in general, highlighting those related to the forms of support for micro and small companies, in particular support to open businesses and the availability of support for working capital.

A third set of demands (11.9% of the total) consisted of complaints related to the assistance provided to the public by means of the existing channels, or varied requests, mainly with respect to publications or studies, or varied statistical data. Another set of doubts or complaints (6.1% of the total) refers to questions on the public sector recruitment processes.

Per region, 57.2% of the messages came from the Southeast, 20.3% from the South, 10% from the Northeast, 7.1% from the Central-west and 3.1% from the North. The origin of the remaining 2.5% could not be determined. This distribution is in keeping with the percentages of participation of the various regions in disbursements made over the period, except for the Northern region, whose contact with the Ombudsperson’s Office was low, and the Southern region, where the percentage of assistance services required of the Ombudsperson’s Office is proportionally much higher than its relative share in disbursements.

As for the other activities developed by the Ombudsperson’s office, a special note should be made of its participation in corporate efforts related to the most common topics of assistance, as a way to disseminate information provided by the public and assessed as relevant to internal discussions. Accordingly, the following stand apart:

- The BNDES’ Corporate Planning for 2009-2014: in particular, the workgroups responsible for the areas of “Social and Environmental Responsibility” and “Support to Micro, Small and Medium-Sized Companies”.
- The BNDES’ Call Center Project.
- Joint assessment, with the Indirect Operations Division, for handling complaints related to difficulties in the relationship between registered suppliers and clients in BNDES Card operations.
• Handling of complaints, together with the Indirect Operations Division, related to delays in accreditation of machinery and equipment in the Computerized Manufacturers Accreditation (CFI) due to the increase in demand triggered by the BNDES' Investment Maintenance Program (BNDES PSI).

• Integration Project: for new employees, disclosure of the duties of the Ombudsperson’s Office as an instrument society to participate as well as mediation between citizens and the BNDES, seeking to foster reflection on and improvement of internal procedures.

• Organizational Climate Survey: participation in identifying the scope discussed in the survey and in preparing and validating the applied questionnaire.

• The BNDES’ Gender Pro-Equity Program: participation in the coordination workgroup and in activities conducted over the period, highlighting the celebration of International Women’s Day in the first semester, and the activities in the campaign “16 Days of Activism for the End of Violence Against Women”, from November 25, 2010, to December 16, 2010.

Public ombudsperson’s offices have much to gain from discussing common issues and exchanging work experiences between their teams. The BNDES’ Ombudsperson’s Office was part of the committee that organized the Public Ombudsperson and Participative Democracy seminar held by the General Ombudspersons Office of the Federal University of Rio de Janeiro (UFRJ) and Ombudsperson’s Offices of the Oswaldo Cruz Foundation (Fiocruz), of the National Institute of Industrial Property (INPI) and of the BNDES on August 10, 2010, at the Professor Manuel Maurício de Albuquerque Auditorium at the UFRJ Center for Philosophy and Human Sciences. The main audience at the event consisted of public ombudsperson teams in Rio de Janeiro, with the presence of representative from other states.

It is worth noting that that the BNDES, seeking continuous improvement of its mechanisms for rendering accounts to society and with a consolidated relationship with associations and agencies that regulate the Ombudsperson’s activities, provided its team with several training opportunities, as well as the chance to take part in events related to important aspects of the department’s work.
Public ombudsperson’s offices have much to gain from discussing common issues and exchanging work experiences between their teams.
Corporate planning

During 2010, the BNDES monitored the Strategy Management System (SGE), developed and implemented in 2009. To this end, spreadsheets were designed to monitor indicators for the Bank’s divisions which, according to the appropriate frequency, assessed the results of the planned strategy.

The indicators which were already being monitored since 2009 continued to be assessed on a quarterly basis by the Planning Committee. Made up of managing directors and deputy managing directors, this committee is responsible for monitoring and validating all the efforts related to the BNDES’ Corporate Planning process.

It is worth noting that all the indicators are linked to the BNDES’ strategic objectives and are distributed according to the perspectives of the Corporate Strategy Map:

- competitive and sustainable development;
- financial sustainability;
- internal processes; and
- learning and competencies.

Corporate strategic map
Throughout 2010, there were no changes to the BNDES’ strategy. Thus, the objectives set forth in the map remained the same.

In addition to indicators, the SGE includes a portfolio of 18 Corporate Strategic Projects that contribute to the execution of the BNDES strategy. This portfolio was also validated within the scope of the Planning Committee.

The first step in structuring the projects was to create a description, with the definition of the following aspects:

- project objectives;
- project guidelines;
- products (deliverables); and
- accountability.

The second step consisted of breaking down the project deliverables into activities, with start and end dates, as well as people in charge/ accountable. Thus, it was possible to monitor the evolution of each project throughout the year, enabling the correction of any eventual deviations and even minor restructuring without impairing the progress of the key activities.

Parallel to the development process of the strategy, the BNDES took advantage of the opportunity to clearly express and strengthen its organizational values, as the base references of this process. Thus, 2010 was established as the Year of Values, during which its four organizational values were widely discussed and internalized by the entire Bank staff.

Values are the inspirational roots that give meaning to what is done. They act as bonds between people, establishing a collective identity, generating a sense of unity and shared purpose, strengthening relationships and providing life and vigor to our practices.

Since its creation in 1952, the BNDES has been practicing, molding and consolidating a set of values that, to this day, sustains the essence of the Bank and leverages the accomplishment of its Mission. When looking back at the Bank’s efforts over the years, the crystallization of four core values is clear:

- ethics;
- commitment to development;
- public spirit; and
- excellence.

Throughout its history, the BNDES has undergone a series of changes and will certainly continue to do so in the future. These changes are needed to adapt the Bank to the new demands put forth by society and the market. However, the Bank has always known how to adapt and fulfill its mission within new contexts. On the other hand, it is the Bank’s commitment to its values that,
Regardless of the circumstances, will ensure the preservation of its essence.

It can be seen, therefore, that 2010 was not only the year of consolidation of the Organizational Values, but of all the work conducted in 2009 related to the monitoring of the Corporate Strategy and Divisional Strategies.

The dissemination of these values takes on even greater importance at a moment in which the Bank is undergoing heavy renewal of its staff. Thus, the BNDES’ Declaration of Values also represents a legacy for the new coming employees left by the generation of employees that is leaving besides reaffirming the conviction that the same values will continue to guide the efforts of the Bank and those of its employees in the future.

**AGIR Project**

The AGIR Project aims at defining and implementing an Integrated Funds Management Solution (AGIR Solution) for the BNDES, represented mainly by the documentation, standardization, control and optimization of its business processes and by aligning information technology (IT) to support them. Thus, the Bank seeks to improve its business model, looking for: a process-driven vision, an increase in administrative and operational efficiency, and the improvement of its managerial and internal control mechanisms.

The performance of the AGIR Project was divided into two stages. The first, concluded in July 2007, was devoted to defining the AGIR solution for the BNDES. The second, with completion scheduled for late 2013, represents the implementation of the solution.

In 2010, the project hastened the implementation of the AGIR solution, comprising ten programs, among which Market Applications, Developed Applications and IT Transformation deserve a special mention, as shown in the following table.
Market applications (ERP-SAP)

The Market Applications program is designed to implement a Corporate Management System (ERP), developed by the German Software Company SAP, which will basically handle the Bank’s business support processes. Implementation of the first lot which encompasses part of the Financial and Accounting macro processes is underway, with production scheduled to start in the last four months of 2011.

Developed applications

This program aims at implementing business processes supported by BNDES-tailored applications, while representing the modernization and transformation of the Bank’s business processes. The calls-to-bid for the technical services that make up the program is currently in the completion phase.

IT transformation

IT transformation involves structuring a new operational model for the BNDES’ IT Division, including processes, tools and organizational structure. For 2010, implementation of 11 processes, key to implementation of the first lot of SAP, was prioritized. Allied to the processes, implementation of the BMC Remedy Software, a reference in the IT market, is also being finalized.
Other programs

Also highlighted in 2010 are the acquisition and implementation of a high-availability technology infrastructure, the progress in defining the IT design needed to implement the AGIR Project, and fundamentally, the definition of several conceptual business models, such as the BNDES’ planning and management support models, integrated information model and HR.

Company Assessment Methodology (MAE)

Back in 2008, the BNDES established the strategic project to develop and implement an instrument to assess the intangible assets of companies included in its portfolio, based on a structured and internationally recognized methodology. The process of implementing this project and training staff to use the instrument, now called Company Assessment Methodology (MAE), was consolidated in 2010.

The MAE expands the analytical scope of the companies in the BNDES’ portfolio by including non-financial aspects, such as intangible assets, strategy and competitiveness, with emphasis on topics such as innovation, sustainability and corporate governance. Thus, the MAE satisfies the need for a structured report to assess these qualitative aspects and becomes an important tool for knowledge management, constituting an updated base of information on the supported companies, which helps monitor their evolution over time.

Within this context, the MAE corresponds to the growing importance attributed to non-quantitative aspects in the BNDES’ credit analyses, since its result supports the operational flow in the stages of eligibility, credit risk and operations analysis.

Up to December 2010, this methodology was applied to 58 companies within the BNDES portfolio, involving more than 150 of the Institution’s technicians. In order to provide support for initial application, company technicians were allocated in pilot tests, in designing the implementation strategy, and in methodology application processes. The result was the participatory constitution of a comprehensive methodology, associated to a collegiate application process, in which different divisions of the Bank jointly assess the same company.

The objective for 2011 is to formalize and further disseminate the use of the MAE methodology. To this end, software to support the MAE applications is in the final stage of development (release is planned for the first half of 2011). This is the first delivery of an
application under the new BNDES IT design, within the scope of the AGIR Project. To benefit even more from the gains obtained in the use of this methodology, training of the Bank’s technicians to consolidate industrial organization and business strategy concepts, essential to the optimum use of the MAE methodology, is also in progress. The aim is to train 150 technicians next year.

Transversal policies

Regional decentralization

Northeast Region

In relation to the Northeast Region, the BNDES disbursed R$ 17.2 billion in 2010, corresponding to approximately 10.2% of the Bank’s total disbursements in the country. The amount was approximately 22% lower when compared to disbursements for the region over the previous year. However, this decline is largely due to the operation of the Abreu e Lima Refinery, which is being built in the state of Pernambuco and which received financing from the BNDES totaling R$ 9.9 billion in 2009, or, in other words, approximately 45% of the total volume of resources released by the Bank in the region throughout that year.

With this, the 2010 performance should be considered quite significant in view of the regional decentralization of the BNDES’ financing in recent years, as outlined in the chart below. A change in the total amount of funds allocated by the Bank to the region between 2006 and 2010 can be seen. Of the northeastern states, only three received disbursements smaller than in 2009. Among them are the states of Pernambuco and Maranhão, whose negative index is due to the injection of funds in large projects throughout that year.

It is important to highlight the expansion in the number of operations, which grew more than the total country when compared to the number recorded in 2009. The increase, which resulted in more than 74,000 contracts in the Northeast, was equal to 93%, while the rate for Brazil totaled 56%. Of these operations, approximately 94% was conducted with micro, small and medium-sized companies (MSMEs), corresponding to R$ 5.2 billion, which is 111% greater than the previous year’s amount. It should also be pointed out that the substantial increase in the BNDES’ support provided to smaller Northeastern companies is related to the region’s economic structure, made up, in most part, of micro and small companies. The expansion is also related to the
linked services generated by the large projects currently being implemented as well as to the creation of a network of suppliers of goods and services based on the anchor companies located in the area.

Northeast Region: disbursements and number of operations (2006-2010)

North Region

In 2010, the North Region recorded disbursements of R$ 11.7 billion. This amount corresponds to 6.8% of the total disbursed by the BNDES over the year and represents a 4.8% increase when compared to 2009. However, it should be noted that although the increase in relation to the previous year was lower than the growth of the total number of the BNDES’ disbursements (23.5%), 2009 had already seen a significant increase for the North Region. Between 2008 and 2009, while total disbursements by the BNDES grew 50%, disbursements in the North Region grew 126.4%.

North Region: disbursements and number of operations (2006-2010)
The increase in disbursements in 2009 was due to large projects in the region, in particular the hydroelectric power plants in San Antonio and Jirau, in the state of Rondônia, and Estreito, in the state of Tocantins, as well as investments in mining in the state of Pará. In 2010, the level of releases for large projects was maintained, and two states in the North Region registered an increase in the amount of disbursements they received when compared to the previous year: Amazonas and Rondônia.

Also worthy of note is the fact that the increase in disbursements has been accompanied by a significant expansion in the number of operations conducted in the region. In 2010, some 24,322 operations were recorded, that is, more than double compared to the previous year. The growth rates in the number of operations reflect the process of diversifying the Bank’s credit operations, certainly driven by the presence of the large projects in the region.

According to the charts below, of the total operations conducted in 2010, some 94% was conducted by individuals, micro, small and medium-sized companies, while 69% were conducted by large companies.

North Region: number of operations per size (2010)
North Region: disbursement per size (2010)

Secretariat for Production and Innovative Clusters and Local Development

The main aims of the committee for Production Systems, Regional Development, Innovation and the Environment (CAR-IMA), coordinated by the Secretariat for Production and Innovative Systems and Local Development (SAR), both created in 2007, are to disseminate the trans-sectorial, systemic and integrated foresight, as well as to incorporate the transversal topics into the BNDES operational structure, besides discussing and formulating new Bank policies.

The search for this systemic and integrated effort is also embodied in the priority given to the quality of relations with partners. In this sense, SAR’s contribution has been guided by the intensification of interactions and the strengthening of partnerships. Moreover, it was also driven by the need to design and improve instruments to be operated by the federal, state and municipal governments, by public banks, by regional development banks and by development agencies. The efforts to identify and improve reimbursable and non-reimbursable instruments to support production activities by entrepreneurs and local production systems (LPSs) were also included in initiatives that marked the period.

In 2010, the CAR-IMA held 10 meetings with the participation of the BNDES president and other members, dealing with the topics of LPSs, regional and socio-environmental development, as well as innovation.

The research entitled Mapping and Analysis of Policies for Local Production Systems was completed under the technical coordination of the SAR. The project involved research teams from 22 state universities, totaling approximately 200 researchers specialized in the area, working under the supervision of RedeSist professors with Ph.Ds. The results of this analysis were disclosed in seminars...
and published in books and articles, while also available on the BNDES’ website as an inspiration to improving policies implemented by the BNDES and its partners.

Of the Bank’s partnerships with federal ministries, solid integration with the Ministry of Development, Industry and Foreign Trade (MDIC) stood out. Charged with articulating efforts related to support for LPSs in the various ministries and other organs, MDIC coordinates the Permanent Work Group for Local Production Systems (GTP-LPSs). Results of the research aforementioned were used extensively by MDIC’s GTP/LPC. In the second half of 2010, the GTP, in conjunction with the BNDES and with the state LPS hubs, held LPS policy workshops in 13 states: AL, AM, CE, ES, GO, MG, MS, PA, PI, PR, RJ, RS and SE. These workshops focused on discussing in detail the information and the results produced by the state research teams, who conducted the study, with the different actors that make up the state LPS hubs. At the same time, in association with the policy workshops, the GTP held other workshops, also with the state LPS hubs, on access to credit in the states. This was done via concentrated articulation with the Brazilian Association of Development Financing Institutions (ABDE), aiming to promote the debate on entrepreneurs’ difficulties in gaining access to credit.

To increase the BNDES’ presence in areas traditionally less supported, and to reach relatively less favored actors, the intensification of partnerships with state banks and state development agencies stands apart. In 2010, there was progress in the search for joint efforts, with, among others, the ABDE, the Bank of Brazil, and the Regional Bank for the Development of the Extreme South (BRDE), to channel credit to entrepreneurs and LPSs in a systemic fashion.

With the aim of identifying ways to improve and broaden the Bank’s operations, several workshops were held on the experiences with public policies for innovative, social and sustainable development, in order to raise awareness and discuss the experiences of policies implemented by the country’s governmental and non-governmental institutions. In 2010, the agenda of workshops focused on technological innovation, with 19 meetings being held. Likewise, national and international seminars were organized, also seeking to discuss these areas in depth with the contribution of specialists. A selection of seminars was held in partnership with federal organizations, ministries and their international agencies, as well with business representatives. The following seminars were held: “The Evolution and Dynamics of Local Productive and Innovative Clusters and Systems – ASPILs of MPEs in Brazil”, “Analysis of LPS Policies in Brazil”, “The New Generation of Policies for Production Development: Socio-Environmental Sustainability” as well as work meetings such as “Ongoing Changes in the Northeast” and “Amazon: Transformations, Dilemmas and New Development Policies”.

In 2010, the SAR, within the scope of the 2010 Corporate Planning, also participated in the “Support for LPSs with Credit” workgroup. The objective of this workgroup was to design credit instruments for the LPSs for investments and working capital, aiming to benefit actors in regions less favored by these types of products. The workgroup brought about joint efforts with banks and partner development agencies, in addition to becoming the driving force behind not only the initiatives to expand the beneficiaries of the Support Program for Strengthening Employment and Income Generation (Progeren) for the MPEs in the Northeast and North regions, but also behind the proposal to create a program to stimulate local purchases.

The BNDES operational policy for surroundings areas of projects

The strategy behind the BNDES Operational Policy for Surroundings Areas of Projects consists of integrating the duty to finance economic activities and the approach to sustainable territorial development, seeking to foster economic and social development in the areas affected by supported projects.

This policy, formally approved in December 2009, underwent its first experimental implementation phase in 2010. Among the cases being worked on, some important results can be highlighted, such as earmarking the companies’ social investments for the areas surrounding Suape, in the state of Pernambuco, and of the Hydroelectric Plants in Santo Antônio, in the state of Rondônia, and Estreito, in the states of Maranhão and Tocantins (see table below). New challenges were added in 2010, such as the surrounding area of the Belo Monte Hydroelectric Plant.

The BNDES has also advanced in the design of its internal work processes and in the development of new instruments, such as the possibility of using the Project Structuring Fund (FEP), to support the preparation of development agendas for the territory, through the mobilization and participation of the different agents operating in the area – entrepreneurs, public authorities and civil society. The preparation of the agenda should include streamlining strategic issues, priorities, respective instruments and efforts, giving rise to an agreed set of coordinated projects and initiatives to be implemented.

An internal work plan to validate methodologies and implementation procedures of the policy and develop new cases was structured for 2011, aiming to improve and expand this type of effort.
Estreito Hydroelectric Plant

For entrepreneurs to operate in the area affected by the hydroelectric development, the Estreito Social Investment Plan (ISE) was developed in partnership with companies, and expectations of the agents in the area were aligned, based on prior diagnosis. The general objective of the ISE is to contribute to sustainable regional development of the 12 municipalities surrounding the Estreito reservoir by implementing projects that are:

- sustainable and appropriate to the short and medium-term needs of the region;
- in favor of economic and social development;
- in favor of strengthening public administration and civil society organizations;
- in favor of accessing and improving the quality of basic education;
- in favor of the expansion or improvement of access to public health services;
- in favor of the expansion or improvement of basic sanitation services;
- catalysts for new projects and investments in the region; and
- facilitators when interfacing with financing and development programs that already exist within the scope of state and federal governments.

With this, investments that are already underway include education, sanitation, economic development, health and social development. It should be noted that most projects do not result in benefits restricted to their respective area. Since they have a complementary character, results benefit the region’s population and development.

Investments and efforts are structured in two phases. The first phase includes projects aimed at meeting the short-term and specific business demands, and opportunities. This develops partnerships and improves management and participation mechanisms, enabling better approximation to the territory – other agents and initiatives – and the definition of investments for the next phase. Ensuing investment will have more and better qualified local and regional participation, combined with the possibility to leverage new sources of funding, including other lines and financing programs of the BNDES for other actors (beneficiaries) in the territory.
Social and environmental responsibility

The construction and approval of the BNDES Social and Environmental Responsibility Policy (RSA) was an important achievement in 2010.

The RSA Policy was prepared as a result of Corporate Planning and seeks to ensure that the BNDES can improve the implementation of its mission and meet the Strategic Guidelines, with emphasis on a specific guideline for socio-environmental development: “to establish and implement a policy of corporate social responsibility for the BNDES, disseminating a culture of sustainability throughout all workers in the Institution and intensifying its efforts for continuous professional improvement”.

Based on the references in ISO 26000 and in the Protocol of Intentions for Socio-environmental Responsibility – “New Green Product”, signed by the BNDES in 2008, the BNDES RSA Policy includes two scopes:

- Strategic Scope – this refers to the BNDES System as a public development financing organization, as well as its efforts and relationships to accomplish the mission of fostering sustainable and competitive development of the Brazilian economy; and
- Administrative-Organizational Scope – this refers to the BNDES System as an institution made up of companies and their respective administrative activities, as well as the relationship with employees and suppliers.

The RSA Policy – transcribed in the chart below – bestows greater developmental aspects on instruments related to the area of socio-environmental and corporate social responsibility that already exist within the Bank, aligning them with a comprehensive statement, with a defined and formally institutionalized concept. The policy guides the revision and the development of practices as well as other corporate instruments and policies, aimed at fully exercising social and environmental responsibility by the BNDES System.

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2 Within the scope of one of the Corporate Strategic Projects included in the portfolio of 18 (eighteen).
The BNDES System’s Social and Environmental Responsibility Policy

For the BNDES, social and environmental responsibility means to set great store by and to ensure the integration of the social and environmental scopes within its strategy, policies, practices and procedures, as well as in all its activities and in its relationship with its numerous audiences.

Principles

The BNDES Social and Environmental Responsibility Policy (RSA), aligned with the corporate statements – Mission, Vision, Statement of Values and Code of Ethics – confirms the Bank’s historic commitment to sustainable development of the country. The following principles guide the efforts of the BNDES:

- to foster development in an integrated manner, including the economic, social and environmental aspects;
- to respect human rights and combat and renounce all acts that result in any kind of discrimination or violation of rights;
- to hold ethics and transparency as the pillars of the relationship with all stakeholders, ensuring dialogue and accountability for its decisions and activities;
- to take a proactive role that is aligned with Brazilian public standards and policies, and to respect international norms of behavior.

Guidelines

The guidelines for social and environmental responsibility listed below, together with other instruments, guide the efforts of the BNDES in fostering sustainability. The guidelines focus on the strategic and operational performance of the BNDES, its stakeholders and its impacts on society and the environment.

- to strengthen public policies related to sustainability as well as social and environmental responsibility;
- to continuously develop and improve financial products, methodologies and other tools that incorporate social and environmental criteria while contributing, in particular, to sustainable local and regional development;
- to strengthen the treatment of social and environmental responsibility in all operational, planning and management processes;
- to induce and recognize best practices in social and environmental responsibility in its suppliers, clients, accredited financial institutions and other partners, contributing to the advancement of sustainability in Brazilian society;
- to continuously develop and fine-tune methodologies and other tools to monitor and assess the social and environmental impacts and results generated by the Bank and its financially supported activities;
• to reflect, in its corporate communication, the importance that social and environmental practices take on, as well as the BNDES’ willingness to share responsibilities with transparency and dialogue;
• to continuously enhance knowledge and disseminate the culture of sustainability as well as social and environmental responsibility;
• to develop partnerships and share experiences with other organizations to foster social and environmental responsibility, while strengthening not only transparency and dialogue among stakeholders, but also citizen participation in public governance;
• to adopt policies that value employees and foster their personal and professional development, with emphasis on social and environmental commitment, and on respecting human rights; and
• to consider the most modern requirements for sustainability in its facilities and administrative activities, contributing to the preservation of the environment.

Strategy and governance

To ensure effective application of the principles and guidelines in the RSA Policy, the BNDES establishes plans with routines for revisions of and adjustments to its corporate policies and practices, besides awareness programs for its employees and stakeholders.

Governance is critical to ensure sustainability in the BNDES work processes and its decision-making processes, which must be continuously improved. The BNDES has teams dedicated to social and environmental issues and corporate committees to discuss, deliberate and monitor the integration of social and environmental aspects in its strategy, policies, practices and procedures.

The RSA Policy generated a work agenda, with details for the 2011-2012 period, which seeks to maintain the continuity of the initiatives underway at the BNDES. It establishes the challenges to be faced, including the definition of indicators that more clearly express the results of the BNDES socio-environmental practices and investments to stakeholders.
Strategic scope

Also in 2010, within the context of approving the RSA Policy, a review of the structure and an update of the guidelines and instruments of the then prevailing BNDES Environmental Policy was undertaken, thereby consolidating the Socio-Environmental Policy within the operational scope. This policy reinforces not only the application of the socio-environmental guidelines for preparing the BNDES’ products, lines, programs and funds, but also the practices that are more aligned with incorporating social and environmental issues in the BNDES’ main activity – to grant financial support.

This first revision of the Social-Environmental Policy included the consolidation of the applicable social and environmental criteria that already exist at the BNDES, while organizing initiatives to advance the practice of commitments proposed in its Social and Environmental Guidelines, and to develop and improve it Instruments.

Among these initiatives, special note should be given to the development of new products that incorporate financial conditions geared towards sustainability, such as the Procopa Stadium and Tourism programs and the Program for the Reduction of Greenhouse Gas Emissions in Agriculture (the ABC program), in addition to specific lines and funds, such as the Fund for Sustainable Companies in the Amazon Region and the enhancement of the Renewable Energies Line of Credit.

In terms of sector-specific social and environmental guidelines and criteria, as an example of increasing requirements for sustainability established by the BNDES, those approved for support in the sugar and ethanol sector should be mentioned. These guidelines link the BNDES financing to the sector, including compliance with the provisions in Resolutions Nº. 3,813 and Nº. 3,814, both from the National Monetary Council, which condition the support for expanding the cultivation, production and industrialization of sugarcane to agro-ecological zoning and forbid financing to expand plantations in the Amazon, the Pantanal and Upper Paraguay River Basin biomes, among other areas.

Regarding the development and improvement of support methodologies for the treatment of the social and environmental scopes in the process to grant financial support, the incorporation of such aspects in two methodologies stands out. The Company Assessment Methodology (MAE), first implemented in 2010, considers the company’s intangible assets – including positioning, strategy and management of social and environmental responsibility – and the company’s relative positioning in its sector of operation, for which the degree of relevance of social and environmental scopes is also defined.

3 With regard to social criteria, the BNDES observes and details in its policy those that refer to employment, worker health and safety conditions (legal obligations) and human rights, especially the protection of people with disabilities and the legal lack of actions that result in: discrimination based on race or gender, child labor or slave labor and actions that characterize psychological or sexual harassment.
Another approach under discussion, which incorporates social environmental aspects, is that of monitoring and assessment.

In 2010, the Sectorial Social-Environmental Guides were approved as a tool to support the process to grant financial support, stipulating the scope, structure and procedures related to the preparation, approval, updating and disclosure of its content.

**Administrative-organizational scope**

For 2010, also within the context of approving the RSA Policy, certain initiatives geared to the administrative facilities and activities are worthy of note. The BNDES conducted a preliminary survey of its greenhouse gas emissions (GGE), which has already generated discussions on possible mitigation and compensation measures. Debate on a sustainable purchasing policy has also been initiated.

Regarding the occupied buildings in Rio de Janeiro, progress continues to be made in the initiatives and joint efforts implemented by Rio de Janeiro Building Services (EDSERJ) and the Ventura Building – where, in 2010, the BNDES began to occupy a significant number of floors – to improve energy efficiency, consumption of natural resources and the destination of solid residues.

Recently inaugurated, the Ventura Building, even since its original design, has taken into consideration the standards of environmental sustainability. Currently, the BNDES Administration division is working towards implementing a selective collection system at the Ventura Building complex similar to that in the EDSERJ building.

Projects are still underway to co-generate electric energy, replace elevators and modernize the power substation at the EDSERJ building.

The EDSERJ building is leaving the captive electric energy market and migrating to the free market, in which, among other advantages, it will be able to use a cleaner energy grid by buying energy directly from small hydroelectric power plants (PCHs) or other sources with incentives, such as wind, biomass or solar.

In the restrooms, the old manually operated faucets are being replaced with faucets that respond to electronic sensors, a change that represents a 25% saving in consumption.

Two additional floors were adapted and renovated, replacing the traditional layout for a panoramic design.

The selective waste collection program at the EDSERJ Building has improved the management of solid residues, adhering to the policy, in order of priority, for non-generation, reduction, reuse, recycling, solid residue treatment and the environmentally friendly disposal of waste, established by Law N°. 12,305, of August 2, 2010, which instituted the National Policy for Solid Residues.
The BNDES and public policies

Growth Acceleration Program

The BNDES consolidated its position as an important financial agent for investment projects within the scope of the Growth Acceleration Program (PAC) launched in January 2007. The program’s objective is to create conditions to ensure the sustained growth of the country in the medium and long-term, complementing efforts deriving from economic and social policies.

In 2010, the BNDES’ portfolio under the PAC consisted of 362 projects totaling R$ 157.3 billion (75% already contracted or approved), which represents a leveraged investment of R$ 268 billion (an amount that includes other sources of funding). The values are subdivided as follows: R$ 212 billion in energy infrastructure (186 projects), with emphasis on generation, transmission as well as oil and gas projects; R$ 40 billion in logistics (89 projects), mainly in roads, railways and the merchant navy; R$ 15.7 billion in social and urban infrastructure (71 projects), highlighting funding for sanitation, urban and subway programs; and finally, R$ 217 million focused on public administration (16 projects) for the implementation of the public digital bookkeeping system (SPED).

The table below summarizes the project portfolio on December 31, 2010.

### PAC project portfolio

<table>
<thead>
<tr>
<th>Sector</th>
<th>Effective</th>
<th>Fomented</th>
<th>BNDES portfolio</th>
<th>Total investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R$ million</td>
<td>Nº. of projects</td>
<td>R$ million</td>
<td>Nº. of projects</td>
</tr>
<tr>
<td>Energy</td>
<td>116,890</td>
<td>184</td>
<td>3,592</td>
<td>2</td>
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<tr>
<td>Logistics</td>
<td>26,288</td>
<td>86</td>
<td>1,571</td>
<td>3</td>
</tr>
<tr>
<td>Social and urban</td>
<td>8,827</td>
<td>71</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Public administration</td>
<td>185</td>
<td>16</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>152,190</strong></td>
<td><strong>357</strong></td>
<td><strong>5,163</strong></td>
<td><strong>5</strong></td>
</tr>
</tbody>
</table>

The BNDES operations within the scope of the PAC also stand out due to the size of the disbursements, which, up until 2010, totaled R$ 83.9 billion (R$ 16.7 billion in 2010), of which R$ 69.2 billion was in energy projects, R$ 9.2 billion in logistics and R$ 5.5 billion in the social and urban and public administration areas. The regional distribution of disbursements is presented in the following table.
Regional distribution of PAC disbursements (in R$ million)

<table>
<thead>
<tr>
<th>Region</th>
<th>Energy</th>
<th>Logistics</th>
<th>Social and urban</th>
<th>Public admin.</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>15,278</td>
<td>54</td>
<td>194</td>
<td>13</td>
<td>15,539</td>
<td>19</td>
</tr>
<tr>
<td>Northeast</td>
<td>17,889</td>
<td>1,743</td>
<td>286</td>
<td>15</td>
<td>19,933</td>
<td>24</td>
</tr>
<tr>
<td>Southeast</td>
<td>7,793</td>
<td>5,211</td>
<td>4,521</td>
<td>21</td>
<td>17,546</td>
<td>21</td>
</tr>
<tr>
<td>South</td>
<td>5,756</td>
<td>454</td>
<td>417</td>
<td>11</td>
<td>6,638</td>
<td>8</td>
</tr>
<tr>
<td>Central-west</td>
<td>3,541</td>
<td>162</td>
<td>65</td>
<td>15</td>
<td>3,783</td>
<td>5</td>
</tr>
<tr>
<td>Inter-regional</td>
<td>18,301</td>
<td>1,600</td>
<td>-</td>
<td>-</td>
<td>20,501</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>69,158</td>
<td>9,224</td>
<td>5,483</td>
<td>75</td>
<td>83,940</td>
<td>100</td>
</tr>
<tr>
<td>%</td>
<td>82</td>
<td>11</td>
<td>7</td>
<td>0</td>
<td>100</td>
<td>-</td>
</tr>
</tbody>
</table>

Projects in evidence in 2010

Energy infrastructure

Pecem II Thermoelectric Power Plant – implementation of the Pecem II Thermoelectric Power Plant, with installed capacity of 360 MW, located in the port industrial complex in Pecém, in the city of São Gonçalo do Amarante (CE). The project was contracted in September, in the amount R$ 737 million, with a total investment of R$ 1.4 billion.

Urucu-Manaus Gas Pipeline – construction of the Urucu-Coari GLPduto, of the Coari-Manaus Gas Pipeline, with sections stretching across seven municipalities and two compression stations. The project was contracted in February, in the amount of R$ 692 million, with a total investment of R$ 989 million.

Abengoa Agro – increase in the cogeneration capacity of electric energy to 70 MW for the São João and São Luiz units, located in the municipalities of São João da Boa Vista (SP) and Pirassununga (SP), in addition to the expansion of the milling capacity of the São João unit to 3.5 million tons of sugarcane/crop. The project was contracted in June, in the amount of R$ 440 million and a total investment of R$ 799 million.

Barra/Cosan Thermoelectric Power Plant – expansion of three electric energy cogeneration units, with installed capacities of 136 MW, 38 MW and 63.5 MW, attached to the Barra, Univalem and Ipauçu power plants. Supplementation for completion not only of the Bonfim unit, with 111 MW in installed capacity, but also of the transmission line associated to the Barra thermoelectric power plant and support for social projects. The project was contracted in June, in the amount of R$ 307 million, with a total investment of R$ 384 million.

Logistics infrastructure

Transpetro/EAS – South Atlantic – acquisition of seven vessels, of which four are Suezmax and three Aframax, to be built by the Atlântico Sul S.A. shipyard. The project was contracted in July, in the amount of R$ 2.6 billion, with a total investment of R$ 2.9 billion.
CBO/20 PSV/Aliança – Construction of twenty PSV 3000 type (platform supply vessel) vessels to be built by the Aliança S.A shipyard. The project was contracted in June, in the amount of R$ 1.3 billion, with a total investment of R$ 1.4 billion.

Regis Bittencourt – OHL – investments in the second stage of the federal highway concession program, consisting of recovery and adaptation of lot Nº. 6 of the BR-116 highway, between São Paulo (SP) and Curitiba (PR), covering 401.6 km. The project was contracted in December, in the amount of R$ 1.1 billion, with a total investment of R$ 1.8 billion.

Wilson, Sons Offshore S.A. – construction of 13 vessels, of which eight are supply vessels and five are tugs/anchor handling vessels intended for the maritime support segment. The project was contracted in September, in the amount of R$ 1.1 billion, with a total investment of R$ 1.2 billion.

Social and urban infrastructure

Sabesp – Santos Lowlands Complex – support to implement, expand and optimize the Bertioga, Cubatão, Guarujá, Itanhaém, Mongaguá and Praia Grande municipality sewage systems. These works are part of the ‘Onda Limpa’ Program aimed at environmental recovery of the Santos Lowlands region. The project was contracted in March, in the amount of R$ 294 million, with a total investment of R$ 1.3 billion.

Copasa Saneamento – expansion of the water supply and sewage services in the Belo Horizonte metropolitan region. The project was contracted in April, in the amount of R$ 181 million, with a total investment of R$ 193 million.

Municipality of Belém – construction of sanitation infrastructure and complementary urbanization of sub-basins three and four of the Estrada Nova hydrographic basin, in the Municipality of Belém (PA). The project was contracted in December, in the amount of R$ 118 million, with a total investment of R$ 129 million.

Municipality of Fortaleza – construction of storm water drainage networks, for protection and flood control, in addition to complementary works linked to road paving. The project was contracted in December, in the amount of R$ 88 million, with a total investment of R$ 93 million.

Project Structuring Division and the PAC

PAC was created with the aim of accelerating the country’s economic growth by encouraging public and private investments in infrastructure. PAC 2 was launched in 2010 as a measure to maintain the pace of investments initiated during the program’s first phase. Part of these structuring public investments was planned to be made viable via public concessions or public-private partnerships (PPPs). The Project Structuring Division (AEP) has been developing efforts to foster and structure these projects. Aimed at
implementing the PAC projects, the AEP conducted the following activities throughout 2010:

- **High-speed train.** Presidential Decree N°. 6,256, of November 13, 2007, amended by Decree N°. 6,816, of April 7, 2009, charged the BNDES with the task of contracting and coordinating the technical studies related to the high-speed train project (TAV) between the cities of Campinas, Sao Paulo and Rio de Janeiro. Thus, the BNDES has been working in partnership with the Inter-American Development Bank (IDB) under the coordination of the Ministry of Transport and the National Agency for Land Transport (ANTT), to prepare technical studies and structure the project. This work resulted in the Call-to-Bid and the Concession Contract, and its Attachments, made available to the public in July of 2010 at http://www.antt.gov.br and http://www.tavbrasil.gov.br. Throughout 2010, the BNDES advised the federal government on the necessary procedures for the implementation of the project. The TAV is within the scope of the PAC, with the bidding process scheduled for the first semester of 2011.

- **Highway concessions.** The Project Structuring Division (AEP) completed the studies to structure the third stage of phase 1 of the Federal Highway Concession Program (BR-040, BR-116 and BR-381 highways located in the state of Minas Gerais). The studies are under analysis at the Federal Court of Accounts (TCU) and the auction is scheduled for 2011. The Division is also providing support, in conjunction with the Brazilian Project Structuring Company (EBP), the ANTT and the Ministry of Transport, for studies on the concession of stretches along the BR-101 highway in the states of Espírito Santo and Bahia. The stretches are part of the third stage of phase 2 of the Federal Highway Concession Program.

- **Irrigation project.** The Division also supported studies conducted by the International Finance Corporation (IFC) of the Pontal Project PPP, an irrigation perimeter for the cultivation of fruit trees located in Petrolina (PE). The PPP auction was completed on September 23, 2010.

- **Airport concessions.** In compliance with the powers conferred upon it by Decree N°. 6,373, of February 14, 2008, the BNDES coordinated the preparation of the technical, economic-financial, environmental and legal feasibility studies to structure the São Gonçalo do Amarante international airport. On August 6, 2010, the BNDES formally submitted the technical studies to the National Agency of Civil Aviation (ANAC), which is responsible for the airport privatization process. The ANAC submitted the project to the TCU for appraisal on December 12, 2010. After examination by the court, the project will be ready for bidding, which should happen in the first half of 2011.
Production Development Policy

Established in May 2008, the Production Development Policy (PDP) aims mainly at strengthening the competitiveness of the Brazilian economy and increasing investments to foster sustainable growth.

The policy has 34 sectorial programs, divided into five subgroups: programs designed to mobilize strategic areas, programs to strengthen competitiveness, programs to consolidate and expand leadership, strategic highlights and systemic efforts.

The execution of the programs, which presupposes permanent and systematic dialogue with the private sector, was entrusted to executive committees formed by representatives from various government agencies, with the objective of converging and integrating the program’s efforts with current policies already underway.

The BNDES plays an active role in formulating and managing the Policy. The Bank is not only part of the PDP’s Executive Secretariat, but also coordinates the Programs to Consolidate and Expand Leadership. Besides this, the BNDES manages the oil, gas and petrochemical, and aerospace industry programs, as well as participating as a member of the executive committees of the other programs.

The Bank also plays an important role in financing investments for production system programs. In 2010, the BNDES consolidated a payable PDP portfolio balance of R$ 180 billion, representing 79% of the total portfolio. Highlights are specified in the table below.

### Main sectors in the PDP portfolio – balance payable (in R$ million)

<table>
<thead>
<tr>
<th>Operating area</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobilizing projects in strategic areas</td>
<td></td>
</tr>
<tr>
<td>Information technology and communication</td>
<td>4,721</td>
</tr>
<tr>
<td>Programs to strengthen competitiveness</td>
<td></td>
</tr>
<tr>
<td>Automotive complex</td>
<td>3,759</td>
</tr>
<tr>
<td>Capital goods</td>
<td>27,147</td>
</tr>
<tr>
<td>Civil construction</td>
<td>30,049</td>
</tr>
<tr>
<td>Service complex</td>
<td>52,938</td>
</tr>
<tr>
<td>Naval industry and coastal navigation</td>
<td>19,779</td>
</tr>
<tr>
<td>Agro-industries</td>
<td>12,464</td>
</tr>
<tr>
<td>Programs to consolidate and expand leadership</td>
<td></td>
</tr>
<tr>
<td>Aeronautical complex</td>
<td>7,397</td>
</tr>
<tr>
<td>Oil, natural gas and petrochemicals</td>
<td>8,847</td>
</tr>
<tr>
<td>Bioethanol</td>
<td>5,312</td>
</tr>
<tr>
<td>Mining</td>
<td>4,453</td>
</tr>
<tr>
<td>Metallurgy</td>
<td>6,045</td>
</tr>
<tr>
<td>Strategic highlights</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>30,681</td>
</tr>
<tr>
<td>Regionalization</td>
<td>54,677</td>
</tr>
</tbody>
</table>

Source: BNDES.

* Data until December 2010.
Disbursements totaled R$ 152.6 billion in 2010, accounting for 91% of the Bank’s total disbursements, with emphasis on the following sectors: information technology and communication (R$ 2.7 billion), capital goods (R$ 60.2 billion), services (R$ 16.5 billion), agribusiness (R$ 26.8 billion), oil, natural gas and petrochemicals (R$ 31.2 billion), bioethanol (R$ 5.8 billion). Moreover, the strategic sectors related to exports (R$ 19.6 billion) and MSEs – micro and small-sized companies – (R$ 23.7 billion) presented an excellent performance. The table below shows the targets set and disbursements effectively made within the scope of the PDP.

### Targets and disbursements – 2008-2010 (in R$ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Target</th>
<th>Var %</th>
<th>Actual</th>
<th>Var %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>62.5</td>
<td>-</td>
<td>80.4</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>70.2</td>
<td>12.3</td>
<td>121.4</td>
<td>51.0</td>
</tr>
<tr>
<td>2010</td>
<td>77.7</td>
<td>10.7</td>
<td>152.6</td>
<td>25.7</td>
</tr>
<tr>
<td>Total</td>
<td>210.4</td>
<td></td>
<td>354.4</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: BNDES.

The PDP will be continued during the 2011-2014 period because an industrial policy needs to be a permanent instrument, aimed at long-term results. Its new cycle will provide additional emphasis on sectorial agendas and innovation, seeking to make the search for high productivity a practice incorporated in the routine of Brazilian companies.

## Innovation

The importance of innovation has gained increasing prominence in the current Brazilian socio-economic scenario because of its impact on the country’s economic growth and on the formation of more competitive economies.

Recognizing the great importance of this instrument in stimulating the economy, the BNDES plays a key role in developing the National Policy for the Support of Innovation, having, over recent years, sought to intensify and improve the instruments used to support innovative initiatives.

Disbursements earmarked for the innovation support lines and programs in 2010 surpassed the established goals, totaling R$ 1.4 billion, much higher than in 2009, when they reached approximately R$ 563 million. In 2010, the amount earmarked for the purchase of industrial machinery and equipment for micro and small companies reached approximately R$ 2.3 billion.
In 2010, the Bank continued implementing the process initiated in 2008, which was designed to increase the access of micro, small and medium-sized companies (MSMEs) to the financial instruments targeting innovation.

Support for MSMEs to innovate was strengthened in 2009 when the BNDES Card began not only to finance the contracting of research, development and innovation services (RD&I), but also to provide support for financial counterparts required in programs offered by FINEP (Sibratec) and by Sebrae (Sebraetec). The number of operations targeting innovation in this instrument grew substantially in 2010, reaching the total of 163.

Another initiative was the inclusion of funding for RD&I efforts among those eligible for support under the BNDES Automatic. Traditionally, the BNDES has supported smaller operations through financial agents, taking advantage of their extensive reach to smaller companies throughout the entire country. The expectation is that the initiative will result in the expansion and popularization of support for lower risk innovation projects originating in MSMEs.

Throughout 2010, the Bank continued to reduce the interest rates applied to its innovation support lines, as initiated in 2009. The lower interest rates in 2010 were applied to the BNDES Investment Maintenance Program (BNDES-PSI), with interest rates equalized by the National Treasury.

In 2010, the BNDES non-reimbursable Technological Fund (BNDES Funtec) prioritized projects designed to foster technological development and innovation of strategic interest to the country, targeting the following areas: bio-energy and the environment.
Risk Management and Internal Controls
The Brazilian economy experienced high growth in 2010. In comparison with 2009, the creation of registered employment was significant, totaling 2.5 million. Within this context, a crucial role was played by the BNDES – the highlight being the Investment Maintenance Program (PSI) and Petrobras’ capitalization.

Both the PSI and Petrobras’ capitalization were made possible by the use of funds obtained from the National Treasury. With regard to market risk, fundraising involves temporary differences between the rates that remunerate the received assets (securities indexed at market rates, such as fixed-rate or price-indexed securities) and liabilities taken on with the National Treasury, indexed at the long-term interest rate (TJLP). Although implying differences between the asset and liability rates, these operations do not result in market risk to the BNDES. This is because the rates that remunerate the liabilities are lower than the remuneration of the corresponding assets, and the average maturity periods of liabilities are greater than those of the respective assets. Moreover, since the BNDES lends funds to enable investments in the economy, assets are created based on the TJLP, which removes the potential source of risk.

In short, funding by the National Treasury enables the support of Brazilian companies with much longer terms than those practiced in and by the market, contributing to the gross capital formation of the economy, without jeopardizing the financial health of the BNDES.

It should also be noted that the BNDES continues without significant currency differences and has no direct exposure in commodities. Finally, the fact that the BNDES’ efforts are not aimed at capital gains enables the Bank to support the development of the capital market, without compromising its financial results in short-term fluctuations.

Regarding the evolution of the Bank’s credit risk, the ratio of the statutory capital reserve (credit portfolio as well as securities and bonds not acquired for active trading) to total assets grew throughout 2010. This statutory capital reserve increased from R$ 33.4 billion in December 2009 to R$ 48.2 billion in December 2010. On one hand, this expansion reflects the actual growth of loans contracted and the credit commitments made. On the other, it demonstrates the effect caused by the rules 38, 39 and 40 of the Accounting Pronouncements Committee (CPC) – Financial Instruments: Recognition and Measurement (CPC 38); Financial Instruments: Filing (CPC 39); and Financial Instruments: Disclosure (CPC 40) when they became effective. These norms changed the measurement of the BNDESPAR portfolio of shares and bonds from historical values to market values.

Although the aforementioned share of capital increased, there was no worsening in the quality of assets or increase in defaults. The share of loans with AA or A (investment grade) risk ratings showed, instead, an upward trend, reaching more 85% of the portfolio in December 2010. The default index was 0.15% at year end.
The BNDES has been concentrating its efforts on building an internal model for managing credit risk, with the development of its own estimates for different components of the loan portfolio risk. The probability of default per risk group is estimated based on historical frequency. Recovery rates are calculated based on the payments identified for contracts in default, and matrices depicting the changes in status are constructed for various situations. Among the efforts developed for credit risk management, the acquisition of specific software scheduled to be operational by the end of 2011, and the approval of the Corporate Policy for Credit Risk Management in compliance with Resolution CMN Nº. 3,721/09, are worthy of mention.

In view of the perspective of increasing the BNDES’ performance in the external market and given the need to price these operations, the Bank structured the Credit Risk Department, an agency linked to the Credit Division, which will ensure the segregation of activities and rigorous analysis of international operations.

Another 2010 highlight was the volume of credit recovered in Problematic Operations, which reached the R$ 912.5 million mark, a 216% increase compared to the previous year.

The statutory capital reserve for operational risk also grew from R$ 562 million in December 2009 to R$ 762 million in 2010. This increase reflects the growth of the statutory coefficient applied to this share of capital (from 0.8% until December 2009 to 1.0% in January 2010), in addition to the expansion in net revenue from financial and non-financial intermediations. During the year, however, there were no events involving significant operational risks.

Among the highlights of the unit focused on operational risk management is the bidding process that aims to contract specialized consulting services to implement the Business Continuity Management System. Throughout 2010, also worthy of note is the work, which involved different divisions of the Bank, on continuous assessment and mitigation efforts of operational risks in key risk processes. The Bank paid special attention to the enhancement of risk assessment methodology and the operational loss database.

Throughout 2010, the Bank also conducted several studies to verify compliance and assess internal controls of the Bank’s processes. These studies aimed at mitigating process risks, as well as proposing measures to correct any eventual control flaws. Also worthy of mention are the activities developed to make employees aware of the relevance of internal controls and of their role in this process, in order to strengthen the nature and culture of internal controls within the Bank.
Support for Culture
Since 1995, the BNDES has systematically supported efforts in the cultural area, namely in historic heritage, archives and collections, cinema, as well as investments in activities within the cultural economy, particularly in the audiovisual and editorial production sectors. Since 2006, the Industrial Division has been in charge of all these efforts, delegating direct responsibility to the Cultural, Entertainment and Tourism Department (AI/DECULT), created with the aim of uniting all the instruments and support efforts for the cultural sector in one single operational unit.

DECULT’s strategic mission is to develop the production sectors within the cultural economy. This requires the BNDES’ to make efforts in the cultural sector that are focused on the structuring and sustainable development of its economic activities. This approach has generated the need to develop financing mechanisms that are better suited to the needs of the cultural economy and a new approach for projects supported by non-reimbursable resources. The BNDES Procult program, the Financing Funds for Cinematographic Industry (Funcines), the adoption of new guarantee and collateral modalities and the combination of financing with non-reimbursable resources are some examples of the BNDES’ new operations in the cultural sector.

The development of the Cultural Fund has fostered the expansion of the Bank’s efforts to preserve and revitalize Brazilian cultural heritage. With these new resources, it has become possible to support investments that combine the need for restoration of national heritage with opportunities to stimulate areas of the economy, such as tourism, and local urban revitalization. Thus, these projects have become instruments for fostering development, as well as improving the management and public use of restored buildings.

**Structuring the audiovisual production sector**

The BNDES comprehensively supports the audiovisual sector, allocating resources for the production of movies, including cartoons, distribution, infrastructure, as well as the expansion and decentralization of movie theaters across the country. The main financial instruments used by the Bank to foster the structuring of the audiovisual production sector in Brazil include financing provided by the BNDES Procult program, the investments in Investment Funds for the Cinematographic Industry (Funcines) and the Calls-to-Bid for Cinema.

As of 2010, the BNDES started to operate the ‘Cinema Close to You’ program, an effort coordinated by the Ministry of Culture and the National Cinema Agency (Ancine), which employs resources from the Audiovisual Sector Fund. The program aims to expand and decentralize the number of Brazilian movie theaters.
Since 1995, the BNDES’ Calls-to-Bid for Cinema have provided support for Brazilian cinematographic production through resources from the application of the Audiovisual Law (Law Nº. 8,685/93, amended by Law Nº. 11,437/06). The 15th Edition of the Call-to-Bid for Cinema was launched in 2010, including investments in fiction, animation and documentary projects, in the Production and Finalization categories, with values of up to R$ 1.5 million per project.

Support for preservation of Brazil’s historical heritage

The BNDES is one of the Brazilian companies that most invests in the preservation of Brazil’s historical heritage. With the use of deductible non-reimbursable investments as tax incentives (Rouanet Law), and with the resources from its Cultural Fund, the BNDES has enabled the implementation of projects of this nature. In 2010, some 24 new projects were approved, totaling R$ 65 million, while R$ 36 million was disbursed for restoration works.

In 2010, a significant change in the rules for providing support to historical heritage preservation projects was approved with the aim of treating them as developmental tools and no longer as simple sponsorship. The objective, more than mere restoration of historical properties, now involves stimulating and facilitating use and enjoyment of the restored heritage, fostering its better use by society as well as an increased local economy. Thus, the project transforms historical heritage into an anchor for the institutional, economic, tourist and urban development of the region in which it is located.

Calls-to-bid for collections and archives

Also counting on non-reimbursable resources from the Cultural Fund, since 2004 the BNDES has supported the Preservation of Collections and Archives Program, earmarked for efforts to preserve archives as well as bibliographic and musicology collections of cultural and historic relevance. This includes cataloging, cleaning and conditioning, restoration, environmental management, installation of security systems and investments in infrastructure. The program is operated by means of public calls-to-bid involving annual selections. A new call-to-bid for the preservation of collections and archives was conducted in 2010. The main feature in this edition was the creation of the Anchor modality, designed to support more wide-ranging investments. In this modality, it is possible to replicate the support given at several different points throughout a network of efforts or in independent collections and archives, joined by a common element.
Sponsorship of cultural events and publications

In 2010, the BNDES sponsored 33 cultural projects, totaling an investment of R$ 7.4 million. The supported initiatives include, among others, cinema, music, dance and literature festivals, exhibitions and publications, comprising a vast panorama of Brazilian cultural diversity and helping to bring the country’s latest national productions to the public in different regions.

By integrating classical and instrumental music to the efforts to revitalize national historical heritage, the Bank has supported events such as the International Olinda Music Show, Music in the Museum, the ‘Rio Folle Journée’ and the Villa-Lobos Festival, promoting concerts in churches, museums and historic locations in different regions throughout the country.

In relation to cinematography, the main festivals in Brazil – the Rio Festival, Anima Mundi, ‘It’s All True’, and ‘Cine Ceará’, among others – were sponsored by the BNDES. These festivals are the showcase for the most recent vintage of audiovisual production. Not to mention events aimed at creating an audience, such as the International Children’s Film Festival, and at promoting new filmmakers, such as Peripheral Visions. In this segment, a highlight was the support for the Amazon Cine Fest, a traveling festival held in the Northern Region of Brazil which focuses on the exhibition of environmentally-themed films.

Dance, in its different aspects, has received support through Dance Panorama, in Rio de Janeiro, and the ‘Par em Par’ Dance Biennial, in Ceará, while literature was supported in trade fairs such as the literary Flipporto in Recife, and the Ouro Preto Literary Forum.

In commemoration of the 50 years of Brasília, the Bank also sponsored the ‘Lucio Costa – Architect’ exhibition, which recalled the architect’s life and the conception of the city’s Pilot Plan.

The BNDES Auditorium

In 2010, the BNDES Auditorium celebrated its twenty-fifth year of activity. Conceived in 1985 as an institutional marketing tool for the Bank, the Auditorium consists of the gallery located on the ground floor of the building in Rio de Janeiro (EDSERJ), the Arino Ramos Ferreira Auditorium and the Paul Rachid foyer, located on the first lower level.
Gallery 2010

The first exhibitions organized by the Bank in the last five years were held last year, with an average attendance of 1,500 people. The first was the exhibition ‘25 years of the BNDES Auditorium’, from June 24 to July 30, presenting the Auditorium’s history and its main shows and exhibitions.

The following exhibitions were ‘Fresta’ (August), of the neo-concretist painter Kakati, the ‘Integration of Art’ (September-October) which brought together Brazilian and Finnish artists, and ‘Graffiti (November) with graffiti painted on canvases by students from the Juscelino Kubitschek State Technical School.

The Auditorium also presented the ‘Christina’s Arts’ (April-May) exhibitions, as well as the 18th BNDES Photographic Art Exhibition (June-July) and the 26th Expoarte (December) organized by the BNDES Employee Association.

The expectation is that, as of 2011, the gallery will again present exhibitions contracted by the Bank. In October 2010, the Board of Directors approved the regulations governing the selection process for cultural projects of Brazilian artists.

Thursdays at the BNDES 2010

Inaugurated by the samba artist Monarco, the 2010 season of the Thursdays at the BNDES project was graced by a new wave of public at the events. Throughout the year, new generations of music lovers were incorporated into the project’s audience.

One of the contributing factors was the placement of ads in subway stations and newspapers, helping to attract 8,500 people. The average audience for the 37 public concerts was 230 spectators per event.

The large audiences revealed that the ‘Thursdays at the BNDES’ project is now part of the city’s arts and cultural schedule, following the initial proposal of the BNDES Auditorium (where it originated in 1993) to include more employees and bring the Bank closer to the community and society in general.
Operational Performance
Venture Capital Division

The Venture Capital Division (ACE) is responsible for financial support operations for small and medium-sized company (SMEs) projects, with the use of variable income financial instruments. The Division participates in the development, structuring, investment, monitoring and divestment stages of these assets in the BNDESPAR portfolio, in addition to supporting other operational divisions within the BNDES System in the use of these financial instruments in their operations.

It is important to point out that the decisions to invest in corporate shares take into account the companies’ commitment to socio-environmental responsibility. In relation to the social aspects, the investment decisions bear in mind, in particular, the adherence to labor legislation by the companies targeted for investments. In the process of monitoring the investment portfolio, the Bank also seeks to encourage company administrators to adopt management practices that increase the compliance with labor legislation by their companies.

With respect to environmental aspects, the work performed during the monitoring and review process coupled with the requirement for compliance with environmental legislation by the companies targeted for investment deserves a mention.

At the end of 2010, the BNDESPAR variable-income assets portfolio, managed by the ACE, comprised shares, bonus, debentures (direct stakes in companies) and investment funds (indirect stakes in companies):

\[
\begin{array}{ll}
\text{ACE portfolio in 2010} & \\
\text{Number of companies} & 157 \\
\text{Number of funds} & 29 \\
\text{Estimated market value (R$ million)} & R$ 1,797
\end{array}
\]

In 2010, the Department of Investments in Small and Medium-sized Innovative Companies successfully completed three investment operations, with a total disbursement of R$ 36.8 million. There was also the disbursement of R$ 50 million for investment in Linx, approved by the Board of Directors in late 2009.

The BNDESPAR portfolio of direct stakes in small and medium-sized companies ended 2010 with the total number of stakes in companies at 34.

In its stakes in investment funds, ACE fully paid in quotas into 20 funds, representing disbursements for 33 new stakes, and amortized or redeemed quotas in 11 funds, representing divestment from nine companies. Another call was issued for a new fund under the BNDES Investment Funds Program, established by Resolution Nº. 1,627/2008, of July 8, 2008. The public call was
held for the selection of an Investment Fund in Company Stakes (FIP) focusing on investments in logistics infrastructure. The Investment Fund in Company Stakes known as BR ILOS Logistics, structured in a joint management partnership between BR Capital Partners Ltda. and the ILOS Logistics Institute, was pre-selected by the Capital Market Committee and concluded in November 2010 when FIP became eligible in the BNDES System. The fund will have a minimum capital of R$ 500 million, and may reach R$ 600 million, of which the BNDES may supply up to 20%.

Throughout 2010, the Criatec program, aimed at meeting the capitalization needs of innovative small companies, approved seven new investments for a total of R$ 9.9 million. Thus, up to the moment, the fund has approved 31 companies, close to its revised goal to approve 36 investments by the fund’s 48th month in operation. This measure is related to the opinion put forth by the Monitoring Committee that the fund should concentrate on accelerating the companies invested in to date, instead of dedicating itself only to the activities of prospecting and contracting new business.

Moreover, the fund realized its first divestment, consisting of the sale of its entire stake in the Usix company, obtaining a return of between 88% and 114% p.a.

The Criatec program operates in different geographic regions by means of its regional managers, as shown in the chart below.

Investments approved by region
In addition to the Criatec program, the BNDES also supports the increase in the innovation capacity in small and medium-sized companies, through direct investments in corporate shares (stakes), or indirectly, through venture capital and private equity funds.

**Foreign Trade Division**

In 2010, the BNDES export support lines celebrated its twentieth year amid the recovery of one of the worst crises in international trade. Disbursements reached R$ 11.3 billion, the highest annual total of all the years the lines have been in operation, representing a 35% growth over 2009, the previous record. Financing from the BNDES played an important role in supporting Brazilian exports at a time when global commercial flows were picking up again.

In pre-shipment financing, the capital goods sector continued to receive funds through the Investment Maintenance Program (PSI). Over the last two years, the Bank allocated resources to finance the export of road construction, industrial and agricultural machinery, telecommunication equipment, as well as buses and trucks. In the middle of last year, it became possible to use PSI resources to support the export of footwear, textiles, furniture, foodstuff, pharmaceuticals and consumer electronics, among many others.

The other important component of export support is post-shipment financing, which emphasizes support for exporting aircraft, engineering services and other capital goods. The product provides financing for medium and long-term overseas commercialization and currently has a portfolio exceeding R$ 25.0 billion in amortization of operations approved or under review.

In 2010, the aircraft manufacturing sector received disbursements of US$ 1.3 billion in post-shipment financing heading to various countries: the United States, Argentina, the UK, France, Holland, Spain, Montenegro, El Salvador and the United Arab Emirates. In December of last year, the Bank concluded negotiations for a new revision of the sectorial agreement for the aircraft industry at the Organization for Economic Cooperation and Development (OECD), which regulates the conditions for support from export credit agencies, a role played by the BNDES in Brazil. Brazil is a leading
supplier of commercial aircraft in the world and has been part of the sectorial agreement since 2007.

Disbursements to goods and engineering services for Brazilian infrastructure projects abroad amounted to R$ 835 million last year. The loan portfolio consists of a wide range of operations in Latin America and Africa, related to pipelines, subways, power plants, transmission lines, ports, airports, highways, aqueducts, sewage works and water supplies.

In 2010, the Bank approved the third and fourth lines of credit for the Republic of Angola, through memoranda of understanding signed between the governments of both countries. The projects prioritized by the Angolan government are mostly related to highway construction works, but also include transmission lines, a power plant, aircraft and an airport. Disbursements to date amount to R$ 1.6 billion in the first two lines since their creation three years ago.

In addition to export-related infrastructure projects, another highlight was the support for the export of buses to Argentina, Chile and South Africa, totaling R$ 224 million last year. The loans are taken out for isolated exports of buses or in association with integrated transport systems (rapid bus transit), as has been the case in operations earmarked for Chile. In 2010, this funding modality was used for exports of Brazilian buses used at the World Cup Soccer Tournament in South Africa.

With respect to the post-shipment financing of goods not related to large projects, the first contract with a foreign bank was signed under the line called Exim Automatic. The product aims to provide a flexible mechanism for the commercialization of Brazilian goods through a network of banks abroad, taking advantage of their proximity to potential customers of Brazilian exporters. At the end of last year, there was already a prospective portfolio of approximately R$ 600 million with 19 foreign banks located in the United States, Argentina, Chile, Uruguay, Paraguay, Colombia, Peru and Panama.
Project Structuring Division

Overcoming infrastructure bottlenecks and capacity constraints depends mostly on structuring public investment, which can be made possible, partly, through public concessions or public-private partnerships (PPPs). Considering that such undertakings require a complex preparation of projects by the public sector, the BNDES has concentrated its efforts in this stage to promotion and structuring, providing technical advice and support to governments for the development and implementation of public policies.

These projects represent major investments, which involve many risks to the public entity, to the private investor and to the lender. Therefore, the success of the venture requires great effort in the structuring phase. Solid technical work is needed, with the adoption of the best practices in the market to establish the size of required investments, using projections and prospective analysis, risk mitigation and the allocation of responsibilities among the participants. Moreover, it is essential to provide transparency and impersonality to the process with respect to the public interest and the legal certainty of the future undertaking.

The BNDES, through the Project Structuring Division (AEP), seeks to identify, encourage, support and implement the framework of government concessions and PPPs, creating the conditions for viable infrastructure projects involving private resources. To achieve these goals, we have developed the Project Structuring Fund (FEP), the Brazilian Project Structuring Entity (EBP), in partnership with eight financial institutions, and a Multilateral Fund, in which the BNDES has a partnership with the Inter-American Development Bank (IDB) and the International Finance Corporation (IFC), the financial arm of the World Bank, whose powers are complementary, as described below.

The BNDES’ instruments and partners for project structuring

<table>
<thead>
<tr>
<th>Description</th>
<th>Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Structuring Fund (FEP)</td>
<td>Technical studies or research that directly or indirectly foster the generation of projects of a strategic and structural nature</td>
</tr>
<tr>
<td>Brazilian Project Structuring Entity (EBP)</td>
<td>Infrastructure projects attractive to the private sector</td>
</tr>
<tr>
<td></td>
<td>Requires payment to the EBP of the project structuring work that was performed by the winning bidder of the concession (Art. 21 of Law N°. 8,987/95)</td>
</tr>
<tr>
<td>Multilateral Fund (BNDESPAR, IFC and BID)</td>
<td>Pilot projects for concessions or PPP</td>
</tr>
</tbody>
</table>

http://www.bndes.gov.br/programas/outros/fep.asp
http://www.ebpbrasil.com
Throughout 2010, apart from the activities related to the Growth Acceleration Program (PAC), the following activities of the BNDES’ structuring projects may also be highlighted:

- **Airline industry.** Through technical cooperation agreements entered into with the Ministry of Defense, Infraero and the National Civil Aviation Agency (ANAC), the BNDES, with resources from its Project Structuring Fund (BNDES FEP), financed a study diagnose and propose public policies for the airline industry in Brazil, involving legal, regulatory, infrastructure and competition issues in air services and airport administration. The study was published in June 2010 and is available on the BNDES’ website.

- **Infraero restructuring.** Under the Technical Cooperation Agreement entered into with the Federation (Brazil) through the Ministry of Defense, the BNDES contracted a consulting firm to perform specialized technical studies to draft the Infraero restructuring project, aiming not only at preparing the company for the opening of its capital but also at proposing alternative models for management and/or business configurations. The studies were completed in November 2010 and sent to the Secretariat of Civil Aviation (SAC) on November 29, 2010.

- **Port sector.** Because of the Technical Cooperation Agreement signed with the Secretariat of Ports of the Office of the President (SEP/PR) and the National Agency of Waterway Transport (Antaq), the BNDES/EFF Prospect Nº. 01/2010 Public Call was issued on August 30, 2010, aimed at supporting research and technical studies in the Brazilian port sector. This study will last for nine months and will be carried out throughout 2011.

- **Bi-oceanic railway corridor.** This is a technical study that the BNDES financed under the BNDES FEP prospecting category, which aims to propose recommendations and public policies that support cargo transport between ports in the South/Southeastern Brazil and ports in Chile as well as increasing the use of the railroad freight transport by the countries included in the study.

**State and municipal projects**

- **Health.** The BNDES, with funding from the Multilateral Fund, has completed the studies of the first PPP for health in the country, with the concession to the Suburban Hospital in the metropolitan region of Salvador. In partnership with the EBP, the studies for the concession of the Metropolitan Hospital in
Belo Horizonte have been concluded, which culminated in the publication of the Public Call for Bids on the December 1, 2010, with scheduled opening of bids on January 18, 2011. Another ongoing project, with funding from the Multilateral Fund, is the PPP for the qualification of the infrastructure of the primary health care network in Belo Horizonte, involving 147 primary care units in the city.

• **Highway Concessions.** The technical studies to design the concession of the State Highway System BA 093 – highway grid in the metropolitan region of Salvador – with funds from the Multilateral Fund were concluded. The auction was held in May 2010.

• **Mineirão Complex.** The studies for the administrative concession of Mineirão were completed. This involves the necessary adaptation of this stadium for the 2014 World Cup. Also completed was the research on commercial operation of the equipment over 27 years. The concession contract was signed on December 22, 2010.

• **Agreement with the City of Belo Horizonte.** This was signed to support the structuring of public concessions and PPPs in the context of Belo Horizonte. As a result of this agreement, the aforementioned project of the Metropolitan Hospital, the design of the New Bus Terminal, whose Public Call for Bids has already been published, and the BHBus stations and Parking Lots projects already in progress, were worked out with the EBP.

• **Sanitation.** The projects to rehabilitate the West Zone of the City of Rio de Janeiro (AP-5), which will serve 1.8 million inhabitants, and the Metropolitan Region of Victoria, covering a total population of 1.7 million are in the study phase in partnership with the EBP.

• **Solid Waste.** A project aimed at building and operating a solid waste incinerator with energy recovery in São José dos Campos (SP) is in the study phase in partnership with the EBP.

• **Parking lots in São Paulo.** A study for construction and operation of parking lots in the city of São Paulo is expected to start in 2011, in partnership with the EBP.

• **Shopping Circuit in São Paulo.** This project in partnership with the Municipality of São Paulo is in the study phase in partnership with the EBP. It aims to gauge the logistics of shopping tourism and economically develop the central region of the city by generating infrastructure works and added services for users.
Social Inclusion Division

In keeping with its strategic map, efforts implemented by the Social Inclusion Division (AS) in 2010 had the following objectives:

(i) to expand the portfolio of urban infrastructure, economy and public services; (ii) to improve and expand operations in public administration and microcredit; (iii) to assist in drafting and implementing public policies; and (iv) to prioritize development in the North and Northeast Regions as well as in the surrounding areas of large projects.

The AS ended 2010 with contracts worth R$ 15.0 billion and disbursements of R$ 8.1 billion, amounts 75% and 6% higher than in 2009, respectively, representing a record for this Division. The growth of contracting and disbursement has been accompanied by improvements in the profile of regional distribution, with a substantial increase in the relative share of the North and Northeast. These two regions accounted for just under half of the releases made over the year (approximately 48% of the total released).

AS Disbursement history (in R$ million)

AS Contracting history (in R$ million)

Source: BNDES.
Disbursements and contracting were focused on funding development programs of state governments, improving sanitation and urban transport, as well as efforts in the areas of health, education, employment and income as well as improving public administration. In 2010, the approval of the first operations for remodeling stadiums for the 2014 World Cup was big news.

Among the institutional efforts carried out in 2010, those that stood apart include the revision of the BNDES Program – Microcredit, the creation of the BNDES Health Program, the BNDES Program for the 2014 World Cup (ProCopa Arenas) and of the Support Program for Executive Programs – BNDES Cities, in addition to the implementation of the PMAT Automatic Program. These programs aim to meet new demands for investment and provide greater flexibility to finance and fill some gaps identified in existing programs operated by the AS.

Over the year, several efforts in promotion and reorganization that started in 2009 were consolidated; among them are the implementation of: the BNDES States Program; partnerships in the area of employment and income; and support to Local Production Systems (LPS) through the federal entities.

Among the operations that marked 2010, the following stand out:

**Urban mobility**

In December 2010, funding to implement the Transcarioca BRT system, linking Barra da Tijuca to the Tom Jobim International Airport, crossing important and densely populated neighborhoods in the suburbs of Rio de Janeiro, such as Madureira and Penha, was contracted between the BNDES and the Municipality of Rio de
Janeiro. The funding, worth approximately R$ 1.2 billion, includes investments in the physical infrastructure of the transport system, which will contribute significantly to improving the quality of public transit in the region through exclusive bus lanes, enclosed bus stops, external fare collection and raised bus stops for easier and faster boarding and alighting, as well as reduced travel time for passengers. In addition, the project foresees the use of more environmentally-friendly buses.

Financial support for prison complexes

In December 2010, the financing package for construction of the prison complex in Ribeirão das Neves (MG) was approved. The project comprises five prisons that hold up to 3,040 inmates. The total investment is R$ 212 million, of which R$ 143.8 million will come from the BNDES.

This is a public-private partnership model which, together with another similar project run by the state of Pernambuco, represents an innovative experience in the Brazilian prison system, with regard to the management model. The private partner is responsible for the construction and the operation of the complex for a period of 27 years and must comply with a series of obligations regarding the management of the complex.

The project is advantageous for the state because of its economic merits (spending is 25% less than the model operated directly by the state) and the quality of services provided, especially with regard to the rehabilitation of prisoners, because the contract involves commitments such as health care, legal assistance, educational, vocational, cultural and recreational assistance, as well as support for placement in the labor market.

ProCopa Stadium Program

As part of the federal government’s effort to prepare the country for the 2014 World Cup, the BNDES created the ProCopa Stadium Program, which establishes guidelines for funding the construction and renovation of sports arenas to be used in the tournament. In 2010, financing was contracted for the construction or reform of the stadiums in the host cities of Manaus, Cuiabá, Fortaleza and Salvador.

The BNDES ProCopa Stadium Program has a budget of R$ 4.8 billion to be used in the construction and reform of the stadiums hosting matches in the 2014 World Cup and investments related to the urbanization of their surrounding areas. It can finance up to 75% of the total cost of renovation or construction of the games’ venues, limited to R$ 400 million (whichever is less) per project.
Projects must include improvements in the environment; foster accessibility and integration with the urban space.

The Bank’s goal is for the event to leave a legacy of equipment built in accordance with the best practices in energy conservation and use of natural resources which, after the tournament, will be integrated to the cities and used by the entire population. Projects must be approved by a certifying entity recognized internationally for environmental quality and/or accredited by Sinmetro, with a term of contracting up to December 31, 2011.

**Environmental sanitation**

Within the scope of the Growth Acceleration Program (PAC), in 2010 the BNDES contracted funding for the Water and Sewerage Company of Ceará (Cagece), amounting to R$ 155.6 million to implement the second phase of the Wastewater Treatment Plant West (ETA Oeste), located in the western part of the metropolitan region of Fortaleza (CE), and to expand the Integrated Water Supply of the Ibiapaba Mountain Range (SAA Ibiapaba), in the state of Ceará.

**Support for low-income undertakings with strategic partners**

The performance model of AS via partnerships has been helping the BNDES to harness synergies to support low-income projects by leveraging specific merits related to the particularities and expertise of each partner, besides expanding the scope of their support.

The BNDES contracted projects in partnership with the Ministry of Social Development and the Fight against Hunger (MDS) and with the state of Acre to help families that receive benefits from the Family Assistance program from the federal government.

Partnerships were also contracted with the states of Ceará, Paraíba, Piauí, Rio Grande do Norte, Sergipe and Alagoas to support low-income collective production undertakings. The BNDES also signed an agreement with the City of Rio de Janeiro for the social inclusion of recyclable material waste pickers.

Partnerships were signed with non-profit institutions governed under private law, such as the Bank of Brazil Foundation, the Votorantim Institute and the Camargo Corrêa Institute, always focusing on socio-production inclusion of the supported population. Another form of partnership is with NGOs and public interest companies (OSCIps), such as the Brazilian Caritas and the recent approval of the Cooperforte Institute project.
The BNDES PMAT Automatic Program

In order to simplify the access of municipalities traditionally supported by the funding line entitled Modernization of Tax Administration and Management of Basic Social Sectors (BNDES PMAT), to finance projects for improvements in public administration, the BNDES PMAT Automatic was created in 2010. The new program, designed for municipalities of up to 150,000 inhabitants (approximately 97% of Brazil’s municipalities), is operated in indirect automatic mode, using the network of financial institutions accredited by the BNDES in the country.

BNDES Health

In 2010, the BNDES entered into a partnership with the Ministry of Health (MS) with the objective of enabling the creation of the BNDES Support for Health Institutions program (BNDES Saúde).

The program has a budget of R$ 2 billion and aims to strengthen the service capacity of the Unified Health System (SUS) financing the expansion of projects to support its institutional development and modernization of the network of health institutions carrying the Certificate of Social Assistance Beneficent Entity. The Institutional Development sub-program will assist institutions of excellence qualified by the Ministry of Health that signed a term of adjustment with this organization for the institutional development of the SUS. For access to the credit, these institutions, in addition to the resources already agreed upon with the MS, must commit to using their own resources in new projects relevant to that organization amounting to at least 5% of the value financed by the BNDES. On the other hand, the SUS Assistance sub-program covers organizations that prove that they provide services to SUS at the minimum percentage of 60%. There are approximately 1,800 private philanthropic hospitals that provide care within the scope of the SUS.

National Program for the Recovery of University Hospitals (REHUF)

The federal university hospitals (HUFS) are important hubs for assistance to the SUS and contribute to the training of health professionals and research in the country. Created by the Ministry of Education, the REHUF program has three strategic focus points to revitalize the health system. One is the modernization of management practices in the HUFS, ensuring better planning for health care infrastructure in keeping with the population’s needs and training within the scope of tertiary health education. The BNDES will provide resources for the acquisition of IT equipment that
enables the implementation of University Hospital Management Applications (AGHU).

Infrastructure Division

In 2010, some 74 projects in the Infrastructure Division, with R$ 21.4 billion in funding and R$ 70.1 billion in investments approved. Of these projects, 29 were in the Growth Acceleration Program (PAC), with the support of R$ 12.9 billion and investments of R$ 28.3 billion.

Electric Energy Department (DEENE)

In 2010, the DEENE passed 34 new credit approvals, with associated funding reaching R$ 12.3 billion. For the electricity sector, disbursements amounted to R$ 10.5 billion. So, once again, the power sector shows its ability to provide the Brazilian economy with the investments required to sustain GDP growth.

In the electricity generation segment, some R$ 9.4 billion was approved to expand installed capacity to 2,070 MW. For transmission, the amount approved was R$ 1.7 billion, of which R$ 764.5 million was long-term to extend 1,241 km of the national grid, and R$ 947.7 million in bridge loans for four transmission concessions. For the distribution segment, R$ 1.2 billion in funding was approved for seven concessionaires.

The main highlight was the Angra III Nuclear Plant project, of which the BNDES will finance 58.6% of the total investment (R$ 6.14 billion) with an installed capacity of 1,405 MW. Among the merits of the project, we highlight the following: (i) maintenance of high levels of investment in the Brazilian economy over the next five years; (ii) consolidation and improvement of the technological expertise already absorbed by the country in the nuclear area; (iii) supply of domestic equipment, estimated at R$ 1.6 billion, fostering the capital goods industry; (iv) a boost to the local economy during plant construction, with increased demand for goods and services; and (v) contribution to improving air quality as nuclear power does not generate greenhouse gases.

Another relevant credit approval was for the Pecém II Thermoelectric Plant (R$ 737 million), at the industrial complex of the Port of Pecém in Ceará, with a capacity of 360 MW and social investments not included in the environmental permit, at R$ 2 million. The existence of thermoelectric parks is necessary to ensure the availability of energy, especially during periods with low rainfall.
With respect to initiatives fostering the social and environmental efforts in the vicinity of infrastructure projects, there is additional credit for the Estreito Power Plant (1,087 MW). Some R$ 77.1 million is also included for additional environmental efforts in the municipalities surrounding the project, which are not included in the environmental licensing requirements.

**Department of Telecommunications and Alternative Energy Sources (DETEL)**

Throughout 2010, the DETEL approved 20 projects, which represent total investments of R$ 3.3 billion and which will require funding of R$ 2.1 billion from the BNDES. Disbursements for the period amounted to R$ 3.2 billion.

In 2010, investments in telecommunications accounted for 33% of projects approved by the department, reaching R$ 717 million. Disbursements to the sector reached R$ 1.7 billion, comprising fixed and mobile operators, cable TV and digital TV.

In the segment of alternative energies (wind, biomass and small hydroelectric plants) projects amounting to R$ 1.4 billion were approved, representing an additional installed capacity of 424.7 MW. The disbursement in the period for projects in this segment reached R$ 1.5 billion.

Believing in the growth potential of wind generation in the country and the increase in the number of wind equipment suppliers, new international manufacturers, besides Wobben Windpower, were accredited by the FINAME to supply wind turbines within the required minimum levels of domestic manufacturing required by the BNDES. The entry of these manufacturers (Alstom, IMPSA, GE, Gamesa, Siemens, Suzlon and Vestas) brought greater competitiveness to the wind generation sector in the energy auctions.

Among the operations approved in 2010, highlights include those undertaken with the Renova Energy group, worth R$ 588 million, corresponding to 175.5 MW, and with the CPFL group, amounting to R$ 574 million, corresponding to 188 MW.

Wind farms to be built by the Renova Group are located in the semiarid region of Bahia, near the towns of Caetité, Igaporã and Guanambi, all with a human development index (IDH) below the average in the Northeast. The projects aim to address the great need for sustainable social investments in order to create new jobs, boost incomes and provide better standards of living for the population in the semiarid region of the Northeast. Power generation is, therefore, an alternative to development in the Brazilian semiarid region. The financed amount also includes R$ 6.4 million for social investments not included in the environmental permit.
The wind farms to be built by the CPFL group are located in the village of Três Irmãos, in a region with an IDH that is also below the average in the Northeast, near the city of Parazinho and approximately 100 km from Natal, in the state of Rio Grande do Norte.

**Department of Logistics and Transport (DELOG)**

Throughout 2010, some 20 new operations were approved in the DELOG, representing funding of R$ 7.0 billion, leveraging a total investment of R$ 14.7 billion.

Those standing out are the investments in road concessions referring to the second phase of the federal program, which represents financing of approximately R$ 1.6 billion in projects planned in the PAC (Régis Bittencourt, Transbrasiliana and Via Bahia highways) and investments for the second phase of the highway concessions program in the state of São Paulo, whose loans account for R$ 2.3 billion granted to the following concessionaires: CART (Raposos Tavares system), Ecovias system (Ayrton Senna/Carvalho Pinto) and Rota das Bandeiras (Pedro I Corridor), which have also planned for social investments in their surrounding areas, in the amount of R$ 10 million. In this segment, it is also worth noting that the BNDES is acting jointly with the capital market, through financing operations and issuances of long-term debentures, while guarantees and collateral is shared. The project’s bonds were highly promoted, that is, debentures linked to project finance.

In the railway transport sector, the approval of R$ 0.7 billion in support for domestic industries to construct locomotives and wagons, using the Investment Maintenance Program (PSI) was the highlight.

In the port sector, additional support, in the amount of R$ 1.3 billion, for the investment in the Itaguai, Pecém, Santos and Rio Grande terminals, is expected.

Annual disbursements grew by 22% compared to 2009 (R$ 3.3 billion in 2010 and R$ 2.7 billion in 2009), driven by the challenge to expand and recuperate the logistics infrastructure in the country, an important factor in Brazilian competitiveness.

The segment in which there was the highest relative participation was railway transport, with 35% of disbursements (R$ 1.2 billion), reflecting the importance in developing this modal in the rationalization of the Brazilian transport grid. Some highlights are the investments in the construction of the New Transnortheastern and in the expansion of the Ferronorte to Rondonopolis, both scheduled in the PAC. The projects will enable socio-economic
development in the Northeast and Midwest, in addition to significant investments in the grid and rolling stock of the MRS and ALL concessionaires. The BNDES also approved investments by Cosan, through Rumo Logistica, relating to expanding the capacity of ALL’s railway grid in the state of São Paulo for the transport of sugar, with estimated expenditures in the project’s surrounding area valued at R$ 2.5 billion.

The highway sector received 32% of disbursements (R$ 1.1 billion), due mainly to investments in federal highway concessions, under the PAC, and investments in the road concessions program in the state of São Paulo, in addition to the direct support to the states in return for public investments.

The logistics segment with the highest relative growth was the port segment, with 390% more in comparison with 2009. The disbursement of R$ 0.9 billion (26% of the total) went to expanding the supply of port handling facilities for various types of cargo: bulk agricultural, container and iron ore. As highlights, we emphasize support to implement the Southeast Port (LLX), in Itaguai as well as the construction/modernization of other terminals in the ports of Santos, Pecém, Vitória and Rio Grande.

Finally, the navigation industry, which received R$ 0.2 billion in released loans (7% of the total), received investments for the construction of new bulk carriers, container ships and tugs, all part of the PAC.

In addition, prospective efforts were developed for new and important projects, along with other divisions in the Bank. The following stand apart: in conjunction with the AEP, structuring to implement the high-speed train (TAV), linking Rio de Janeiro to Campinas; also in conjunction with the AEP, drafting of the Public Call for Bid in the Port Sector, to analyze and evaluate the institutional organization and the management efficiency of the Brazilian port sector; in conjunction with the ACE, structuring of an Investment Fund in Company Stakes specifically geared to the logistics segment, whose managers will be BR Capital and Ilos Infra, a specialist in logistics; in conjunction with the AMC, the structuring of the support modality for the expansion project of the South and East stretches of the ring road in São Paulo, published prior to the decision on the bidding process; and, in conjunction with the APE, scaling of the investment in logistics for the next four years (2011-2014).

Finally, in 2010, some 153 withdrawals were authorized from the accounts linked to the Freight Surcharge for the Renovation of the Merchant Marine Fleet (AFRMM), referring to the construction and repair of ships, totaling R$ 62.4 million.
Basic Inputs Division

In 2010, disbursements from the Basic Input Division (AIB) reached R$ 35.5 billion, of which R$ 24.8 billion was related to the Petrobras capitalization program. Of the remaining R$ 10.7 billion linked to the effective support of investment projects, some 33% was released to the oil & gas industry, 33% to base industries, 26% to the chemical and petrochemical industries, and 8% to the paper, pulp and forest products sector.

During the year, a total of 88 projects were approved with total support reaching R$ 20.2 billion, representing investments of R$ 35.0 billion. Of the approved amount, 1.3% is earmarked to support socio-environmental efforts. One highlight is the Suzano project for the construction of an industrial unit for bleached pulp in Imperatriz (MA), with social and environmental support of R$ 71.0 million.

Base industry sector

The mining-metallurgy sector, with the steel industry taking the limelight, and the Brazilian mining industry are now technologically up-to-date, bringing a competitive advantage to the whole production sector. In 2010, Brazilian production of raw steel was 35 million tons, an increase of approximately 32% compared to 2009, which was badly affected by the global crisis. World demand for iron ore maintained the strong growth shown over recent years.

Approved operations include projects to expand the production capacity of long and flat steel; current investments and modernization of the steel mills and the production units for nickel and zinc; implementation of cement production plants, and technological innovation.

Chemical and petrochemical sector

In 2010, the chemical industry’s share of Brazil’s GDP was 2.6%, representing the fourth largest sector in the manufacturing industry. On a global level, the Brazilian chemical industry ranks eighth in sales.

Disbursements to the chemical sector increased by 40% in 2010, in keeping with the rise in the investments in this industry. The main supported projects were for modernization, implementation and expansion of production capacity in the petrochemicals and synthetic fibers sectors, as well as support for new green chemistry
projects, using renewable raw materials, and projects, development and innovation research in the chemical industry.

Within the scope of the Production Development Policy (PDP) and the Plastic Sector Competitiveness Forum, the Proplastico Program was approved by the BNDES, aimed at manufacturing companies.

**Pulp, paper and forest products sector**

Brazil maintained its position as the fourth largest producer of pulp, behind the United States, China and Canada.

One of the projects to be highlighted was the Suzano project, in Maranhão, with an investment of R$ 5.0 billion from the BNDES and R$ 2.7 billion, through fixed income securities, and up to R$ 0.6 billion through equities.

In the paper sector, one of the highlights was when Fibria sold its stake in Conpacel to Suzano. Another issue was the strong expansion of paper consumption in the country, the result of economic growth and rising incomes.

In the segment of wood panels, after a year without significant investments in 2009, as a result of the last expansion cycle, the Berneck company began works on a new plant in Curitibanos (SC), supported by the BNDES in the amount of R$ 178 million.

Financing was also approved for a forestry product modernization project and expansion of the paper tissue segment.

**Oil, gas, O&G production and custom-made capital goods sectors**

The outlook for the oil & gas (O&G) sector for the coming years points to a perspective for strong growth in investments, which should be supported in the long term by the future production of the pre-salt layer. Thus, Brazil can leverage the development of its equipment industry and the O&G supply chain.

In this context, the creation of the Department of the Oil & Gas Production Sector was approved. Some of this department’s main activities include managing the Production Development Policy for O&G, taking part in the Program for Implementing the National Oil and Natural Gas Industry (Prominp), taking part, together with Petrobras, in the study of the production sector’s needs and carrying out development practices. The drafting of the BNDES program to support the development of the supplier chain in the O&G sector was also started.
The return of investments renovate the fleet on service to Petrobras has helped boost the recovery of the Brazilian naval industry. In recent years, highlights include the decision to build the Transpetro tankers as well as drilling and production rigs for Petrobras in Brazil, besides furthering the use of vessels flying the Brazilian flag for offshore maritime support navigation.

As a result, support to construct 65 vessels, including 58 offshore support vessels and seven tankers was approved in 2010. The latter are part of the first lot in the Program to Modernize and Expand the Second Fleet (Promef II). Additionally, two shipyard funding operations were approved.

Throughout the year, conditions for the BNDES’ support to construct up to 28 drilling rigs in national shipyards were also established.

As for innovation, the highlight was the approval of R$ 50 million in support for Vale Soluções to develop turbines with dual fuel technology.

Environmental Division

The Environmental Division (AMA) finances projects of an environmental nature, through reimbursable and non-reimbursable operations, operations of equity participation, directly and through holdings in investment funds, as well as supporting other BNDES units by analyzing environmental issues included in the various projects supported by the Bank.

It is also worth noting that the management of the Amazon Fund, attributed to the BNDES through Decree Nº. 6,527/08, is carried out by this division.

In addition of the Executive Counsel, the Environmental Division is divided into three departments.

Environment Department (DEMAM)

Responsible, among other duties, for promoting, structuring, contracting and monitoring environmental operations and non-reimbursable sustainable activities, not directly or indirectly related to the Amazon Fund, such as the operations of the BNDES’ Atlantic Forest Initiative and environmental research, development and innovation. DEMAM is also responsible for providing technical
support to the other fundamental areas in the BNDES regarding environmental aspects of operations for which it is responsible. This Department is also charged with the task of drafting and updating the socio-environmental procedural guides.

AMA/DEMAM’s main activities in 2010:

**The BNDES Atlantic Forest Initiative**

The analyses of 27 forest restoration projects in riparian areas (the banks of rivers or streams) in permanent preservation regions and Conservation Units within the scope of the BNDES Atlantic Forest Initiative were started in 2010. The modality of support is non-reimbursable with the use of resources from the BNDES’ Social Fund. Three projects were approved in 2010. The approved projects aim to restore: (i) riparian forests on the Bulcão Farm, in the city of Aimorés, in the state of Minas Gerais and the Itapina Ecological Reserve, in the city of Colatina, in the state of Espírito Santo, submitted by the Terra Institute; (ii) the biological corridor linking the Morro do Diabo State Park and the Mico-Leão-Preto Ecological Station, in addition to riparian forests in eight rural settlements at the Pontal do Paranapanema in the state of São Paulo, a project from the Ecological Research Institute (IPÊ); (iii) the mosaic of Jacupiranga Conservation Units in the state of São Paulo, riparian forests on the Cachoeira and Turvo rivers and their tributaries, and the Embrapa-Epagri Forest Reserve in the city of Cachoeira, in the state of Santa Catarina, coordinated by The Nature Conservancy (TNC).

**Environmental innovation**

The portfolio of non-reimbursable support projects for environmental research, development and innovation totaled R$ 32.1 million, with resources coming from the Technological Fund (Funtec) and distributed among eight initiatives related to waste and effluent treatment, forestry technologies and emissions reductions.

Partnership and technical cooperation agreements with Embrapa and Inmetro, aimed at promoting scientific and technological research into issues considered strategic to the Brazilian environment, were also developed.

**Socio-environmental policy**

The BNDES developed activities in accordance with the principles and guidelines established in the new Green Protocol, a commitment to environmental responsibility signed by the public banks in August 2008 with the participation of the Ministry of the Environment.
This protocol addresses commitments to the lines and to the criteria for social and environmental support, as well as the cooperation with other signatories, aiming at the harmonization of procedures, the cooperation and integration of efforts to implement such commitments.

In 2010, the BNDES revised its Environmental Policy, establishing its main goal of incorporating social aspects. This initiative resulted from the process of strengthening the integrated approach to social and environmental factors in the strategy of the BNDES’ performance in keeping with the 2009-2014 Corporate Plan. The new Environmental Policy consolidates existing practices at the institution in relation to the social aspects, while incorporating new instruments that address the social and environmental factors within the activities related to financial support from the BNDES.

**Sectorial socio-environmental policies**

The BNDES’ sectorial policies have been established, with specific support criteria for certain sectors of the economy. This process began in 2009, with the establishment of support criteria for the following segments: beef cattle-raising, coal-driven thermoelectric power generation, oil or diesel fuel, and natural gas. The year 2010 saw the creation of the social-environmental policy for the sugar and ethanol sector, which, in addition to guaranteeing compliance with the Sugarcane Agro-ecological Zoning for financing operations in the industry, created additional support criteria to those established by law, such as maintaining a database of suppliers for the sugarcane processing plants.

Aimed at playing a complementary role in determining sectorial support criteria, the BNDES’ Board of Directors approved the creation of the Social and Environmental Guides in 2010. These instruments are designed to technically support the operational areas in the Bank when analyzing social and environmental projects. This is applicable through the systematizing social and environmental risks inherent to the implementation of any particular economic activity, and compiling the best practices available to increase the level of sustainability in several sectors of the economy.

**Environmental Operations Department (DEOPE)**

This department is responsible for promoting, designing and monitoring variable income operations, both directly and by way of investment funds focused on the environment, as well as proposing the creation of programs for investment funds that cover support for projects related to the environment. In addition, it analyzes financing operations for projects aimed at energy
efficiency, technological development aimed at the environment, at mitigating climate change, at forests and at other sustainable activities, such as projects for Clean Development Mechanisms (MDL) and those contributing to the development of the carbon markets. Its responsibilities include the structuring of new capital market products geared to the environment.

AMA/DEOPE’s main activities in 2010:

**Variable income**

**Direct operations:** in December, BNDESPAR became a shareholder of Amata SA, a company in the forestry sector specializing in the production of certified wood and forest products made using sustainable management practices in the native forests. Amata will focus its activities in the Amazon region, where it already has a public concession for forest management practices in the Jamari National Forest in the state of Rondônia.

With the investment in Amata, the BNDES expands its efforts aimed at combating emissions and eliminating greenhouse gases, operating as a complement to ongoing efforts within the Amazon Fund. The operation contributes to the development of a production activity, the management of native forests, which, in addition to working towards conserving the biodiversity in the Amazon, preserves and adds value to standing forests, creating a source of wealth and opportunity, particularly for populations living in these regions and which have traditionally made a living from deforestation and other predatory practices.

The capitalization operation involved, in addition to BNDESPAR which will own a 13% stake in the company, three other investors, of which two are Brazilian private equity funds, and the other is the German Aquila private equity fund.

**Investment funds:** the DEOPE is currently responsible for monitoring three investment funds: (i) the Participações Caixa Ambiental Investment Fund; (ii) the Brasil Sustentabilidade Fundo de Investimento em Participações, set up within the scope of the BNDES Clean Development Fund for support of projects likely to generate carbon credits; and (iii) the Vale Florestar Fundo de Investimento em Participações, whose objective is to invest in forestry sector companies and finance the implementation of the Vale Florestar Project in the southeast of the state of Pará. The latter two began to operate in 2010.

The capital in the three funds involved totals approximately R$ 1.425 billion, of which close to R$ 390 million is from BNDESPAR. In 2010, the Investment Committees of the three funds, with the participation of the BNDES members and the other investors, approved investments in four companies: (i) Renova Energia S.A., which operates in the renewable energy sector, more
specifically wind power and small hydropower plants (PCH); (ii) Haztec Planejamento e Tecnologia Ambiental S.A., which operates in the consulting and management sector; environmental diagnosis and remediation; waste management: landfills, incineration, co-processing, gas exploration, wastewater treatment, equipment and systems; (iii) Amata S.A., which operates in forest management sector (operation done jointly with BNDESPAR and other investors); and (iv) Vale Florestar S.A., a company operating in the forestry sector. In total, the investments approved for these companies amounted to R$ 462 million.

In September 2010, the BNDES’ Board of Directors approved the creation of the BNDES’ Sustainable Enterprise Program in the Amazon, a selection program for the manager and the structuring of an investment fund with a focus, through equity, on supporting sustainable production companies in the Amazon. The operation seeks to add the experience of the BNDES in the capital market, particularly in structuring and monitoring private equity and venture capital funds, to the accumulated knowledge on the Amazon, acquired from the experience in managing the Amazon Fund. K&C Investimentos was selected as manager of the fund which will be structured under the program.
Management Department of the Amazon Fund (DEFAM)

Charged with managing the Amazon Fund, this department is responsible for fostering, structuring and monitoring development projects to prevent, monitor and combat deforestation under the laws applicable to the Amazon Fund. The DEFAM also carries out executive secretarial activities on the Guidance Committee of the Amazon Fund (COFA) and directs its efforts towards attracting donations to the Amazon Fund. It is also responsible for preparing the accounting and management reports on operations financed with resources from the Amazon Fund.

Project portfolio

Since June 2009, with the receipt of the initial proposals, the Amazon Fund has approved 13 projects totaling R$ 190 million, of which five were in 2009, and eight in 2010. The projects, which in general aim to curb deforestation in the Amazon rainforest, are being implemented in seven states within the region, involving more than 200 municipalities and benefiting traditional...
populations such as riparian, indigenous and quilombola communities (descendants of former slaves), forest-dwelling people who make a living off it.

The conceived and approved projects have different approaches, but all contain efforts that directly or indirectly contribute to reducing CO\(_2\), which is the result of degradation and deforestation, always in keeping with public policies of environmental management. The set of projects meets the criteria and mechanisms that aim at social participation, benefits to small community-based businesses and cooperatives, payment for environmental services and the promotion of sustainable production activities. Incentives and support for environmental and land-title regulation and for expansion of monitoring on farms, starting with the construction of the database which will be made available to the public sector, are also included.

**Number of approved projects**

<table>
<thead>
<tr>
<th>Year</th>
<th>Approved projects</th>
<th>Project value (R$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>5</td>
<td>70.3 million</td>
</tr>
<tr>
<td>2010</td>
<td>8</td>
<td>119.9 million</td>
</tr>
<tr>
<td>Total</td>
<td>13</td>
<td>190.2 million</td>
</tr>
</tbody>
</table>

**Projects approved in 2010**

**Olhos d’Água da Amazônia** – financing in the amount of R$ 2.7 million to strengthen environmental management in the Municipality of Alta Floresta, in the state of Mato Grosso, through the following efforts: completing the environmental assessment, enabling the registration of small farms in the Rural Environmental Registry (CAR); and promoting the recovery of degraded permanent preservation areas, near the springs located on small properties.

**Project of the state of Acre** – some R$ 60 million in financing to consolidate the state’s territorial management strategy based on the Ecological-Economic Zoning, and foster the forestry and forest-based agriculture production sectors. This effort aims to reduce deforestation in areas under direct influence of the works of the BR-364 highway.

**Project of the state of Amazonas** – financing from the BNDES to the tune of R$ 20 million, which aims to strengthen environmental management through land-title regularization, environmental licensing of sustainable production, as well as the drafting of technical norms for the Rural Environmental Registry (CAR) and the recovery of deforested areas. These efforts will be undertaken in the municipalities of Boca do Acre, Lábrea, Apuí and Novo Aripuanã, which are suffering from severe deforestation.

**Tropical Forest Institute (IFT)** – worth R$ 7.5 million, this project involves the implementation of efforts to qualify the work force, disseminate economic, social and environmental advantages, as
well as to generate and disseminate technical knowledge related to sustainable forest management. The activities undertaken in this project are located in the states of Amazonas, Para and Rondônia.

**Save Marcelândia** – with the BNDES support of R$ 669,000, the city of Marcelândia (MT) will recuperate the riparian vegetation surrounding 50 springs in the Manissauá-Missú river sub-basin and improve the infrastructure of the Municipal Secretariat of Environment and Tourism, equipping it and training its personnel to improve control, monitoring and prevention of deforestation activities in the region.

**Environmental Department of Pará** – the funding of approximately R$ 15.9 million aims to contribute to the strengthening of environmental management in the state of Pará, by providing not only instruments to issue the Rural Environmental Registry (CAR), but also training for human resources, and the physical and operational structuring of the State Environmental Department.

**University of the State of Amazonas** – with R$ 4.6 million in funding, the project aims at addressing the social mapping of 27 traditional communities in the Amazon.

**Amazon Museum** – the R$ 8.45 million in financing is to support the implementation of the Amazon Museum (Musa) and a training center to disseminate knowledge, helping add value and contributing to the conservation of natural resources in the Amazon and its cultural heritage, both in the state of Amazonas.

**Donation from the German government**

The BNDES and the German Development Bank (KfW) signed a donation agreement for € 21 million (equivalent to US$ 27.8 million). The agreement was formalized during the 16th UN Conference on Climate Change (COP-16), in Cancun, Mexico. Germany is the second country to donate funds to the Amazon Fund. The first was Norway, whose contract was signed in 2009 and which provides donations of US$ 1 billion up to 2015. If the first donation indicated Norway’s confidence in the project, Germany’s adhesion demonstrated the approval of the work being done by the Amazon Fund.

**Alide Verde Award**

The Amazon Fund received the Alide Verde Award at a ceremony held during the 40th Annual Meeting of the Alide General Assembly. The Asociación Latinoamericana de Instituciones Financieras para el Desarrollo (Alide), a representative body of public development banks in the region, included the “Alide Verde (Green)” category in the Alide Awards as a way to encourage its members to implement strategies that finance “green” projects. This special category seeks to recognize special financial initiatives aimed at combating and
adapting to climate change, which are, according to that organization, a major threat to growth in Latin America and the Caribbean, and, therefore, one of the great challenges to the Latin American financial system.

Capital Markets Division

Transactions and remuneration of the equities portfolio posted a record high in 2010

In 2010, the BNDES equities portfolio showed significant remuneration, which includes dividends, interest on capital and interest, and debenture premiums, totaling R$ 4.6 billion in the year, a record volume for the series which represents 4.2% of the average market value of the portfolio.

Transactions of the variable income portfolio was also highlighted, again surpassing the previous year, going from R$ 23.5 billion in 2009 to R$ 37.8 billion in 2010. The result was driven by the investment in capitalization of Petrobras, strengthening the representativeness of the variable income portfolio against total the assets of the BNDES.

Variable income portfolio – Investments/divestments/turnover

As a result of heavy investments in recent years and the appreciation of assets, market value reached approximately R$ 126 billion, according to the evolution shown in the following chart.
Within BNDESPAR’s portfolio, the BNDES system, at the end of the year, was represented on 10 fiscal boards, 31 management board, and 33 investment fund committees. Besides this, it was also a signatory for shareholder agreements in 58 of the 152 companies in which it retained a stake, thus contributing to the improvement of transparency and governance within the supported companies.

Made up of one Investment Department, two Company Monitoring Departments, one Capital Markets Department, one Legal Department and one Control Management, the AMC fosters and structures financial support through equity, convertible/exchangeable bonds, investment funds and other variable income instruments, together with the other divisions of the Bank. Furthermore, it is responsible for monitoring large-scale companies that make up the BNDESPAR portfolio as well as the divestment of such assets in structured deals, auctions and trading on the exchange floor.

In addition to BNDESPAR, the AMC manages equity portfolios for FPS, FGI and BNDES/FINAME deposited in the National Privatization Fund (FND), in accordance with Decree Nº. 1,68/1994, which ended the year in the following position:

<table>
<thead>
<tr>
<th></th>
<th>BNDESPAR</th>
<th>FPS</th>
<th>FGI</th>
<th>BNDES</th>
<th>AMC*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of companies</td>
<td>189</td>
<td>198</td>
<td>35</td>
<td>41</td>
<td>7</td>
</tr>
<tr>
<td>Number of funds</td>
<td>38</td>
<td>31</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Market value (in R$ billion)</td>
<td>118.5</td>
<td>102.7</td>
<td>1.26</td>
<td>1.75</td>
<td>0.65</td>
</tr>
<tr>
<td></td>
<td>7.4</td>
<td>0.6</td>
<td>126.0</td>
<td>104.0</td>
<td></td>
</tr>
</tbody>
</table>

* The AMC tracks the portfolio of large-scale companies in the BNDESPAR portfolio, as well as companies that make up the portfolios of the FPS, FGI and BNDES/FINAME (Decree Nº. 1,068/94).
Main operations and activities

Among AMC’s operations in 2010, the following can be highlighted within their respective economic sectors:

Foodstuff. Operations in the sector were marked by support for strategies aimed at industry consolidation and internationalization. A highlight is the investment of R$ 2.5 billion in Marfrig through bonds, which are mandatorily convertible into ordinary shares, to support the acquisition of Keystone and to strengthen the company’s capital structure. It should be noted that, under the contract, the company promised to fulfill the commitments in the BNDES’ Resolution Nº. 1,854/09, which aims to induce the adoption of the best social and environmental practices, not only within the activities of a meat-packing company, but also in the whole supplier chain.

Logistics and transport. The main highlight is the R$ 200 million investment through equity interest acquired in a public offering of ordinary shares in the EcoRodovias group, in order to finance the acquisition and development of new business. Besides this, the investment will help fund integrated logistics infrastructure projects, including opportunities within the scope of the Growth Acceleration Program (PAC), the 2014 World Cup and the 2016 Olympic Games in Rio de Janeiro. Another highlight is the debut in October 2010 of Latin America Logistics (ALL), the first company in the logistics industry in the New Markets segment of BM&FBovespa, which now includes the active participation of BNDESPAR as a relevant shareholder and signatory of its shareholders’ agreement.

Oil, gas and petrochemicals. The BNDES System participated in the capitalization of Petrobras in September 2010, investing R$ 24.7 billion in preferred and ordinary shares via a public offering of the company in order to support the company’s investment plan, which totals US$ 224 billion between 2010 and 2014. In the petrochemical sector, the highlight is the investment, through a capital increase, of R$ 240 million in preferred shares in Braskem, in connection with the acquisition of Quattor (former parent company of Rio Polímeros). The operation led to the consolidation of the domestic petrochemical industry and the positioning of Braskem as the largest petrochemical company in the Americas in thermoplastic resins.

Biofuels. In this sector, the investment of R$ 250 million in ordinary shares in Brenco Holding SA, at the moment there was an association with ETH Bioenergy. The investment contributed to the creation of a new company (with the same designation ETH Bioenergia), which is expected become a leader in ethanol production. The sheer size is expected to allow better access to capital markets, relevant gains in synergy and better positioning with regard to strategic changes in the industry.

Other investment/divestment operations. BNDESPAR invested R$ 1.1 billion in Hypermarcas through the purchase of simple
debentures issued by the company, coupled with stock warrants, in order to strengthen its capital structure to support its growth strategy and acquisitions plan, particularly to acquire NeoQuimica pharmaceutical, supporting the consolidation of the national pharmaceutical industry and in accordance with the guidelines in the Production Development Policy (PDP).

Within the scope of the Support Program for Public Offerings of debentures, the BNDES subscribed debentures of various companies in public offerings, investing R$ 1 billion over the year, mainly in companies in the electricity and highway concession sectors. In December 2010, assets in this portfolio amounted to a position of R$ 2.1 billion.

With respect to divestiture operations, which reached a total of R$ 5 billion in monetization, the highlight is the pulverized sales on the BM&FBovespa exchange floor in the amount of R$ 2.2 billion and the sale of ordinary shares of the Bank of Brazil (BB), totaling R$ 1.5 billion in a public offering in conjunction with the BB itself. This achieved the goal of raising the bank’s free floating shares to above 25% of the capital, the minimum percentage required in the rules of the New Market segment of the BM&FBovespa. The offer attracted more than 100,000 individual investors.

**Socio-environmental initiatives**

As a rule, companies requesting financial support through the use of variable income instruments go through a comprehensive analysis of environmental compliance. In this analysis, environmental permits are required for all projects within the company, not just those supported by the BNDES.

With respect to companies that are already part of the investment portfolio of BNDESPAR and in which BNDESPAR has a seat on their Board of Directors, the role and influence of the advisors appointed by the BNDES translates into incentives to adopt practices and projects of a socio-environmental nature in sectors where these companies operate. Such roles and influence should be in keeping with the Bank’s own priorities and strategic guidelines, as should the standard legal responsibilities with which advisors will be charged.

In the beef cattle-raising sector (slaughter and/or production of meat products), in addition to all legal requirements, the company requesting financial support must meet social and environmental criteria and guidelines set out in Resolution No. 1,854/2009 – BNDES, of October 27, 2009. The resolution seeks to induce the adoption of the best social and environmental practices, not only in the meat packing company’s activities, but also throughout the supply chain. The resolution also provides for the submission of monthly reports from independent auditors to monitor the fulfillment of commitments and the performance of other social and environmental clauses.
Indirect Operations Division

The Indirect Operations Division (AOI) is responsible for financing the acquisition or production of machinery and equipment and investment projects worth up to R$ 10 million, through financial institutions accredited at the BNDES.

AOI’s total disbursements reached R$ 70.4 billion in 2010, with 41.8% of the total disbursed by the BNDES and growth of 90.8% over 2009.

Disbursements are distributed across regions, by company size and by different sectors, according to the recipient’s profile. Emphasis is on providing services to micro, small and medium-sized companies (MSMEs) through different types of products managed by the Division: BNDES Finame (finances the production and commercialization of domestically manufactured machinery and equipment, accredited by the BNDES, and associated working capital); BNDES Finame Leasing (intended for leasing operations); BNDES Finame Agrícola (machinery and equipment for the agricultural sector); BNDES Automatic (investment projects up to R$ 10 million) and BNDES Card (revolving credit aimed at micro, small and medium-sized companies); in addition to the federal government’s Agricultural Programs.

Products

In 2010, the main highlight in comparison with the previous year was BNDES Finame, with a growth rate of 126.1% over the period, followed by BNDES Finame Agrícola, increasing 90.6%, and the Agricultural Program, up 84.1%. In absolute terms, the highlight was also BNDES Finame on account of operations with the Investment Maintenance Program (PSI). This type of product grew R$ 26.1 billion in disbursements, jumping from R$ 20.7 billion in 2009 to R$ 46.8 billion in 2010.
AOI Disbursements per product (in R$ million)

<table>
<thead>
<tr>
<th>Product</th>
<th>2009</th>
<th>%</th>
<th>2010</th>
<th>%</th>
<th>∆%</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNDES Finame</td>
<td>20,678</td>
<td>56.0</td>
<td>46,759</td>
<td>66.4</td>
<td>126.1</td>
</tr>
<tr>
<td>BNDES Finame Agrícola</td>
<td>2,814</td>
<td>7.6</td>
<td>5,361</td>
<td>7.6</td>
<td>90.6</td>
</tr>
<tr>
<td>BNDES Finame Leasing</td>
<td>636</td>
<td>1.7</td>
<td>601</td>
<td>0.9</td>
<td>-5.4</td>
</tr>
<tr>
<td>BNDES Automatic</td>
<td>6,354</td>
<td>17.2</td>
<td>6,117</td>
<td>8.7</td>
<td>-3.7</td>
</tr>
<tr>
<td>Agricultural Programs</td>
<td>3,961</td>
<td>10.7</td>
<td>7,290</td>
<td>10.3</td>
<td>84.1</td>
</tr>
<tr>
<td>BNDES Card</td>
<td>2,479</td>
<td>6.7</td>
<td>4,314</td>
<td>6.1</td>
<td>74.1</td>
</tr>
<tr>
<td>AOI total</td>
<td>36,922</td>
<td>100</td>
<td>70,442</td>
<td>100</td>
<td>90.8</td>
</tr>
</tbody>
</table>

**Size**

Disbursements sent to individuals and to micro, small and medium-sized companies reached R$ 44.5 billion in 2010, an increase of 94.0% over the previous year. Despite the AOI’s continuous development of efforts to foster operations by individuals and micro, small and medium-sized companies, its share of disbursements from the Division remained mostly stable at around 63% of total disbursements.

**Distribution of AOI disbursements per size (2010)**

- Large: 37%
- Medium-sized: 18%
- Micro/small: 33%
- Individuals: 12%

**Equipment**

Disbursements for machinery and equipment products through BNDES Finame, BNDES Finame Leasing and BNDES Finame Agrícola accounted for 74.8% of AOI’s total disbursements in 2010 (R$ 52.7 billion, from a total of R$ 70.4 billion). Due to the recovery of the Brazilian economy, all groups (transport, not transport and agriculture) grew over 100% in disbursements over the previous year, especially equipment other than transport, which increased 166.1% in the period.
Client support

Through the use of the communication channels, AOI’s clients become aware of the progress of their operations, resolved doubts concerning the different products’ norms and the programs made operational by the Division besides receiving information on the procedures required for carrying out operations and obtaining certification of products and manufacturers by the BNDES Finame and BNDES Card. The entire AOI team helps elaborate answers to questions that require further explanation.

Due to several advertising campaigns of the AOI’s products and programs, especially those aimed at fostering the BNDES Card, the number of visits in 2010 increased 62.5% compared to 2009.

Number of calls to the AOI/DESCO per subject

<table>
<thead>
<tr>
<th>Subject</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Card (not password)</td>
<td>208,642</td>
</tr>
<tr>
<td>Card (password)</td>
<td>62,772</td>
</tr>
<tr>
<td>Release status</td>
<td>528,856</td>
</tr>
<tr>
<td>Certification</td>
<td>12,359</td>
</tr>
<tr>
<td>Other/not classified</td>
<td>59,730</td>
</tr>
<tr>
<td>Total</td>
<td>872,359</td>
</tr>
</tbody>
</table>
Promotion efforts

The objectives of the Department of Relations with Financial Agents and Other Institutions (DERAI) are to foster the BNDES’ products and programs, training for financial agent and contacts with partners who can contribute to disseminating information on the Bank’s credit lines.

Development efforts are classified as training, lectures, fairs and other activities such as meetings with partners or other representative bodies. In 2010, 15 federal units were involved in 107 development activities across 65 municipalities.

### Number of events in 2010 compared to 2009

<table>
<thead>
<tr>
<th>Event</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>Aug</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Total 2010</th>
<th>Total 2009</th>
<th>Evolution (in %)</th>
</tr>
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<tbody>
<tr>
<td>Effort</td>
<td>-</td>
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<td>2</td>
<td>-</td>
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<td>-</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>-</td>
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<td>-</td>
<td>10</td>
<td>19</td>
<td>-47.4</td>
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<tr>
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<td>-</td>
<td>-</td>
<td>2</td>
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<td>2</td>
<td>1</td>
<td>2</td>
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<td>1</td>
<td>13</td>
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<td>-13.3</td>
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<td>10</td>
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<td>19</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>4</td>
<td>9</td>
<td>1</td>
<td>69</td>
<td>55</td>
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<tr>
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<td>1</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>2</td>
<td>1</td>
<td>15</td>
<td>11</td>
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<td>5</td>
<td>25</td>
<td>22</td>
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<td>6</td>
<td>11</td>
<td>2</td>
<td>107</td>
<td>100</td>
<td>7.0</td>
</tr>
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</table>

### Event audiences in 2010 compared to 2009

<table>
<thead>
<tr>
<th>Event</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>Aug</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Total 2010</th>
<th>Total 2009</th>
<th>Evolution (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effort</td>
<td>-</td>
<td>-</td>
<td>49</td>
<td>107</td>
<td>8</td>
<td>-</td>
<td>73</td>
<td>-</td>
<td>25</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>262</td>
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<td>-</td>
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<td>230</td>
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<td>50</td>
<td>6,945</td>
<td>7,017</td>
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<tr>
<td>Training</td>
<td>18</td>
<td>57</td>
<td>61</td>
<td>80</td>
<td>45</td>
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<td>527</td>
<td>463</td>
<td>83</td>
<td>9,653</td>
<td>8,801</td>
<td>9.7</td>
<td></td>
</tr>
</tbody>
</table>

### Information bureaus

The main outside partnership of the DERAI is with Information Bureaus. There are 55 bureaus spread throughout 25 federal units, responsible for providing service to local businesses (particularly MSMEs), answering questions and indicating which products and programs more accurately meet their investment needs. Taken together, the bureaus accounted for more than 9,000 individual calls, representing an increase of 10% over the previous year. In addition, they play a fundamental role in most of the development efforts carried out by the AOI /DERAI, by identifying opportunities for development, as well as for material and logistical support, or as speakers at seminars, meetings and fairs.
The net resources generated by the BNDES in 2010 were approximately R$ 172.1 billion, distributed according to the chart below.

Funding from the government stood out as the main source in 2010, with a 46.8% share in the net generation of resources and as an additional source that made the record volume of disbursements possible.

The return on credit operations represented the second largest contribution, with 44.9% of resource generation in 2010, which highlights the importance of volume and quality of the Bank’s credit portfolio in financing the disbursement budget.

Net earnings from income and monetization of fixed income and variable-income assets, together with foreign funding, accounted for 4.7% and 2.1% of the net generation of resources in 2010, respectively.
Finally, the net contribution of the Workers’ Assistance Fund (FAT), represented by the entries of new resources discounted from the service of their respective debt, accounted for 1.6% of net generation of the BNDES cash flow.

Capital structure (DEPCO)

Of the sources of funding that make up the capital structure, the weight of those of government origin stands apart, as they represent the predominant portion of the financing structure. Since 2009, with the entry of the funds raised under Law Nº. 1,1948/09, totaling R$ 100 billion, the Treasury became the largest creditor of the BNDES, followed by the FAT. In 2010, another R$ 105 billion was funded.

The breakdown of the capital structure predicts, with some degree of uncertainty and a time lag, the structure of sources of credit returns.

<table>
<thead>
<tr>
<th>Source of funding</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R$ billion</td>
<td>%</td>
</tr>
<tr>
<td>National Treasury</td>
<td>253,058</td>
<td>46.1</td>
</tr>
<tr>
<td>FAT</td>
<td>132,263</td>
<td>24.1</td>
</tr>
<tr>
<td>PIS-Pasep</td>
<td>30,828</td>
<td>5.6</td>
</tr>
<tr>
<td>Foreign loans</td>
<td>19,778</td>
<td>3.6</td>
</tr>
<tr>
<td>Other</td>
<td>47,194</td>
<td>8.6</td>
</tr>
<tr>
<td>Net equity</td>
<td>65,899</td>
<td>12.0</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>549,020</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Funding from the National Treasury

In 2010, the BNDES raised R$ 104.75 billion from the National Treasury in the form of federal government securities, of which R$ 80 billion was authorized by Law Nº. 1,2249/2010 and R$ 24.75 billion by Provisional Measure Nº. 505/2010. Funding in both cases carries the long-term interest rate (TJLP).

Workers’ Assistance Fund (FAT)

On December 31, 2010, the balance of funding from the FAT at the BNDES was R$ 132.25 billion. Of this total, R$ 110.68 billion constituted the balance of the Constitutional FAT and R$ 21.57 billion, the balance of FAT Special Deposits.

Throughout 2010, the BNDES had an inflow of R$ 12.23 billion of new resources from FAT, of which R$ 11.38 billion was from the Constitutional FAT, and R$ 850 million from FAT Special Deposits (R$ 750 million allocated in the FAT Program to Foster Small and Medium-sized Companies and R$ 100 million in Pronaf Investment).

PIS-PASEP Fund and FSA
On December 31, 2010, the total resources of the PIS-Pasep Fund at the BNDES was R$ 30.8 billion. Throughout 2010, the BNDES received a total of R$ 342.9 million in commissions, including risk rate and administration commission, related to the application of the fund’s resources.

The balance of resources in the Audiovisual Sector Fund (FSA) at the BNDES totaled R$ 46.8 million on December 31, 2010. Throughout 2010, the BNDES had an inflow of R$ 5.1 million of new resources from the FSA to apply in A program for the interdependent development of the entire production segment of audiovisual activities.

**Funding through bonds**

In December, BNDESPAR concluded its fifth and largest public offering of simple debentures with a focus on widespread distribution, including small investors (retail). The issue had a volume of R$ 2.025 billion and achieved the significant demand of R$ 5.5 billion for the securities, of which more than R$ 3 billion was earmarked for an innovative feature in the offer: a floating series structured as the pilot operation for the “Brazilian LIBOR”.

Debentures were issued in three series: the first for R$ 500 million yields a fixed rate of 12.51% p.a.; the second for R$ 1 billion has a floating yield set quarterly (Brazilian LIBOR) equivalent to the preset rate of the 3-month DI Future Contract plus 0.30% p.a.; and the third for R$ 525 million yielding 6.2991% p.a. corrected by the IPCA. The first and second series matures in January 2014, and the third series, in January 2017.

This operation, mainly due to the innovative nature of the structure, once again fulfilled the BNDES’ goals to contribute to the development of capital markets and to consolidate its partnership with market participants in order to open new channels for financing development.

**Financial protection operations in the local market**

(DEFIX and DEPOL)

In 2010, several hedge operations using derivative instruments on BM&FBovespa and in local financial institutions were performed. At the end of this year, the position held by the BNDES in derivatives reached approximately R$ 10.7 billion.
Application of the international accounting norms (IFRS)

On December 31, 2010, the BNDES completed its first set of financial statements prepared in accordance with International Financial Reporting Standards (IFRS) – in compliance with Bacen Communication Nº. 14,259/06 and BACEN Resolution Nº. 3,786/09. It was a challenge that involved great efforts not only from Bank employees, but also from consultants and independent auditors. The main impacts, net after tax effects, came from applying IAS 28 – Investments in Affiliates, IAS 12 – Income Taxes, and IAS 39 – Financial Instruments Recognition and Measurement. Another aspect that received attention was compliance with IFRS 7 – Financial Instruments: Disclosure, which altered the qualitative and quantitative information on financial instruments to be disclosed. Explanatory note Nº. 4 of the BNDES’ consolidated financial statements under IFRS presents the main effects in detail.

In the same way, BNDESPAR completed the process of implementing the pronouncements issued by the Accounting Pronouncements Committee (CPC), approved by the CVM for mandatory implementation in 2010. The main impacts, net after related tax effects came from applying CPCs 38, 15 and 18 and are represented by: (a) adjustment to fair value of the portfolio of equity investments in non-affiliated companies, which was classified “available for sale”; and (b) the designation “fair value through profit or loss” of debentures with embedded derivatives. Explanatory note Nº. 3 of BNDESPAR’s consolidated financial statements under IFRS presents the main effects in detail.

Industrial Division

In 2010, Brazilian industry showed strong recovery after the impact suffered in 2009 due to the international financial crisis. During this period, the activities of the Industrial Division (AI) focused on supporting the expansion of supply and fostering a diversified, sustainable and competitive production structure, playing a prominent role in supporting innovation.

Disbursements in the division reached R$ 16.5 billion in 2010, of which R$ 11.4 billion was fixed-income and R$ 5.1 billion was variable-income securities. In 2010, the BNDES’ Board of Directors approved financial support operations totaling R$ 18.2 billion. Disbursements for technological innovation amounted to R$ 654 million.

Among the sectors, the spotlight is on agricultural industry, which has the largest share of disbursements in variable-income securities (74%) and in area total (33%). In fixed income, the sugar energy sector had the highest share in fixed income disbursements (34%), closely followed by the consumer goods industry, as well as the trade and services sector (26%).
In relation to the agricultural sector, where disbursements reached R$ 5.9 billion in 2010, continued support was provided to implement, expand and modernize industrial units of private companies and agricultural production cooperatives, operating in different segments (chickens, pigs, grain, dairy, etc.). The highlight was the joint efforts between the Environmental and Capital Markets divisions to encourage the adoption of better social and environmental practices by the meat-packing facilities, and with the Venture Capital division to support the consolidation of the Brazilian dairy industry.

Within the scope of heavy industry, support was provided for projects to modernize and expand industries in the machinery and equipment sector, whose beneficial effects impact other segments of the national economy. The internationalization project was also given support, by financing the implementation of an industrial unit abroad, proving the competitiveness of the industries in the sector. The BNDES’ support also helped to increase the competitiveness of the domestic auto industry, financing fixed investments and others in engineering related to the launch of several models of cars and heavy vehicles, in addition to engine development, aimed at improving environmental performance. Projects approved in the BNDES’ Proengineering Program totaled R$ 533 million in funding, with total investments of R$ 1.2 billion.

Regarding the electronic segment, the division supported company innovation through the Technology Fund (BNDES Funtec), Lines of Innovation – Innovative Capital, Technological Innovation and Innovation Production – and of the BNDES Prosoft Enterprise Program. In 2010, the innovation portfolio in industry totaled 103 approved or contracted operations, representing a total commitment of resources of R$ 1.9 billion.

In the ethanol sector, there was a significant increase in support from the BNDES, which is proven by the growth in expenditures, which exceeded R$ 7.5 billion. Of this amount, some R$ 4 billion were released directly, which is almost 20% higher than in the previous year. This growth demonstrates that the long-term fundamentals of the sector are still valid, and, therefore, investors’ appetite for the ethanol sector has remained strong. Such investments, which were earmarked mainly for the expansion and implementation of sugarcane processing units, were also encouraged largely by the increased interest in expanding production of bio-electricity driven by bagasse, which has increased the share of renewable energy in Brazil’s electric energy grid.

The consumer goods and trade and services sectors include a wide variety of segments supported by the BNDES, with one striking feature: the intense generation of registered employment, especially people’s first job. The year 2010, when disbursements amounted to R$ 3.0 billion, was marked by companies returning to investments in the non-durable goods segment, after the 2009
Within the scope of the health-industrial segment, the spotlight is on the approval of innovation projects with high technological content, in areas identified as priorities for the National Health System (SUS) in Brazil. The development and production of stem cells and biotechnology-based medicines for the treatment of oncological and autoimmune diseases as well as the construction of infrastructure to perform preclinical testing in the country are examples of projects contracted in 2010 by the BNDES’ Profarma-Innovation and Funtec programs. The BNDES thus demonstrates its priority in developing the health industry: to seek a blend of the economic aspect, with a competitive and innovative industrial base, together with the social approach in order to meet the country’s health care needs.

ProCopa Tourism

In 2010, the BNDES, in a joint effort with the federal government to prepare the country for the 2014 World Cup, launched ProCopa Tourism to support the hospitality sector with the aim of increasing the capacity and quality of accommodation offered to tourists from Brazil and abroad who will attend the event.

The BNDES ProCopa will dedicate, up to 2014, a total of R$ 1 billion for the construction, renovation, expansion and modernization of hotels. In 2010, funds were approved for three hotel projects, totaling R$ 232 million, of which R$ 31 million has already been disbursed.

International Division

The efforts in the International Division (AINT) have been positively highlighted in the international post-crisis scenario, maintaining approaches to expansion and diversification of funding operations, development of international institutional relationships and the drafting of proposals for strategic efforts. Thus, the division has accumulated know-how for the BNDES’ international operations, coordinating the relationship with foreign governmental and private institutions, especially financial organizations and agencies. The AINT has also identified opportunities to support internationalization in tandem with efforts involving direct investment, production integration as well as industrial cooperation, fostering technical cooperation with agencies and institutions.
The AINT dedicates its efforts to structuring new activities abroad, including through the BNDES’ external units (the London subsidiary and the Montevideo office), which shows a more robust work scenario for the coming years. Additionally, it interfaces with the BNDES’ Planning Department to prepare instructions for the request of financial support and the creation of programs and products, including those supporting investments in Latin America, Africa and other regions.

In the field of fundraising on the international market, the AINT in 2010, through the issue of bonds and equity offerings in partnership with the Financial Division, operated in managing and in investing resources from fundraising, preparing reports and periodic follow-ups. Its work involved assessing the evolution of the fixed-income market as well as coordinating studies and the development of an information system on the macroeconomic and political environments abroad. Efforts also focused on structuring the Bank’s participation in sovereign funds, especially in the development of the financial modeling operation.

In the US dollar and euro markets, the AINT borrowed US$ 1 billion (January) and € 750 million (September) respectively. In both markets, investor demand was higher than supply, attracting a great number of investors with different profiles, which demonstrated confidence in the BNDES’ credit risk. The success of these funding operations consolidates its presence in the market and strengthens the dialog with foreign investors. Road shows were held to present the credit quality of the BNDES to European investors, meeting with investors in Asia, and events during meetings on international finance and in the headquarters of the BNDES.

In institutional relations and fundraising with multilateral organizations and government agencies in 2010, the AINT coordinated the formatting and the formalization of cooperation with Qatar Holding LLC, Abu Dhabi Investment Authority, China Development Bank, Vnesheconombank, India Eximbank, African Export – Import Bank and Banque Ouest Africaine de Développement. Still within the scope of the relationships held with these institutions, the AINT held institutional fundraising operations of US$ 1.128 billion, of which: US$ 1 billion came from the Inter-American Development Bank (IBB), under the Second Agreement of Conditional Credit Line, already disbursed to operations in support of the Multisector Credit Program for Small and Medium-Sized Companies, US$ 68 million from Kreditanstalt für Wiederaufbau (KfW), to support the implementation of small hydropower plants (PCHs) and US$ 60 million from the Nordic Investment Bank (NIB) already disbursed to operations in support of investment projects involving Nordic companies headquartered in the member countries of the NIB. These funding operations
showed greater concern for environmental issues, such as corporate sustainability and renewable energy.

Regarding internationalization, the AINT supported international projects of Brazilian firms, built up know-how and international strategies, besides structuring and managing the activities of the foreign offices in London and Montevideo.

Through its Montevideo office, the AINT has been implementing and consolidating efforts within the scope of the Mercosur and of the Latin American Integration Association (Aladi), supporting governmental missions, meetings and business rounds in the region, coordinated by the Foreign Relations Ministry (MRE) and by the Ministry of Development, Industry and Foreign Trade (MDIC). The office also operates within the business scope, prospecting opportunities for developing programs and financial products.

The main objective of BNDES Limited, a wholly-owned subsidiary in London established as a holding company, is to implement the policy to support the internationalization of Brazilian companies, periodically raise funds and manage its own and third party resources. In the phase of structuring its activities, the subsidiary operated during 2010 to strengthen institutional representation and its inclusion in the international business environment.
People Management
In 2010, the BNDES developed several efforts aimed at acknowledging the value of people. Last year, there was a large staff turnover, with 84 retirements and 314 admissions, representing growth of 14.06% in the workforce compared to 2009 and a renovation of approximately 12% of the Bank’s staff. Admissions were intended to replace retirees and to increase the headcount, a result of the adoption of Order Nº. 09/2010, of the Department of Coordination and Governance of State Owned Enterprises (DEST), attached to the Ministry of Planning, Budget and Management.

The Human Resources Division (ARH) is committed to fostering the transfer of knowledge and dissemination of organizational values to support this renewal. Newly-hired employees participated in the New Employee Development Program, which aims to accelerate their integration to the work processes, as well as to provide a general idea of the BNDES, to extend the institutional vision and to transmit the organizational culture.

In order to preserve the excellence of its staff and the transmission of knowledge and principles to new employees, the ARH has implemented the Values Project, in order to report and disseminate the BNDES’ values: ethics, commitment to development, public spirit and excellence.

Given the relevance of the division for the institution, 2010 was chosen by senior management as the Year of Values. The work group responsible for the project fostered such efforts as the Values Week, with discussion groups on values; the Literary Contest, which resulted in the publication of a book with the texts produced by employees on the practice of values; and Values Cinema, with selected film screenings and discussions. In continuing the project, the ARH held special meetings to further reflect on the practice of values in each division of the Bank.

The ARH’s relations with employees became closer-knit in 2010 with the overhaul and expansion of the communication channel and services for staff, which became known as Channel HR. Likewise, the interface with the ARH managers was intensified through the work of the Business Partners, in understanding the role and specific needs in each division.

Based on the strategic guidelines defined in Corporate Planning, the ARH program structured the Strategic Management of People Program, based on four pillars: management by competencies, corporate education, career management and performance management. The mapping of behavioral competencies was completed, and the survey of techniques and discussions on career management were started all in 2010. All these activities are conducted with the participation of employees, through modeling groups made up of representatives from all strata of the organization.
To analyze the work environment and employee satisfaction with regard to several aspects of the organization, Organizational Climate – Atmosphere was implemented, starting the 2010-2012 cycle. Some 70% of the employees participated in the organizational climate survey. The structuring of plans of action to improve the organizational climate, including specific efforts for each division and general efforts for the whole Bank, were started after the investigation.

In order to minimize social inequality in its surroundings and to offer a new possibility in the future to young people living on the margins of society, the BNDES has been promoting the Young Apprentice program since 2007. In 2010, some 44 low-income youths up to the age of 18, high school or primary level students participated in the program coordinated by the São Martinho Foundation. During the program, the youths are required to maintain good academic records, and, in addition to receiving a scholarship for the support activities performed at the BNDES, they must also attend professional training classes.

**Gender equity and appreciation of human diversity**

The BNDES' efforts focused on gender issues and appreciation of human diversity are aimed at contributing to the elimination of all forms of discrimination in hiring, pay, promotion and job stability.

- **Gender Pro-Equity**

  Aware of its commitment to establishing a work environment that values human diversity, The BNDES voluntarily participates in the Gender Pro-Equity Program, sponsored by the Special Secretariat of Policies for Women (SPM) of the Presidency of the Republic.

- **Gender statistics**

  Admission to the BNDES is carried out through public recruitment exams. In recent years, it has been possible to identify a trend of increased participation of women in the Bank’s workforce, which confirms the importance of developing efforts to promote gender equity.
Distribution of the BNDES staff per gender

36% Women
64% Men


Distribution of the BNDES' executives per gender

37% Women
63% Men


• Gender Pro-Equity Seal

In acknowledgment of the fulfillment of the action plan focused on gender issues, the BNDES received the Gender Pro-Equity Seal awarded from the SPM. It is the second consecutive time that the Bank is included in the select list of organizations that have the right to use the seal on their institutional communication.
• **Special effort: Espaço Deleite (“Breastfeeding Space”)**

The Support Room for Breastfeeding (Espaço Deleite) has made it possible for mothers to store the milk during working hours, to take it home and maintain breastfeeding once maternity leave is over. It is also possible to donate it to the Human Milk Bank of the Fernandes Figueira Institute. Acknowledging the importance of breastfeeding is important for the health of babies and allows mothers to continue their careers without constant worry. The initiative has already benefited 29 mothers since its inauguration on September 3, 2009.

• **Appreciation of human diversity**

In the context of diversity, the spotlight is on the creation of the possibility to opt for race/color on each employee’s personal record in the database, the inclusion of partners in same sex relationships as dependents under the health plan, and offering jobs to the disabled in public exams.

The acknowledgment of diversity and the combat against discrimination are principles stated in Code of Ethics of the BNDES System.

• **Race/color statistics**

_Distribution of the BNDES’ staff per race/color_

- 79.2% White
- 13.3% Mixed
- 1.8% Black
- 0.3% Indigenous
- 4.3% Not reported
- 1.1% Yellow

Source: BNDES.
In acknowledgment of the fulfillment of the action plan focused on gender issues, the BNDES received the Gender Pro-Equity Seal awarded from the Special Secretariat of Policies for Women.
Presidency of the Republic
Luiz Inácio Lula da Silva

Ministry of Development, Industry and Foreign Trade
Miguel Jorge

BNDES

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