

2005

ANNUAL REPORT

Brazilian Development Bank



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MESSAGE FROM THE PRESIDENT

2005 was an year particularly important to Banco Nacional de Desenvolvimento Econômico e Social [BNDES], which, with a record of R\$ 47 billion in disbursements, expanded by 18% its credit releases for the Brazilian economic and social development.

In 2005, BNDES carried out changes in its Operating Policies to best adequate them to the new reality for an economic sustainable growth. Months of reflection and technical studies were spent for the adoption of measures in favor of reducing costs and providing higher access to BNDES credit. The new Operating Policies approved in December reduced financing costs – an average reduction of 30% in spreads – and defined clearly the Bank's operating priorities, with emphasis in innovation and infrastructure investments, essential to increase Brazil's competitiveness at a moment in which the inclusion of Brazil's role in globalization has to be of an active player and not only of a mere spectator or modest assistant.

The emphasis in Brazil's economic deconcentration, with a better spatial distribution of investments and more equitable development, was expressed in the new Operating Policies, also giving priority to structuring projects in the North and Northeast regions and directing a higher volume of resources to micro, small and medium enterprises.

Brazil faces today an especially favorable situation, which allows forecasting for 2006 a GDP growth much higher than in 2005. It will be the third consecutive growth year, a rare fact in the last 20 years, making possible the consolidation of a new development cycle, with very peculiar and favorable characteristics.

This new cycle combines economy expansion, increase in productivity, decrease in foreign dependency, employment generation, increase in salaries, and reduction in social and regional inequalities.

Brazil has already presented higher growth rates than those observed in the recent period. However, they were followed by unfavorable conditions, making such expansion of short duration and almost always with an unequal distribution of wealth. Those were periods of expansion supported by an increase in public debt or by an increase in foreign indebtedness, and in a scenario of growing inflation.

Now we are facing a qualitatively distinct growth, based on unprecedented conditions, as result of efficient economic and social policies. We have inflation under control and an economic growth based on a solid fiscal policy, an independent foreign policy and a strong foreign trade, so reducing the country's vulnerability.

As an instrument of the Brazilian State for the application of a modern and efficient industrial and technological policy, BNDES made every effort in 2005 to improve the quality of its credits, by stimulating industry, agriculture, trade and services to

aggregate a higher value to production. BNDES support to exports is reflected in our foreign trade performance. The R\$ 11.2 billion in financing directed to micro, small and medium enterprises operating in domestic or foreign market helped, on the other hand, to generate employment and to improve the income distribution indicators.

With a technical staff highly qualified and committed to Brazil and the Brazilian people destinies, BNDES works for the consolidation of this new development cycle. Democratizing the credit, accelerating the release processes and stimulating growth with social justice is BNDES's role. And also its commitment.

Guido Mantega

President

THE BRAZILIAN ECONOMY IN 2005

The market forecasts indicate a real gross domestic product growth of 2.5% in 2005. Although GDP growth was lower than that of the previous year, the positive performance of main economic variables in 2005 and a scenario of falling interest rates – in a context of a continuous, extremely favorable global overview – set the basis for a more accelerated Brazilian economic growth in 2006.

With regards to activity level, the preliminary data show an investment rate of around 20% of the GDP in 2005, compared to 19.6% in 2004. Concerning industry, an expansion of 12% in durable goods production stands out, stimulated mainly by an increase in credit. The average unemployment rate – measured by the Brazilian Institute of Geography and Statistics [IBGE] – maintained the drop tendency observed in recent years, reaching 9.8% in 2005, compared to 11.5% and 12.3% recorded in 2004 and 2003, respectively. According to preliminary data from the Ministry of Labor and Employment, the formal employment rate grew around 5.7% in 2005, as compared to 2004.

With respect to inflation, the Extended Consumer Price Index [IPCA] accumulated a variation of 5.69% in 2005, slightly above the adjusted goal of 5.10%, but within the variation interval of 2.5 percentage points in relation to the goal's center (4.5%). The consumer inflation rate forecast for 2006 is an accumulated variation of 4.58% in the year, close to the goal of 4.5% set forth by the National Monetary Council [CMN]. For the first time since the goal system was implemented in the Brazil, the year opens with an inflation expectation that is in line with the goal to be pursued by the Brazilian Central Bank.

Throughout 2005, the main highlight went to the foreign sector. Brazil achieved a record trade surplus of US\$ 44.8 billion that largely surpassed analysts' expectations, which led to a balance of US\$ 28 billion in the beginning of the year. Exports and imports' results of US\$ 118.3 billion and US\$ 73.5 billion respectively, are also historical records, and allowed for a trade flow equivalent to US\$ 191.8 billion in 2005, a value that is 20.4% above the US\$ 159.3 billion result of 2004. This splendid result is due mainly to the strong growth in the international economy, led by an expansion in the United States and China, which meant a large increase both in the demanded quantity of goods and services and in international prices.

The recent performance of Brazilian exports is surprising not only because of the record values reached, but also due to the observance of a growth rhythm at rates higher than those in global trade. In the last three years, the accumulated increase of Brazilian exports was 96.0%, equivalent to an annual average rate of 25.1%. In 2005 specifically, Brazilian foreign sales increased at a more significant rate (22.6%) than the 13.6% forecasted by the International Monetary Fund (IMF) for increase in global exports. As a result, Brazil's share in these exports has been increasing in recent years, growing from 0.93% in 2002 to 1.13% in 2005.

The excellent trade performance is reflected in the current account balance, which recorded a surplus of US\$ 14 billion. The favorable foreign situation is confirmed by a significant reduction in the foreign indebtedness indicators: for example, the total net debt/exports relation decreased from 2.7 in 2002 to 1.0 in 2005. The huge foreign accounts adjustments, in a context of accelerated global expansion and high international liquidity, allowed the Brazilian Central Bank and the National Treasury to restore the level of international reserves, reduce debt exposure to the exchange rate and improve the internal debt profile. Net international reserves reached, in December 2005, the amount of US\$ 51 billion, a value 82% above the number recorded at the end of 2004. The favorable foreign situation enabled Brazil to anticipate a payment of US\$ 15.5 billion to the IMF, ending the country's indebtedness with that institution.

With regards to public accounts, the emphasis in fiscal austerity, combined with the growth of the economy, has, in recent years, led to a significant reduction in the net public debt/ GDP relation: there was a decrease from 57.2% of the GDP, achieved in 2003, to 51.6% in 2005. The high primary surpluses recorded by Brazil in recent years have contributed to that result. In 2005, the primary surplus reached 4.84% of the GDP, significantly surpassing the goal for the year (4.25%).

With respect to the share of indexed federal public securities, the highlight continued to be the significant share reduction in securities indexed to foreign exchange in total public debt, which has been occurring in recent years. In 2005, the share of these securities in total federal public securities was around 3%, the lowest in recent years and much lower than the 30% recorded in 2001. Additionally, the share of prefixed securities in detriment of post-fixed securities (remunerated at over-Selic rate) has been increasing: in December 2005, the prefixed securities comprised 27% of total federal debt, compared to 18% in January 2005. The share increase in these securities should continue in the next months, considering the reduction in over-Selic rate.

In recent years, the strengthening of macroeconomic bases has been reflected in the strong reduction in sovereign risk evaluation: measured by the Emerging Markets Bond Index (EMBI+), the index was 300 points in December 2005, significantly above the peak of 1,439 recorded in the end of 2002.

Average market expectations forecast a GDP growth between 3.5% and 4.0% in 2006, and an accumulated inflation rate of 4.6%.

NATIONAL BANK FOR SOCIAL AND ECONOMIC DEVELOPMENT – BNDES

Banco Nacional de Desenvolvimento Econômico e Social [BNDES] was established on June 20, 1952 with the aim of stimulating and supporting endeavors that contribute to Brazil's development, to improvements in the quality of life of the Brazilian population, as well as to improvements in the domestic economy's competitiveness.

BNDES's mission is to “support programs, projects, works and services related to Brazil's social and economic development” (art. 3 of BNDES bylaws). As such, the bank has the aim of developing the nation and reducing regional and social inequalities through the creation of jobs and income, taking into consideration priorities such as social inclusion, infrastructure recovery and development, exports, productive structural expansion, regional development, incentives for small and medium-sized enterprises and investment and improvement in domestic technology.

In order to meet its mission, BNDES finances the modernization of Brazilian companies' facilities, as well as the acquisition of machinery and new equipment produced in Brazil. This is carried out by the Special Agency for Industrial Financing [FINAME].

Most of the invested resources come from the Worker's Support Fund [FAT], made up of workers' resources and managed by BNDES. For every dollar coming from the Fund, the Bank matches a remuneration equivalent to the Long-Term Interest Rate [TJLP].

BNDES's financial support programs apply to endeavors of all sizes and sectors. In order to ensure that companies throughout the country have access to credit, BNDES has partnership agreements with financial institutions operating nationwide.

OPERATIONAL PERFORMANCE – LARGEST DISBURSEMENT IN BNDES HISTORY

BNDES disbursements reached R\$ 47 billion in 2005, with a significant growth of 18% in relation to the R\$ 40 billion applied in 2004. From the total amount released by the Bank, R\$ 46.98 billion was destined to the financing of medium and long-term investments and to exports, while R\$ 105 million was applied in the secondary market.

Taking into consideration that inflation rate measured by the Extended Consumer Price Index [IPCA] accumulated a variation of 5.69% in 2005, BNDES disbursements' growth in real terms was 11.65%.

BNDES: EVOLUTION IN ANNUAL DISBURSEMENTS (IN R\$ BILLION)				
YEAR	Financing and Share	Secondary Market	Total Disbursements	
2000	23.0	0.3	23.4	
2001	25.2	0.5	25.7	
2002	37.4	0.7	38.2	
2003	33.5	1.6	35.1	
2004	39.8	0.2	40.0	
2005	47.0	0.1	47.1	

PERFORMANCE PER SECTOR

BNDES disbursements' growth was led by an expansion in operations destined to industry. In 2005, R\$ 23 billion was directed to the sector, with an increase of 49% compared to the previous year. The highlight was represented by R\$ 2.8 billion destined to the Mechanical sector, with a rise of 163% in relation to 2004. It should be noted that Trade and Services and Infrastructure sectors also presented increase in disbursements, of 22% and 13%, respectively.

On the other hand, disbursements for the farming sector were R\$ 4.1 billion in 2005, with a significant decrease of 41%, when compared to 2004. Unfavorable climatic conditions faced by the Brazilian farming sector, with a consequent fall in investments, help to explain the reduction in BNDES disbursements for that sector.

BNDES: DISBURSEMENTS PER SECTOR (IN R\$ BILLION)			
SECTOR	2005	2004	% Variation
Farming	4.06	6.93	-41
Industry	23.44	15.78	49
Infrastructure	17.10	15.17	13
Trade/Services	2.38	1.95	22
Subtotal	46.98	39.83	18

REGIONAL PERFORMANCE

In regional terms, it should be noted the increase of 39% in BNDES disbursements for the Northeast Region in 2005, in relation to the previous year. On the other hand, there was a reduction in disbursements for the Center-West Region. Similarly to what occurred in farming operations, a decrease in volume of operations in the Center-West Region is due to the adverse climatic conditions, which had a strong effect in investments for that region.

The Southeast Region, given its weight in the country's industrial structure, continued to lead disbursements, with a volume of R\$ 28.7 billion in 2005 operations. Following in significance are operations for the South Region (R\$ 9.6 billion), Northeast Region (R\$ 3.8 billion), Center-West Region (R\$ 3.3 billion) and North Region (R\$ 1.6 billion).

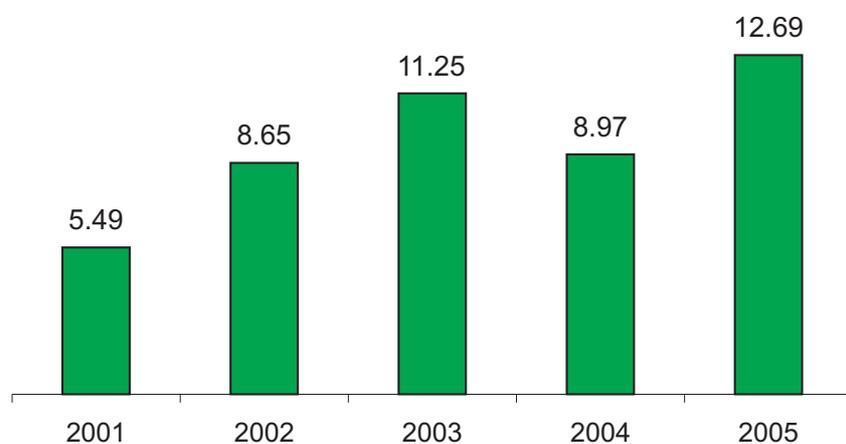
BNDES: DISBURSEMENTS PER REGION (IN R\$ BILLION)*			
Regions	2005	2004	% Variation
North	1.6	2.0	-17
Northeast	3.8	2.7	39
Southeast	28.7	21.3	35
South	9.6	8.7	10
Center-West	3.3	5.2	-37
Brazil	47.0	39.8	18

*Financial applications in the secondary market are not included.

Taking into consideration the operations approved, it should be noted the significant growth in the North and Northeast regions, which grew 101% and 159%, respectively, in relation to 2004. As to the Center-West Region, the explanation for a fall in approvals should also be attributed to the adverse climatic conditions, which had a strong impact on investments for that region.

BNDES: APPROVALS PER REGION (IN R\$ BILLION)					
Region	2001	2002	2003	2004	2005
Center-West	1.23	2.88	4.29	5.26	3.65
Northeast	3.42	4.21	4.95	2.74	7.09
North	0.84	1.56	2.02	0.97	1.95
Total CW/NE/N	5.49	8.65	11.25	8.97	12.69
Southeast	16.94	25.64	20.37	21.58	30.53
South	4.70	6.78	8.74	7.35	11.27
Total SE/S	21.64	32.42	29.11	28.93	41.81
Brazil	27.13	41.07	40.36	37.90	54.49

BNDES Approvals for CW/NE/N Regions (R\$ Billion)



TRANSFERS OF FUNDS

In 2005, BNDES performed 117.5 thousand operations through institutions accredited as fund transferring institutions. The value reached R\$ 24.9 billion, corresponding to 53% of total disbursements. The Bank operated with 84 transfer agents, led by Bradesco BM, with R\$ 4.3 billion; Banco do Brasil, with R\$ 4.1 billion; Unibanco, with R\$ 2.6 billion; and Votorantin BM, with R\$ 1.3 billion.

Just for micro, small and medium-sized enterprises, the number of operations was 108.5 thousand, with total disbursements of R\$ 11.2 billion. The leading financial agents in this sector were Bradesco BM, with R\$ 2.3 billion; Banco do Brasil, with R\$ 1.3 billion; DaimlerChrysler, with R\$ 815 million; and Volkswagen B, with R\$ 711 million.

CURRENT RULINGS – FOR ALL, FASTER AND CHEAPER

From 2003 on, BNDES has undergone a deep transformation in its internal structure, from a different view of the developing bank model by the new managements.

According to this perception, BNDES shall play the active role in the national development, posing as principle a deep sectorial knowledge of the economy that allows a differentiated performance in sectors with distinct needs, upon loans cost reduction for priority sectors.

Besides, the Bank shall be a democratic credit instrument, accessible also to micro, small and medium enterprises and to less favorable regions of the country, so as to it can be effectively the “Developing Bank for All Brazilians”.

The speed in loans concession is also fundamental, enabling companies to create the *windows of opportunity* that open momentarily in their different sectors of performance, in a world more and more globalized.

The prior structure of the Bank that was effective between 2001 and 2002 was divided in products areas (responsible for the operations analysis and hiring) and clients areas (entrusted of receiving consultations and relation with potential borrowers).

This model, typical of commercial and investment banks, aimed at the profitability of operations and enabled technicians to analyze operations of diverse sectors, preventing the sectorial specialization, which would allow getting to know its difficulties and peculiarities and thus allow the effective developing performance.

Thus, between 2003 and 2005, the sectorial structure was restored, with the division of operational areas in social inclusion, industry, basic inputs, infrastructure and energy, capital market, indirect operations and foreign trade.

In turn, in each area, departments for analysis of specific sectors were created, as follows:

- Infrastructure and Energy Area [AIE] – oil, gas and alternative sources [DEGAP]; electric energy; telecommunications; and logistics;
- Basic Inputs Area [AIB] – pulp and paper; chemical industry; and basic industry [DEINB];
- Industrial Area [AI] – electronics and software [DEIEL]; pharmaceutical products [DEFARMA]; heavy industry [DEPIP]; consumer goods; trade, services and tourism; and agroindustry;
- Capital Market Area [AMC] – investment; innovation in small and medium enterprises and investment funds [DEIN]; follow-up and portfolio management; and capital market;

- Foreign Trade Area [AEX] – integration of Latin America; and diverse department with sectorial division;
- Social Area [AS] – urban development; regional development; solidary economy; and social operations;
- Indirect Operations Area [AOI] – BNDES card and internet operations; machines and equipment [DEMAQ]; investment projects; operations follow-up; and relations with financial agents;

The support to federal government Industrial, Technologic and Foreign Trade Policy also stand out, through the creation of specific departments or areas for each one of the strategic options of that policy, as for:

- pharmaceutical products, through DEFARMA;
- semiconductors and software, through DEIEL; and
- capital goods, with DEPIP and DEMAQ.

And for each one of the identified *carriers of the future*:

- biotechnology and nanotechnology, through DEFARMA, DEIEL and DEIN; and
- biomass, through DEGAP.

It is to be noted that the maximum importance is given to the incentive to innovation in companies, based on the evidence that the Brazilian industry is, in many areas, strong in terms of efficiency in production, but comparatively weak considering the innovation use in the differentiation of processes and products.

Thus, besides the creation of specific departments for analysis of innovative companies' projects, important mechanisms were organized for the incentive to innovation in companies, particularly with the restructuring of BNDES Operational Policies, with the concession of financings with fixed interest rates of 6% to the generation of innovation.

It is also to be noted that the variable income operations carried out by the Small and Medium-Sized Enterprises Innovation and Investment Funds Department [DEIN], allowing capitalizing innovative companies in order to enable their business plans.

Thereafter, in 2005, the rulings that aim at turning BNDES into the “Developing Bank for All Brazilians” were defined and they are:

- **For All**, democratizing the access to BNDES resources;
- **Faster**, speeding up the performance; and
- **Cheaper**, reducing the cost of loans for priority sectors.

For such, diverse actions were taken in order to enable those rulings. Within the actions, the following can be highlighted, according to the ruling:

FOR ALL

1. Improvement of BNDES Card, enabling credit expansion to small enterprises upon the installments term (from 24 to 36 monthly equal installments) and credit limit (from R\$ 50 thousand to R\$ 100 thousand), along with the development of two advertising campaigns to divulge this new product.
2. Approval of the new Microcredit Program [PMC], with Long Term Interest Rate [TJLP] +1.5% p.a. for operations with transfer agents of first floor and only TJLP for transfer agents of second floor. Establishes the limit of 4% p.m. (including the financial agent) for the total remuneration to the final borrower.
3. Accreditation of rural credit central cooperatives to perform as financial agents of BNDES and International Competition [FINAME]. Cooperativa Cresol-Baser and Cooperativa Cresol-Central were accredited.
4. Destination of R\$ 300 million for the Financing Program Citizens Online – Computer For All, destined to finance the acquisition of computers by the population, with maximum final flat fee of 3% p.m. and provided that the maximum price to the final consumer is R\$ 1,400.00.
5. Creation of the Program for Collective Productive Investments [Proinco], to enable investments that benefit workers, producers and small national enterprises with collective performance. With the program, undertakings such as technological centers, labor formation centers, purchase and trade centers, carried out by cooperatives, associations of companies or producers and other institutions, may be supported directly with refundable resources [Finem] or non-refundable resources [Social Fund] or, yet, with a composition of both.
6. Launching of the fund Brasil Bovespa Index Papers II [PIBB II], that surpassed the results of the PIBB I launching, made in 2004. This fund aims at democratizing the access to the Brazilian capital market, prioritizing small investors upon the allocation of 75% of the offer to the retail. The high demand increased the initial offer from R\$ 1 billion to R\$ 2.28 billion and was the biggest operation of retail in Brazil with free resources use. Over 121 thousand individuals participated of the offer.
7. Creation of the Regional Dynamism Program [PDR], substituting diverse regional programs, with resources of R\$ 5 billion and validity of three years. With the program, the investments located at municipalities classified as low and medium income are contemplated with increases in the BNDES share, that may range from 5% to 45% of the financing value, depending on the income level and economic dynamism of the municipalities. Besides, there may arise the possibility of reducing the guarantee index and liberalization of exposition parameters to risk for operations carried out with micro, small and medium enterprises in less developed regions.
8. Creation of the Participating Program in Risk Capital Funds, aimed preferably at the capitalization of small and medium enterprises.

FASTER

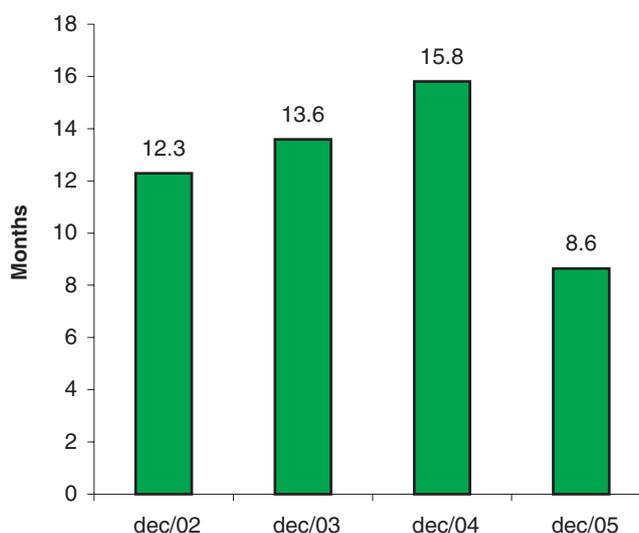
1. Beginning of the follow-up of the performance indicators of Operational Areas by the High Management, including medium term of operations proceeding.
2. Processing, in on-line environment, from April 2005, of all operations of FINAME line.
3. Establishment of credit limit up to R\$ 900 million for first line non-financial clients.
4. Improvement of routines and procedures, with elimination of approval need, by the Board, of compliance proceedings of the Compliance and Credit Committee.
5. Beginning of the projeto Agir [project Act], for development and implementation of the BNDES Resources Integrated Management System, being launched public competition for the choice of the company that will support BNDES aiming at defining the solution and following up its implementation.

It is to be noted that the increase of speed did not mean any negligence in the rigid analysis standards of BNDES, but only the improvement of routines and the elimination of process redundancies. Evidence of that is the increase, in 75%, of the risk classifications made, compared to the year of 2004, and the maintenance of a financing portfolio with superior quality to the market average of financial institutions.

With that and other actions, a reduction in the medium term of operations processing (from the entry of the letter of inquiry to the hiring), which involves operations compliance levels, the receipt of the company's project, the analysis and negotiation of operation guarantees by the specific operational department and the hiring.

PROCEEDING MEDIUM TERM – INDUSTRY

Non-Automatic Operations, Moving Average of 12 Months



It is important to note that, after the compliance of the letter of enquiry, the companies have two months to elaborate the project and its presentation to BNDES. In the same way, the hiring process implies the delivery of diverse documents by the company, such as certificates, environmental licenses of installation, bonds etc., which may demand long term to obtain.

CHEAPER

On 12-21-2005, the Board of BNDES approved a revision of Operational Policies, aiming at redefining the basic remuneration of the Bank that now is directed to specific priorities. The main methodological changes consist in:

- Introduction to different levels of basic remuneration (above TJLP), reflecting different levels of priorities attributed to diverse sectors of economy and financing modalities. Those levels may range between -3% and +3% and even result in a fixed interest rate to financing to innovation, capital goods National Industrial Complex Modernization Program [Modermaq] and federal agriculture programs.
- Introduction to a credit risk gradient, based on the classification of credit risk of the companies.

It is to be noted that, previously, Operational Policies stipulated basic remunerations ranging from 1% and 4.5% and fixed remuneration of 1.5% for the credit risk.

Within the main changes, the highlight consists in the importance given to innovation, intensifying the support of the Bank to the Industrial, Technological and Foreign Trade Policy. Thus, the support to innovation will occur in two ways:

- The generation of the genuine innovation – which embodies the developing process of new machines, equipment and inputs – will be privileged with fixed interest rate of 6% p.a. (maximum level of reduction of the basic remuneration). Thus, it is equalized to the rate practiced in Support Program for the Development of the Pharmaceutical Productive Chain [Profarma] and applies solely to the financing of expenses and in the process of innovation. At that rate, as any other, respective risk rates are applied.
- Investments destined to reproduce, in industrial facilities, the developed innovations will be included in the category with basic remuneration of 0%, so that the final rate will only be the TJLP, adding the respective credit risk of the company.

It is to be noted that new operational policies were established after the detailed study of the financial areas, so that there will be no jeopardy of the expected remuneration level of BNDES. There was, thus, only a redistribution of remuneration rates due to different priorities settled.

Aside from that important change in the Operational Policies, along the year of 2005 specific programs were created or its financial conditions were adjusted aiming at attending the peculiarities of the priority sectors, that is:

1. Financing Program for Electric Energy Generation, destined to undertakings whose energy will be commercialized in the Auctions for New Energy, with lower remuneration of BNDES, interest rate indexed to the Extensive Consumer Price Index [IPCA] and term not exceeding 14 years.
2. Changes in the financing to Program for Alternative Sources of Energy [Proinfa], with increase in the share level from not more than 70% to not more than 80% and the repayment term extension from not more than 10 to not more than 12 years, in order to improve the performance of the program and enable the goals accomplishment of the Ministry of Mines and Energy (the entry in operations of 3,300 MW until December 2008).
3. Extension, up to 12-31-2006, in the effective term of Modermaq, with budget up to R\$ 3 billion.
4. Increase of the financing installment of services linked to exports, from not more than 35% to not more than 65%.
5. Creation of the Financial Support Program for Investments in Railways in the North and Northeast Regions, with allocated resources of R\$ 1 billion and effectiveness up to 06-30-2009.
6. Creation of the Program for Railway Logistic Bottlenecks, with resources up to R\$ 750 million, aiming at improving the efficiency of the railway system, particularly in the access to ports and cities circuit, with the possibility of the Country Program use (100% of financing to investments, with cost only of TJLP), for the reseating of families that invaded domain areas and for the elimination of level passages of urban environments.

PRODUCTIVE STRUCTURE: IN LINE WITH THE INDUSTRIAL POLICY

STEEL INDUSTRY

SECTORIAL OVERVIEW

After a steady growth throughout the first years of this decade, the steel sector retracted in 2005. According to the Brazilian Steel Institute [IBS], the Brazilian raw steel production reached 31.6 million tons in 2005, 3.9% below the previous year performance.

However, due to the rise in prices of steel products, the reduction in production has not proportionally impacted sales of the Brazilian plants. In 2005, sales of the sector reached R\$ 54.7 billion, an increase of 6.1% in relation to 2004. In dollars, the growth was higher, of 27.4%, amounting to US\$ 22.5 billion.

It should be further noted that exports of steel products increased, in value terms, 22.6% in 2005, reaching a record value of US\$ 6.5 billion, with an exported volume of 12.5 million tons, 4.4% higher than in previous year.

MAIN OPERATIONS

- **Grupo Gerdau** – R\$ 900 million financing destined to technological updating and modernization of 12 steel plants of the group in Brazil. Long steel leader in the Americas, the company established with BNDES the first operation in Credit Limit modality, created in 2005, which objective is to provide quick financing to investment grade enterprises, traditional clients of BNDES.
- **Grupo Votorantim** – After completing its expansion, Companhia Brasileira de Alumínio [CBA] initiated a expansion project in August 2005, once again with BNDES financing, in the amount of R\$ 337 million.
- **Grupo Vicunha** – Approval of a financing, in the amount of R\$ 332 million, to Companhia Siderúrgica Nacional [CSN] to adapt the coal terminal in the Port of Sepetiba (State of Rio de Janeiro). The project will allow the terminal utilization for iron ore exports.
- **V&M do Brasil** – Leader in the seamless pipe sector in Brazil, held by Vallourec international group, the company received BNDES financing in the amount of R\$ 98 million for capacity expansion. V&M supplies the oil, gas and vehicle sectors, among others.

In 2005, the following projects financed by BNDES were inaugurated:

- **Grupo Gerdau** – Implementation of a plant to produce 900 thousand tons/year in the Municipality of Araçariguama (State of São Paulo), with investment of R\$ 282 million and BNDES financing of R\$ 78 million.
- **Companhia Brasileira de Alumínio [CBA]** – Expansion of primary aluminum production capacity, with BNDES financing of R\$ 337 million.

PAPER AND PULP INDUSTRY

SECTORIAL OVERVIEW

Brazil ranks seventh as a world producer of pulp, with total production coming from planted forests. The paper and pulp sector accounts for 108 thousand direct jobs, in 220 different enterprises, located in 16 states of Brazil.

Brazilian pulp production reached 10 million tons in 2005, and the paper production reached 8.6 million, representing, respectively, a growth of 4% and 2% as compared to 2004, pursuant to the preliminary information from the Brazilian Pulp and Paper Association [Bracelpa]. The Brazilian trade surplus for the sector is expected to close 2005 with a growth of 22.3% over 2004, and will reach US\$ 2.6 billion.

Despite being affected by the exchange rate appreciation in 2005, the Brazilian sector that produces eucalyptus pulp keeps good growth perspectives, with plans for capacity expansion. Big projects previously announced started the structuring phase, while the others are in advanced stage of studies.

As to the paper sector, there is a positive indication for Brazilian paperboard production. In the press paper sector, advances in legislation open ways for new investments in productive capacity, suggesting future reduction in imports, currently accounting for two thirds of the domestic consumption.

BNDES evaluates that investments of R\$ 10 billion will be made in Brazilian paper and pulp sector in the next three years.

Besides industrial investments, forest investments are of great importance. With BNDES support and incentive, large enterprises outsource part of the wood production to small rural owners, providing them with seedlings, inputs and technical assistance. Therewith, a productive system is created, so expanding social benefits of the endeavors.

MAIN OPERATIONS

- **Bahia Sul** – Aimed at exports, a duplication project was approved for two million tons/year of pulp production capacity in Mucuri's plant (State of Bahia). With total investment of R\$ 4.6 billion and BNDES financing of R\$ 2.6 billion, of which R\$ 240 million in convertible debentures subscribed by BNDESPAR, the project embodies the expansion and maintenance of forest areas and, also, the accomplishment of social projects in the amount of R\$ 24 million, 90% financed by BNDES. It should be noted that BNDESPAR holds 11.4% of Bahia Sul's total capital.
- **Aracruz Celulose** – Approved in November 2005 and with completion expected for 2006, the project for modernization and increase in pulp production capacity will involve investments of R\$ 462 million in the States of Espírito Santo, Bahia and Rio Grande do Sul. BNDES will participate with a financing of R\$ 297 million. In this case there will also be social investments, with BNDES financing of R\$ 3 million, benefiting communities in areas under the company's influence.
- **Votorantim Celulose e Papel** – Approved a financing to the company's forest program, aiming at the implementation, reformation and maintenance of 107 thousand hectares of eucalyptus forests, in the States of São Paulo and Rio Grande do Sul. The investment will be R\$ 730 million, of which R\$ 218 million in BNDES financings. From that total, R\$ 101 million was disbursed in 2005.
- **Veracel Celulose** – In September 2005, in Eunápolis (State of Bahia), the company's plant was inaugurated, held by Aracruz Celulose and the Stora Enso Swedish-Finn group. This is one of the great projects of the current investment cycle, in the amount of R\$ 3.63 billion and with a BNDES financing of R\$ 1.45 billion. The endeavor brought direct benefits to needy communities in the region under company's influence, because R\$ 21 million was invested in social projects, with BNDES participation.

CHEMICAL AND PETROCHEMICAL INDUSTRY

SECTORIAL OVERVIEW

The chemical industry is a supplier of raw materials and products for all productive sectors, from agriculture to airspace sectors playing a significant role in the economy. In Brazil, the chemical sector ranks second in importance in industrial GDP formation.

The sector of industrial chemical products is the heaviest in the industry, registering sales of about US\$ 40 billion in 2005.

In the case of fertilizers, Brazil imports around 65% of fertilizer domestic consumption. In 2005, the fertilizers sector suffered a decrease in sales volume and in sales, regarding 2004. But long and short-term estimates are positive. Although projects have been postponed, the enterprises are optimistic, with projection of US\$ 3 billion in investments for expansion until 2010.

Brazilian economy growth will require strong investments in the petrochemical sector, in order to meet domestic demand and prevent increasing deficits, usual in the trade balance of the sector. With investment perspectives of US\$ 14.3 billion until 2010, there are important projects for implementation of a petrochemical refinery in the State of Rio de Janeiro, with expected investments of US\$ 3.5 billion, and for the installation of petrochemical plants along with the refinery, destined to the production of several inputs, with investments budgeted at US\$ 3 billion.

MAIN OPERATIONS

- **Braskem** – Financing of R\$ 385 million to the company's investment program for the quadrennium 2004-2007, of R\$ 755 million, for accomplishment in the States of Bahia, Alagoas, Santa Catarina and Rio Grande do Sul. Braskem is a company of global importance, producer of several petrochemical products. The project embodies investments in the capacity expansion, logistics and implementation of quality and productivity programs, for the environment, health care and safety.
- **Grupo Ultra** – The group's investments, in the amount of R\$ 103 million, were supported by a BNDES financing of R\$ 71 million. Oxiteno obtained support for the production of chemical commodities and specialties, chemical and petrochemical products. In the group's transportation and logistics area, BNDES financed a Tequimar's project [Terminal Químico de Aratu S.A.] for the construction of an intermodal terminal in the port of Santos (State of São Paulo).
- **Copebrás** – In Goiás, the company invests R\$ 66 million, of which R\$ 40 million is financed by BNDES. The project aims at increasing the phosphate fertilizer production.
- **White Martins** – Implementation of air gas production plants in Espírito Santo, in the facilities of Companhia Siderúrgica de Tubarão [CST], and in Minas Gerais. Those investments amount to R\$ 164 million, of which R\$ 65 million is financed by BNDES. With investment of R\$ 75 million, of which R\$ 25 million is financed by the Bank, the group implemented, in São Paulo, a natural gas liquefaction plant, a LNG storage tank and a LNG filling station for trucks.
- **Copesul** – With BNDES financings of R\$ 50 million, the company invested R\$ 94 million in a naphtha processing plant, in Triunfo (State of Rio Grande do Sul). The project is destined to the expansion of ethene and propene productive capacity.
- **Rio Polímeros** – Rio Polímeros was inaugurated in Duque de Caxias (State of Rio de Janeiro), nearby Duque de Caxias Refinery [Reduc]. The company's plant is an unprecedented conception in Brazil, because it utilizes as raw material the liquid portion of gases from oil wells in Campos Basin, instead of imported naphtha. Investments were US\$ 1.19 billion, of which US\$ 287 million was financed by BNDES, with BNDESPAR support also standing out by holding 16.7% of Rio Polímeros' shares. The plant will produce polyethylene and polypropylene, resins used in the production of bags, plastic pots and plastic components for vehicles.

AGRIBUSINESS INDUSTRY

SECTORIAL OVERVIEW

Agribusiness has been of great importance for Brazilian economy's growth in the recent years. Brazil is one of the leading global producers and suppliers of food and fibers. According to the World Trade Organization [WTO], Brazil holds the highest global balance in the agricultural trade balance.

With a GDP about R\$ 524 billion in 2005, the Brazilian agribusiness had a performance lower than in 2004, due to the drought, unfavorable exchange rate and drop in international prices of commodities.

Agribusiness' exports amounted to US\$ 43 billion, 11.75% more than in previous year, configuring a new record, with a remainder of R\$ 38 billion in trade balance, which was also a record. The boom in exports has been mainly led by soy and its byproducts, but also supported by other products, such as sugar and poultry and swine meat. For the third time, Brazil was the main world exporter of bovine meat, surpassing the traditional competitors – the United States and Australia.

Due to technical and managing evolution, Brazil is a global reference, with the lowest production costs of bioethanol and sugar from sugarcane. Brazil is the pioneer in the use of bioethanol at large scale, substituting fossil fuels.

The main BNDES action instruments for the farming sector are the agricultural programs created by the federal government, with fixed interest rates and financial taxes equalized by the National Treasury. They are Moderagro, Moderinfra, Prodeagro, Prodecoop, Propflora, Moderfrota and Pronaf. In 2005, BNDES approved financings to the sector in the amount of R\$ 4.028 billion.

MAIN OPERATIONS

- **Sadia** – Projects for expansion and modernization of productive units in eight States, restructure of headquarters in São Paulo, in addition to the social project aiming at installation of biodigestors in properties of 3.2 thousand swine breeders integrated to the production system. The investment is R\$ 1.4 billion, with BNDES financings of R\$ 974 million.
- **Friboi** – With a BNDES financing of R\$ 187 million and investments of R\$ 281 million, Grupo Friboi acquired 75% of the capital of Swift Armour Sociedad Anónima Argentina, located in Argentina, in the ambit of the group's internationalization program, one of the leading domestic cold meat storage plants.
- **Bertin** – Also in the cold meat storage sector, BNDES financed R\$ 284 million to Grupo Bertin's expansion project, in the amount of R\$ 581 million, in São Paulo. The group is the Brazilian leading meat exporter.

- **Perdigão** – R\$ 170 million financing and R\$ 275 million investment for a plant implementation in Goiás, destined to the processing of industrialized and poultry meat *in natura*.
- **Biotecnologia do Paraná** – In the State of Paraná, the company received R\$ 28 million from BNDES to finance a R\$ 40 million investment for implementation of a plant of special yeasts and extraction of intracellular components. The unit will be the largest industrial plant in Latin America and one of the ten leading global enterprises dedicated to the production of special yeasts. Thus, it will allow the insertion of Brazil in the international market of yeasts and natural additives.
- **Usina São João** – In the sugar and alcohol industry, BNDES financed an increase in the industrial and agricultural production capacity, mainly for Usina São João – Açúcar e Álcool, which project, in the amount of R\$ 292 million, had R\$ 166 million financed by BNDES.
- **Prodecoop Program** – In the ambit of the Cooperative Development for the Addition of Value to Farming Production [Prodecoop], several cooperatives obtained BNDES support. It should be highlighted the operations with Coopervale, Cooperativa Central dos Produtores de Leite (Itambé), Coamo and Cooperativa Agroindustrial Lar, whose projects amounted to R\$ 313 million, with a BNDES financing of R\$ 133 million.
- **Progeren** – Through the Progeren program, BNDES supported several projects, with financings of R\$ 280 million, for working capital, aiming at generation and maintenance of jobs.

PHARMACEUTICAL INDUSTRY

SECTORIAL OVERVIEW

As a manufacturer of products essential to the population's welfare, the pharmaceutical industry presents a concentrated and oligopolistic market structure. It is highly advisable that, without shutting down its borders to imports, Brazil invests in the development of national, independent and competitive productive complex, besides an efficient system of science, technology and innovation. Aware of those issues, the federal government included a pharmaceutical productive chain as one of the priorities of the Industrial Policy.

Brazil ranks eighth in the global pharmaceutical market, with multinational enterprises accounting for about 60% of sales, excluding the portion of government purchases.

There are 551 enterprises operating in the Brazilian pharmaceutical sector, but just 12 leading enterprises represent nearly 45% of the market. According to the IMS Health's ranking of 2004, five enterprises under national control figured among the 12 largest ones: Aché, EMS Sigma Pharma, Schering Plough, Medley and Eurofarma.

Brazil is dependent upon imports of pharmaceutical products and traditional drugs in the market, with expired patents and syntheses' routes fully controlled. Although Brazilian exports of drugs are increasing, the trade deficit for drugs remains high (about US\$ 1.4 billion).

It should be highlighted the significant growth presented by the niche of generic drugs in Brazil. Sales of those drugs in units increased 30% between 2003 and 2004 and the market share rose from 7.8% to 9.3%. It should be considered the growth opportunity of that sector in Brazil, since in developed countries the generic drugs account for nearly 40% of total units sold. In Brazil, the niche is explored by more than 50 enterprises, controlled by national enterprises, which account for 74% of sales.

In 2005, BNDES was dedicated to consolidate and promote Profarma, along with the enterprises of the sector, class associations and employer unions. Besides, BNDES participated actively in forums, seminars and fairs. As a result of that work, the operations' portfolio more than duplicated in value during 2005 and, for 2006, the perspective is a significant increase in the contracting and releasing of resources by BNDES.

MAIN OPERATIONS

- **Biosintética** – R\$ 31 million investment, with R\$ 24 million BNDES financing, in São Paulo, aiming at the acquisition of equipment for manufacturing solid and ophthalmologic products, and for activities in research and development of generic drugs, new product associations and others.
- **Natura** – R\$ 33 million investment, with R\$ 15 million BNDES financing, in São Paulo, for the installation of a new vertical warehouse.
- **Cristália** – R\$ 101 million investment, with R\$ 13 million BNDES financing, in São Paulo, for production capacity expansion in the line of pills and pomades.
- **Eurofarma** – R\$ 152 million investment, with R\$ 35 million BNDES financing, in São Paulo, for implementation of a pharmaceutical industrial complex, within international and local production standards.
- **Nortec** – R\$ 7 million investment, with R\$ 6 million BNDES financing, for the development of active ingredient production processes.
- **Libbs** – R\$ 48 million investment, with R\$ 16 million BNDES financing, in São Paulo, for installation of an industrial complex.

CAPITAL GOODS INDUSTRY

SECTORIAL OVERVIEW

In 2005, the sector increased 19%, with sales of R\$ 56.2 billion, according to an estimate from the Brazilian Machinery Manufacturers Association [ABIMAQ]. The capital goods sector is a priority in the federal government's industrial policy and is object of special attention by BNDES. Besides utilizing its traditional credit lines, the Bank attempts to work with specific programs, such as Modermaq (disbursement of R\$ 1.7 billion in 2005) and the Program for the Financing of National Suppliers of Equipment, Materials and Related Services, which finances working capital for enterprises contracted in turn key system and that delivers complete solution to clients.

Brazilian exports of machinery and equipment keep an ascending curve throughout recent years, reducing the vulnerability of the sector to possible fluctuations in the domestic market. In 2005, foreign sales represented about 40% of total sales, according to Abimaq, contributing to a better break-even in the trade balance of capital goods industry.

The sector is characterized by a great heterogeneity of products and different enterprises' profiles, existing from familiar firms, of small and medium size, to specialized divisions of large corporate groups. In some segments, among which the electric ad agricultural equipment, the market is concentrated in a reduced number of large enterprises, while in others, such as machine-tools, there is a wide competition.

MAIN OPERATIONS

- **WEG** – With BNDES financing in the amount of R\$ 276 million, the company is investing R\$ 576 million in expansion, modernization, research and development, in the State of Santa Catarina. WEG has been intensifying its internationalization, aiming at increasing exports and becoming the leading world manufacturer of low-tension electric engines. In the domestic market, the company leads the engine, electric machinery and automation product segments. WEG also has manufacturing units in Argentina, Mexico, Portugal and China, besides distribution and trade units in the United States, Venezuela, Germany, England, Belgium, France, Spain, Italy, Sweden, Australia, Japan, Chile, Colombia and India.
- **Bardella** – BNDES carried out two financing operations with the company, in the ambit of the Program for the Financing of National Suppliers of Equipment, Materials and Related Services, in the amount of R\$ 34 million. Bardella operates in the capital goods sector under request and has two plants in the State of São Paulo.
- **Koblitz** – BNDESPAR converted debentures in preferred shares and contributed with another R\$ 7.2 million to the company's capital, which operates in the development and installation of energy generation and co-generation systems, particularly for the sugar and alcohol sector.

- **Lupatech** – Manufacturer of industrial parts, aiming mainly at the gas and oil sectors, Lupatech currently has BNDESPAR as a shareholder, by means of debenture conversions. It should be highlighted that the company is under an advanced process of capital opening with Bovespa's New Market.

AUTOMOTIVE INDUSTRY

SECTORIAL OVERVIEW

According to Anfavea's estimate, the automotive sector struck in 2005 the second consecutive record in production, with 2.44 million manufactured vehicles, for passenger, light commercial vehicles, trucks and buses. The growth was due both to domestic sales acceleration and increase in exports.

Also according to ANFAVEA, exports increased 7.63% in 2005, consolidating the sector as one of the main Brazilian exporters, with foreign sales estimated in about US\$ 15 billion and trade surplus of R\$ 8 billion.

It should be noted the geographic decentralization process that the sector undergoes. If previously nearly all automakers were placed in the São Paulo ABC region (Cities of São Caetano, Santo André and São Bernardo), currently the production of automotive vehicles was extended throughout several regions of Brazil. Among the new locations, stand out the States of Bahia, Paraná and Rio Grande do Sul.

The increase in domestic automotive sales can be explained by the wage mass recovery and launching of flex vehicles, which enables gas or alcohol fueling. The flex technology developed in Brazil has been attracting the interest of several countries.

The domestic market competition remains really strong. The productive chain of parts and pieces gathers around 500 enterprises, with several sizes and levels of technologic updating.

As to truck and bus sales, the year was positive due to the expansion in exports, since the domestic market presented a small retraction.

BNDES plays a fundamental role in the cycle of investments in the automotive sector during the second half of the 90's, financing the implementation of new units and contributing for the sector geographic decentralization. After the exceptional year of 1997, the industry faced a decrease and stagnation in the domestic market. In order to solve the problem, with an effective BNDES contribution through BNDES-Exim Line, the industry invested in exports growth and technological updating, financed through the traditional BNDES credit lines.

The focus of investments financed by BNDES has been in research and development. The Brazilian automotive engineering has been internationally highlighted in projects for low-cost and economic vehicles. Currently, it is possible the full development of

vehicles in Brazil. Besides, some enterprises have already started to “outsource” the technological development to Brazil. The measure approved by BNDES to increase to 100% the Bank’s share level in the financing to investments in national engineering and research and development was of great importance to enable investments in technology.

In the sub-sector of cargo vehicles, BNDES launched in 2005 the Program BNDES for Trucks, replacing Modercarga. Besides the extension of deadlines and reduction of taxes charged, the program intended to finance independent truckers, with the possibility of financing second-hand trucks.

MAIN OPERATIONS

- **Fiat** – BNDES approved a financing in the amount of R\$ 180 million for company's investment in the amount of R\$ 451 million, aiming at the development of the vehicle Idea and modernization of the plant in Betim (State of Minas Gerais). Part of the financing, in the amount of R\$ 500 thousand, refers to a company's program that promotes the social inclusion of youth at risk.
- **Continental** – Grupo Continental, which ranks fourth in global production of tires, is building its first plant in Brazil, in Camaçari (State of Bahia), with an investment of R\$ 690 million, of which R\$ 110 million is financed by BNDES. Production will be destined mainly to exports, focusing the North America Free Trade Agreement [Nafta], particularly the United States. At full capacity, the project will expand by about 10% the Brazilian total production of tires.
- **Renault** – With a BNDES financing of R\$ 156 million, Renault invests R\$ 243 million in projects for production of a new model of vehicle and expansion and adaptation of the plant, at the unit in São José dos Pinhais (State of Paraná).
- **Bosch** – In Curitiba (State of Paraná), Bosch is investing R\$ 381 million in the implementation of a production line for diesel engine injectors, with a BNDES financing of R\$ 98 million. The injectors are leading edge products, until now only produced in Germany, the United States and Japan. Over half of the national production will be destined to the foreign market. Bosch's Brazilian plants are highly competitive in the mechanical and electronic product lines, with high grade of nationalization.
- **Volkswagen** – In 2005, Volkswagen Caminhões implemented projects for the development and assembling of a new truck generation, with a new concept of cabin and electronic motorization, and for the increase in production capacity of the company's plant in Resende (State of Rio de Janeiro). The entire project was developed by the company's technology center. Total investment is R\$ 908 million in the period from 2003 to 2007 and the product nationalization index will be about 95%. BNDES financing supplies nearly 33% of the resources necessary for the implementation of the project, that is, R\$ 300 million. The new truck was presented to the market in October 2005 and will start to be sold as of 2006.

ELECTRONIC COMPLEX

SECTORIAL OVERVIEW

The electronic complex embraces several sectors with common technical basis. The most significant segments, qualified in accordance with their economic importance, are the consumption electronic goods, computer equipment and telecommunication equipment and respective components. Importance of the electronic complex surpasses its limits, since electronics is present in virtually all human activities.

At a global level, during the 1980s and beginning of the 1990s, the electronic sector became the main exporter of recent industrialized economies, as it can be noted in East Asia, India and China. In a near future, countries that do not enter in the so-called knowledge economy will lose relative space in trade chains.

The electronic industry is a fast growth sector in which the divisions of tasks through the national borders are technologically possible and profitable for transnational enterprises.

In Brazil, the existence of an industry of IT goods and telecommunication equipment is linked to the IT Law. In compensation to fiscal incentives, enterprises shall invest a percentage of its gross revenue in research and development. With production aimed mainly at the domestic market, the industry of electronic goods consumption implemented in Brazil is centered in the Duty Free Zone of Manaus, where it enjoys fiscal benefits.

The electronic complex is characterized, in Brazil, by a systematic generation of large trade deficits, over US\$ 3 billion annually in the last decade, mainly due to the almost inexistence of a domestic manufacture of electronic components. That deficit is derived from imports of equipment, parts and pieces of equipment and electronic components. In 2005, the trade balance deficit for the electronic complex was about US\$ 6.4 billion, same level of 2004 and higher than the US\$ 3.5 billion presented in 2003.

In the electronic complex, software and semiconductor segments were elected as a main goal of the Industrial, Technologic and Foreign Trade Policy. In conformity with that policy, BNDES instituted the New Program for the Development of the National Software and Related Services Industry [Prosoft], through which the main operations destined to the software industry were carried out.

MAIN OPERATIONS

- **Microsiga Software** – Investment project in the amount of R\$ 77 million and share subscription by BNDESPAR in the amount of R\$ 40 million. Microsiga leads the corporate management software market for small and medium enterprises. The project supported by BNDES refers to investments in research and development, training and quality, marketing and trade, and Microsiga corporate restructuring, embodying the company's acquisition.

- **Orbisat da Amazônia Indústria e Aerolevanteamento** – R\$ 9.9 million investment project, of which R\$ 2.4 million is financed by BNDES and R\$ 5.9 million by BNDESPAR share subscription. This is a Brazilian company that, besides producing TV decoders and receivers, has been developing differentiated national technology linked to imaging services. The project contemplates investments in research and development, updating and manufacture of imaging systems through airlifted radar and other items. The investments will be carried out in the industrial facilities of the company in Campinas (State of São Paulo) and Manaus (State of Manaus).
- **CI&T Software** – R\$ 7.1 million project, with BNDES financing of R\$ 3 million and BNDESPAR share subscription in the amount of R\$ 3 million, for investment in infrastructure, training and quality, research and development, marketing and trade, besides the opening of a new software factory in Brazil and an office in the United States. The endeavor will enable an increase in exports of Brazilian IT services.
- **TIM Celular** – BNDES financing of R\$ 48 million for implementation of an information technology services unit in Santo André (State of São Paulo), with a data processing center, customer service center, documentation center, network management area and software development complex.
- **Senior Solution** – R\$ 5.9 million project, with R\$ 1.1 million financing by BNDES and R\$ 1.8 million by BNDESPAR, for the development of software for the banking sector and for treasury of large enterprises.
- **Altus Sistemas de Informática** – R\$ 7 million investment, of which R\$ 6 million is financed by BNDES, for the development of a library for applications and components, in order to increase the company's share in the market of programmable controllers.
- **Promon** – R\$ 17 million investment, with BNDES financing of R\$ 10 million, for a development project of new processes and work methodologies, qualification of staffs in the developed processes, implementation and updating of automation tools and certificates for the company and its professionals, in order to increase the company's competitiveness.

TEXTILE INDUSTRY

SECTORIAL OVERVIEW

In 2005, the textile complex exported about US\$ 2.2 billion, with sales around R\$ 11 billion, 4% higher than the one reached in 2004. The textile industry physical production reached in the year about 3.6 billion tons of textiles and manufactured products. The sector employs directly 1.6 million workers and accounted for the generation of 40 thousand new formal direct jobs in 2005.

MAIN OPERATIONS

- **Radicifibras** – R\$ 40 million investment, with R\$ 16 million BNDES financing, for the expansion of acrylic fiber production capacity to 37 thousand tons per year, at the plant located in São José dos Campos (State of São Paulo).
- **Santa Constância** – R\$ 13 million for working capital financing.
- **Tecelagem São Carlos** – R\$ 26 million investment, with R\$ 13 million BNDES financing, for the expansion project of cotton towel production capacity, at the plant in São Carlos (State of São Paulo).

FOOTWEAR INDUSTRY

SECTORIAL OVERVIEW

The Brazilian footwear complex is composed of over 7.2 thousand enterprises, mostly small and medium enterprises, with production capacity of about 800 million pairs per year, of which 189 million for exports. The sector employs nearly 280 thousand workers, located mainly in large complexes in the South, Southeast and Northeast regions.

MAIN OPERATIONS

Among the projects supported by BNDES for this sector in 2005, the more important were:

- **Calçados Beira Rio** – R\$ 18 million for working capital financing.
- **Vulcabras** – R\$ 5.7 million BNDES financing for development and capacity expansion and software adaptation.
- **Têxtil Matec** – R\$ 11 million for working capital financing.

CERAMIC COATING INDUSTRY

SECTORIAL OVERVIEW

With sales around R\$ 4.5 billion in 2005, of which R\$ 1.2 billion for exports, the ceramic coating industry is formed by 94 enterprises, with capacity installed to produce 622 million square meters of ceramic revetment.

The main project supported by BNDES in the sector was the ELIANE industry project, with a working capital financing for a total investment of R\$ 23 million.

BEVERAGE INDUSTRY

SECTORIAL OVERVIEW

The beverage industry has an installed capacity of 8.5 billion beer liters, 12.2 billion soft drink liters and 5.5 billion packaged water liters. Brazil ranks fifth among the world's leading beer producers and is the world's third leading soft drink producer.

MAIN OPERATIONS

- **AMBEV** – Total investment of R\$ 648 million, with BNDES financing of R\$ 209 million, for the acquisition of industrial assets working capital, industrial plants adaptation and expansion of own distribution centers, besides investments in modernization and development and implementation of information systems.
- **Schincariol** – Total investment of R\$ 438 million and BNDES financing of R\$ 97 million for the implementation of two industrial plants in Igrejinha (State of Rio Grande do Sul) and Benevides (State of Pará). BNDES further supported the company with a financing of R\$ 80 million in the ambit of PROGEREN for a total investment of R\$ 100 million.
- **Vonpar** – Total investment of R\$ 50 million, with BNDES financing of R\$ 28 million, for the expansion and modernization of industrial facilities, storage and logistics of the soft drink sector and expansion of the distribution capacity of other products, in the States of Rio Grande do Sul and Santa Catarina.

TOURISM INDUSTRY

SECTORIAL OVERVIEW

According to the World Tourism Organization [WTO], this sector represents the major activity in the international trade, employing millions of people and embracing about 56 economy fields. As informed by the Brazilian Tourism Institute [Embratur], tourism represents an activity that generates US\$ 4 trillion annually and about 280 million jobs worldwide.

Except for major hotel chains, international fast food networks and car rentals, a significant predominance of micro and small enterprises is noted in the tourism sector,

particularly in activities of gastronomy, accommodation, travel agency, tourist consulting and transports.

According to Embratur, the foreign exchange currencies generated by tourism in Brazil reached the level of US\$ 4 billion in 2005, with 25% of growth comparing with 2004. Despite that, the trade balance for the tourism account is negative.

MAIN OPERATIONS

- **Estação Convention Center [ECC]** – Grupo O Boticário's endeavor, it obtained a BNDES financing of R\$ 43 million, for a total investment of R\$ 73 million. Implemented in Curitiba (State of Paraná), ECC has capacity for five thousand people and enables the performance of several events simultaneously. The financing approved by BNDES includes ECC's social action, in partnership with Instituto Compartilhar and the City Hall of Curitiba, embracing around 250 children of the needy community, through the project Sports in Action, including education monitoring and reinforcement.
- **Sofitel Jequitimar Resort** – Grupo Sílvio Santos' endeavor, the project obtained a BNDES financing of R\$ 40 million, for a total investment of R\$ 89 million. The hotel will operate in Guarujá (State of São Paulo), 82 kilometers distant from São Paulo metropolitan region, and will be managed by Accor, international hotel company that operates about 4 thousand endeavors worldwide and is present in around 50 countries. Besides the hotel complex, the initiative embodies performances in the social and environmental area, with training courses for the needy youth in the region and measures for recovery and preservation of the native fauna and flora, also implementing a water reutilization system.

SHOPPING CENTERS

SECTORIAL OVERVIEW

The Brazilian shopping centers present a quality level that equals the ones in developed countries. Brazil ranks tenth country in the world in quantity of shopping centers, according to the Brazilian Association of Shopping Centers [Abrasce]. The number of units has duplicated each five years, reaching about 260 shopping centers in 2005, of which 49% in the interior. The sector accounts for the generation of around 480 thousand formal direct jobs.

MAIN OPERATIONS

- **Floripa Shopping** – BNDES approved a financing of R\$ 36 million for the project implementation, with a total investment of R\$ 73 million. The shopping center will be located in Florianópolis (State of Santa Catarina) and will have 183 stores. The

project included the recovery of degraded areas and riverside forest, environmental education, construction and equipment of a monitoring laboratory for water quality and construction of the future Centro de Cidadania Ambiental [Environmental Citizenship Center]. The project includes the qualification of local community workers, in partnership with the Brazil's National Commercial Training Service [Senac].

- **Shopping Leblon** – BNDES approved a financing of R\$ 60 million for the construction of a shopping center in the South Zone of Rio de Janeiro, with a total investment of around R\$ 115 million. The project will integrate a real estate complex with an office building, a cultural center and a theater. The project implementation place is in neighborhood of a needy people residence complex. The entrepreneurs are committed to interventions aiming at the life quality of those residents, such as reformations and civil works in buildings of the residence complex and in the district's municipal school.

BOOK AND EDITING SECTOR

SECTORIAL OVERVIEW

According to the Brazilian Book Chamber [CBL], about 345 million books were sold in Brazil in 2005, a growth of 20% as compared to 2004. The segments of literature (in general), religion and self-help sectors were the major highlight.

Still according to CBL, several factors contributed to that growth, among them the exemption of PIS-Cofins tax for books, the creation of BNDES' Financing Program for the Productive Chain of Books [ProBooks] and the launching of BNDES Credit Card for the purchase of paper, a basic input for the segment.

In 2006, the Brazilian publishers expect to grow also nearly 20%, according to projections of the Brazilian National Association of Publishing Editors [Anatec]. Notwithstanding, there is a need of a higher increase in book consumption per capita in Brazil, which presents a very low rate, less than two books per inhabitant/year.

MAIN OPERATION

- **Saraiva** – BNDES approved a financing of R\$ 32 million to Saraiva S.A. Livreiros e Editores, destined to the execution of the editor's investment plan for the period from 2005 to 2007. The resources will be applied in the editorial plan and information systems, with a total investment of R\$ 73 million. With such financing, BNDES will strengthen that national company, which leads the law books sector and that is well positioned in the market of school books.

RETAIL SECTOR

SECTORIAL OVERVIEW

In 2005, BNDES approved a financing of R\$ 64 million to Grupo DPaschoal, for a total investment of R\$ 108 million. The group leads the national market of tire resale, with 200 stores, located in 113 cities in the South and Southeast regions.

The project approved by BNDES consists in the installation of stores, truck centers for truck services, and construction of six distribution centers, among other investments.

TECHNOLOGY AND INNOVATION: MAXIMUM PRIORITY TO NEW OPERATIONAL POLICIES

Incentive to innovation and to technological development in Brazilian enterprises is fundamental for maintaining the new sustained development cycle presently beginning.

In case of Brazil, the enterprises initially undertook strong efforts to reach higher levels of productive efficiency and, just recently, such efforts have gained technological dimension and more innovative forms. Advances are considerable, but still insufficient for the size of challenges.

As a result, BNDES's new mission is not limited to stimulate the formation of capacity in consolidated sectors, as well as in some new sectors. It is about to support and accelerate the adoption of creative business procedures, allowing enterprises to increase productivity, gain new spaces and, in consequence, improve the pay to employees and the return on capital.

Within this new context, BNDES approved a review of its Operational Policies in December 2005, highlighting the maximum priority granted to the introduction of innovations in the Brazilian productive process. This means, at the same time, an intensification of BNDES support to the new Industrial, Technological and Foreign Trade Policy and recognition that today the fight for markets by enterprises depends increasingly upon the capacity of reducing costs and launching new products.

Support to innovation is represented in two ways:

- Generation of innovation itself – which comprises the development process of new machinery, equipment and inputs – is considered an activity to be privileged, with fixed interest rate of 6% p.a. Therefore, it is equivalent to the rate used by the Support Program for the Development of the Pharmaceutical Productive Chain [Profarma] and applies only to finance expenditures in the process of innovation. To such fixed rate, as well as to the others, the respective risk rates are applied.
- The investments destined to reproduce, in installations or plants, the innovations already developed are included in the item innovation – Financing to Production. For such objective, it is forecasted a zero rate basic spread, what means that only Long-Term Interest Rate [TJLP] is applied, plus (as in all other cases) the risk rate.

In addition to this newest action, BNDES has been taking measures to improve technological development and innovation in Brazilian enterprises. The main actions are the creation of financing programs, such as the Program for the Development of National Software and Related Services Industry [New Prosoft] and Profarma, the application of resources in funds of emerging enterprises with technological basis, the

use of variable income instruments to support enterprises with technological basis and support to the Program for the Development of National Oil and Gas Industry [Prominp], of Ministry of Mines and Energy, with the objective of developing national oil industry suppliers and increasing their technological capacity. Below, we further detail such actions.

Additionally, BNDES Capital Market Area was created in 2005, with a specific department – Department of Innovation in Small and Medium-Sized Enterprises and Investment Funds [DEIN] – to support, through variable income mechanisms (shares, convertible debentures, participation in funds, etc.), innovation in small and medium-sized enterprises. This department joins to other two in the specific area for supporting the software and semiconductor sector [DEIEL] and the pharmaceutical sector [DEFARMA].

MAIN OPERATIONS

NEW PROSOFT-ENTERPRISE

BNDES, through the New Prosoft-Enterprise (under the financing modality), aims at contributing to expand the software industry and related services, highlighting the following operations:

- **TIM Celular S.A.** – TIM Celular S.A. operation has the objective of implementing a unit of information technology services in Santo André (State of São Paulo). The project aims at consolidating the activities performed at different company units throughout Brazil. The Santo André unit will shelter a data center, a call center, a documentation center, a corporate safety center, a network management area and a software development center. BNDES financial support is R\$ 48 million.

After implementation of the project, the company will become the holder of the largest proprietary call center in Brazil. The investment in a large proprietary call center aims at improving the quality of services to customer, strongly bound to the capacity of human resources employed.

TIM intends to establish a partnership with local universities and with the Economic Development Agency of São Paulo ABC Region, aiming at making a local incubator operational. In addition to help promoting the region revitalization, the center implementation may stimulate productive arrangements in the information technology area, impelling a social-economic development to the region.

- **Altus Sistemas de Informática S.A.** – Altus, which presently operates in the German technological platform Profibus, used by Siemens, will also operate in the North-American technological platform Devicenet, which is used by Rockwell. These platforms are open and non-proprietary. Altus's challenge is to develop its applications and a library for components in Devicenet. Under the project, the company is expected to increase its market share in programmable controllers from 10% to 20%. BNDES share is R\$ 6 million, by means of financing.

OTHER OPERATIONS

BNDES has increased technological development and innovation by supporting the following operations in the ambit of Financing to Endeavors [Finem]:

- **Promon S.A.** – Operations of Promon S.A., located in São Paulo (State of São Paulo), aims at unifying, coordinating and implementing procedures with the objective of reaching par excellence international standards for the company's operating processes, allowing it to face new modalities in Brazilian engineering and technology market operations, resume its participation and allow for operation in the creation and management of the increasingly complex ecosystems for suppliers, partners and customers. The project aims at managing knowledge and increasing competitiveness. For such, investments have been forecasted mainly to develop new processes and work methodologies, qualification of teams in the developed processes and documents, implementation or updating of automation tools and certifications for the company and its professionals. BNDES share in the project is R\$ 10 million.

For the automotive chain, BNDES has been financing the research and development of new products, contributing to the domestic technological development. The Brazilian automotive engineering has been outstanding in the international scenario due to its accumulated experience, specialization in projects of economic vehicles with low labor cost. The four carmakers operating in Brazil at a longer time have built or expanded their internal technology centers throughout recent years. The nationalization rate of most vehicles reaches 95%. The present state of the art of these centers allows for a full development of vehicles in Brazil. In addition to this, some companies have already started to "outsource" the technological development for the country, using the Brazilian engineering in the development of products to be manufactured by other subsidiaries.

Significantly important to enable the necessary expenditures in technology was the measure approved by BNDES increasing the share level to finance investments in domestic engineering, research and development, from 70% to 100%.

BNDES supports innovation in the car industry, highlighting the following operations:

- **Fiat Automóveis S.A. (Idea)** – A financing in the amount of R\$ 180 million was approved for a project to develop the Idea vehicle, produced by Fiat Automóveis S.A., as well as for the improvement and modernization of the plant in Betim (State of Minas Gerais). Part of the financing, in the amount of R\$ 500 thousand, refers to a project that promotes social inclusion of youngsters at risk.

Production of vehicles demands investments in almost all manufacturing phases, but the most significant are R&D, stamping, shaping and assembling. With respect to the plant's installations, the project involves adaptations in layout and in centers of energy and compressed air transformation and distribution, in addition to implementation of new equipment and relocation of the existing ones. Characteristics of Brazilian Idea are much similar to the one made in Italy, but Fiat made changes to adjust it to the Brazilian market and to the manufacturing processes of other models produced in Brazil.

In recent years, the segment of monobloc cars has been presenting the highest increase in the Brazilian market, going from slightly over 2% of cars sold in 2000 to 9% in 2004. Fiat entry into this segment projects an increase in its profitability and the maintenance of its job volume, in addition to positive reflections for companies making part of its productive chain. The Fiat Group controls one of the leading industrial conglomerates in Brazil, employing directly about 21 thousand people and generating exports of around US\$ 900 million.

- **Renault do Brasil S.A.** – The project consists of the production of a new model of vehicle, denominated New Mégane Sedan, with changes in Clio and Scénic models, as well as the expansion and adjustment in the motor plant unit in São José dos Pinhais (State of Paraná).

BNDES financing for such operation will correspond to R\$ 156 million.

Renault is to offer a line of products including all segments, comprising from luxury to popular vehicles, which represent about 65% of the Brazilian market. The popular vehicles allow for production volume and scaled gains, while the more expensive ones allow for higher margins.

PROFARMA

BNDES stimulates research, development and/or innovation in the pharmaceutical industry through Profarma, highlighting the following operations:

- **Biosintética** – Acquisition of equipment used by the beneficiary's plant located in São Paulo (State of São Paulo) and support to research and development activities of new generics, new associations of products in fixed combination, new dermatological products, phyto-therapeutic drugs and a trailing system. BNDES financing to this operation is R\$ 24 million.
- **Natura** – Installation of a new vertical warehouse in its manufacturing area located in Cajamar (State of São Paulo). BNDES participates in this operation with a financing of R\$ 15 million.
- **Cristália** – Expansion of the production capacity, upon the implementation of a new unit on the land where the company's manufacturing area is built, in Itapira (State of São Paulo). The medicine tablet line will have its monthly production tripled, while the monthly ointment capacity will be doubled. BNDES financing to this operation is R\$ 13 million.
- **Eurofarma** – Implementation of a pharmaceutical industrial area in Itapevi (State of São Paulo), with productive capacity for 1.05 million units/hour of drugs and 35,300 units/hour of ampoules and glass flasks, meeting local and international standards of production. BNDES financing is R\$ 35 million.
- **Nortec Química** – Development of processes for the production of pharmaceutical active principles, within the period from 2004 to 2006. BNDES financing to this operation is R\$ 6 million.

- **Libbs** – Installation of a new industrial area in Embu (State of São Paulo), with productive capacity for 53.6 million boxes of drugs, and where it is already located a chemical plant and a Research and Development center. BNDES will finance the project with R\$ 16 million.

VARIABLE INCOME

BNDES fosters innovation in enterprises through the use of variable income instruments, highlighting the following operations:

- **Microsiga Software** – Subscription of shares amounting to R\$ 40 million. Microsiga operates in the business management software segment (Enterprise Resource Planning – ERP), to meet small and medium-sized enterprises. The supported project refers to investments in research and development, training and quality, marketing and trading, and the company's corporate restructuring. Consequently, the company increased significantly its possibilities for opening its capital at the New Bovespa Market (Prosoft-Enterprise).
- **Orbisat da Amazônia Indústria e Aerolevanteamento** – Subscription of shares in the amount of R\$ 5.9 million. BNDES support also involved a financing of R\$ 2.4 million. The company, a producer of TV decoders and receivers, opened a new line of products in the high-resolution mapping area, with the use of aerotransported radars. The project includes investments in research and development, updating and manufacturing of imaging systems by aerotransported radar, acquisition of infrastructure necessary to the respective provision of services and strengthening of working capital to company's manufacturing activities (Prosoft-Enterprise).
- **Ci&T Software** – Subscription of shares in the amount of R\$ 3 million. BNDES support also involved a financing of R\$ 3 million, totaling a financial support of R\$ 6 million. The company operates in the segment of information technology services, focusing the development of software solution projects and the management of third-party applications (outsourcing). The supported operation aims at investments in infrastructure, training and quality, research and development, marketing and trading, and will allow for an increase in Brazilian exports of Information Technology services (Prosoft-Enterprise).
- **Senior Solution** – Subscription of shares amounting to R\$ 1.8 million, together with a financing in the amount of R\$ 1.1 million. It should be noted that the operation also received a co-investment from Stratus VC Fund. Senior Solution operates in the software segment with a product directed to financial institutions' and large enterprises' treasuries. The project aims at complementing the family of products comprising the Senior Banking Solution [SBS], a system that uses technology at NET platform. It will be comprised of a set of modules, four of which are ready and six new modules will be developed in the ambit of this project (Prosoft-Enterprise).
- **Lupatech** – Conversion of total debentures for 1st, 2nd and 3rd series issued by the company and held by BNDESPAR as preferred shares. Lupatech is a company producing complex industrial parts with a high dimensional requirement, through

precision foundry processes and steel and ceramics injection, and valves and equipment for automation, flowing and controlling of fluids, mainly for the oil and gas sectors. It should be noted that the company is under an advanced process of opening its capital at the New Bovespa Market.

CAPITAL MARKET: INCENTIVE TO THE MICROINVESTOR

The Capital Market Area [AMC] was created in April 2005 and started operating one month later. Its creation resulted from the need of improving and developing BNDES System's variable income operations, by supporting and emphasizing the small investor, in accordance with the federal government's Industrial Policy. In this sense, it should be noted the formation of the Department of Innovation in Small and Medium-Sized Enterprises and Investment Funds [DEIN].

This Area includes five departments: (i) Department of Investments [DEINV]; (ii) Department of Portfolio Monitoring and Management [DEPAC]; (iii) Department of Innovation in Small and Medium Enterprises and Investment Funds [DEIN]; (iv) Capital Market Department [DEMEC]; and (v) Capital Market Legal Department [DEJUMC].

MAIN ACTIVITIES PERFORMED

SECOND PUBLIC OFFER OF BRAZIL BOVESPA INDEX PAPERS [PIBB]'S QUOTAS



In 2004, in a pioneer initiative in Brazil, BNDES launched PIBB – Brazil-50 Index Fund – Brazil Tracker, an equity investment fund that reflects, under the most possible accuracy, the performance of one of the main reference indexes for the Brazilian stock market, the IBrX50, comprised of the 50 main shares listed with São Paulo Stock Exchange [Bovespa] at market value.

The objective of such initiative is to stimulate the access to investment in shares negotiated in stock exchange by individual investors, by spreading the knowledge on stock market in Brazil, with transparency, efficiency and low cost, since the administration fee of such fund is 0.059% p.a., the lowest in the market.

PIBBs are accepted for negotiation at Bovespa likewise any other security listed with it. They are issued solely in book form and the negotiations are cleared and settled by Companhia Brasileira de Liquidação e Custódia [CBLC].

PIBB holders are entitled to negotiate them, at any time, in Bovespa, on regular trading days, likewise any share, or redeem them, taking into consideration, in this case, the rulings set up in PIBB's regulation. The investor may also monitor the performance at any moment.

IbRX-50 presently comprises 50 shares, issued by 44 different companies operating in eight different economic sectors. Such shares represent the 50 leading ones negotiated in Bovespa, in terms of number of business and financial volume, weighted at the IbRX-50 theoretical portfolio at market value of shares available for negotiation in São Paulo Stock Exchange. On September 1st, 2005, IbRX-50 companies accounted for about 66.8% of Bovespa's total stock capitalization.

In 2005, giving continuity to this initiative, BNDES Participações S.A., a full BNDES subsidiary, and Social Participation Fund [FPS], under coordination of Banco Itaú BBA S.A. and Banco Santander Brasil S.A., with support of the São Paulo Stock Exchange, carried out a new public offer of PIBB quotas, which substantially exceeded the good results obtained in the first launching in 2004. The offer involved the leading Brazilian retail banks and over 60 brokers.

As an stimulus to participate in the offer, investors that acquired PIBBs in this stage achieved the right to sell to BNDESPAR (put option), on any day during the period between the 366th day following settlement of the offer and December 29, 2006, their PIBBs up to a maximum limit of R\$ 50 thousand per investor at the acquisition offer price.

This new launching comprised the sales of PIBB quotas in a total volume of about R\$ 2.3 billion, exceeding over two times the initial expectation, announced for a base value of R\$ 1 billion. Total demand from retail investors (individuals and non-financial legal entities investing up to R\$ 300 thousand) reached R\$ 2.5 billion, forcing the application of the prorating set up in the sale prospectus, to the extent that R\$ 1.725 billion was destined to meet such investors. In addition to this, 90 institutional investors acquired PIBB quotas, bringing up a total investment of R\$ 560 million.

This launching was a cornerstone in the Brazilian capital market, representing the highest retail operation in Brazil with the use of free funds (75% of the offer was allocated to retail). A total of 121,457 individuals had access to the Brazilian stock market by means of a single product, allowing for the acquisition of the 50 leading shares negotiated in Bovespa. Including the institutional offer, it was also the highest operation in the year, with a record allocation to Brazilian investors.

Another activity of the Capital Market Area is the monitoring and management of BNDESPAR's portfolio of shares and debentures, which value by the end of 2005 was R\$ 47 billion. Such activity comprises:

- **Formulation of the portfolio's long-term strategy** – The Capital Market Area conceived a new long-term strategy to manage the portfolio, by segmenting the 185 enterprises in portfolio, so that to propose and reach short-term goals for profitability and disinvestments. In this context, the profitability goals supported the reduction in spreads over financing operations throughout BNDES System.
- **Assessment and selection of assets for sale** – In addition to the second PIBB offer, the Capital Market Area alienated 14 equity interests, in a total of R\$ 503 million.
- **Increase in participation upon additional investments** – Among the enterprises in portfolio, new investments were made in the amount of R\$ 1.8 billion, mainly benefiting Light, Brasil Ferrovias, Centrais Elétricas do Rio Jordão and NET, including

R\$ 40 million for the preemptive right exercise in subscription of shares in portfolio. Additionally, debentures in the amount of R\$ 438 million were converted or exchanged into equity interest. In the fourth quarter of 2005, the Board also approved an investment of R\$ 240 million in Suzano Bahia Sul's convertible debentures, with expectation for disbursement in the beginning of 2006.

- **Exercise of other rights held by BNDES's shareholders** – This comprised BNDES representation in boards of directors of 26 enterprises, vote in shareholders' meetings and statement on matters presented in 35 shareholders' agreements, which included important operations, such as the merger of Coteminas with Springs and the purchase of Sidenor by Gerdau Group.

OPERATIONS AND PROGRAMS WITH FUNDS

BNDES, through BNDESPAR, initiated its activity of participating in closed funds from 1996 on. The objective, among others, was to participate in risk capital investments, in partnership with other institutional investors. Therefore, BNDES played an important role in the organization of the first funds of Brazilian emerging companies. Through own experience acquired in the first initiatives, BNDES programs progressively developed in their shaping, in regulation structuring of funds, in standards for selecting administrators and in partnerships with institutional investors.

In 2005, the new Program of Participation in Funds for Private Equity and Emerging Enterprises was organized. It was approved a participation of BNDESPAR in two private equity funds and seven funds of emerging enterprises until the end of 2006, amounting to a BNDESPAR investment of R\$ 260 million, which is expected to leverage around R\$ 1 billion of funds from other investors.

Activities in the sector of funds occurring in 2005 were as follows:

- Disposal, by Mutual Fund for Investment in Emerging Enterprises [Fire], which is a co-management fund, of the participation in Autotraco, for the total of its shares, representing about 10% of the company's capital stock. Such sale, in the amount of R\$ 18 million, represented a return of 34% p.a. since BNDESPAR (previously to the fund) initial investment in the company.
- Amortization of quotas, by Fire, in the amount of R\$ 10 million, carried out in September 2005.
- Operation of a debenture conversion in the company Metalcraft, of Fire. After this conversion, the fund's participation in the company went from 13% to 23%.
- Performance of three additional amortizations of Brazil 21 Fund. Up to the present time, six amortizations of quotas were performed, amounting to R\$ 20.5 million.
- Completion of CP Eletrônica S.A. operation by Brazil 21 Fund (co-management fund), through a repurchase of shares, providing a return of 5.63 times the original investment value. Including dividends and interests received on capital, the

annual return was about 32.5% p.a. over the General Market Price Index [IGP-M] variance.

INVESTMENT PROGRAM IN FUNCINES

It was approved, by the end of 2005, a participation in Financing Funds for the National Film Industry [Funcines]. Funcines aims at supporting and investing in the Brazilian film industry development, with destination of funds – part of which using fiscal incentives – to projects approved by National Agency of Cinema [Ancine]. Participating in these funds, BNDES aims at developing the entire domestic cinematographic chain – production, distribution and exhibition of film works –, focusing the strengthening of Brazilian distributor enterprises, since the distribution segment is strongly controlled by large foreign distributors. Another objective of BNDES is the search of higher transparency and management for projects directed to the domestic film industry, allowing for the attraction of new investors to the sector.

To meet this program, it was approved a participation of BNDES in RB Cinema I Fund, managed by Rio Bravo S.A. R\$ 7 million will be subscribed in quotas, using incentives under the law.

INVESTMENT FUNDS IN PARTICIPAÇÕES BRASIL ENERGIA

This fund has the objective of carrying out long-term operations, through investment in equity diversified portfolio for the segments of electric energy generation and transmission in Brazil, including alternative sources, such as small power stations [PCHs], wind plants and biomass plants. The fund was organized in January 2005, with a total undertaking R\$ 740 million in investments, of which R\$ 37 million was paid up in that same month.

BNDESPAR participates with 24.59% in quotas of the fund, having paid up R\$ 9.2 million and committed total payment of up to R\$ 180 million during the period of investments, within four years.

OFFER OF TRACTEBEL'S SHARES

BNDESPAR joined the public offer of shares launched by the controlling shareholder of Tractebel – the Brazilian leading energy generator. The offer corresponded to 12.4% of the company's total capital stock and reached R\$ 1 billion, of which 23% refer to shares held by BNDESPAR. This offer was part of the strategy adopted by the controlling group to file Tractebel's shares with the New Bovespa Market and completes the successful participation of BNDESPAR in the company.

OFFER OF AMÉRICA LATINA LOGÍSTICA [ALL]'S UNITS

BNDESPAR joined the public offer carried out by some controlling shareholders of América Latina Logística (ALL), which, after the successful capital stock opening listed at level 2 with Bovespa performed in 2004, searched for higher liquidity and alignment of interests among investors through the creation of Units (each Unit corresponds to ALL's one common share and four preferred shares). The offer reached about R\$ 650 million, of which R\$ 68 million related to the participation sold by BNDESPAR.

STANDARDS AND CONDITIONS OF BNDES SUPPORT BY MEANS OF INVESTMENT FUNDS IN CREDIT RIGHTS [FIDCS]

The Board approved the standards for BNDES System participation in FIDCs in 2005. This instrument is an additional option to BNDES indirectly support investments of enterprises in segments already included in the Operational Policies. At the same time, it is a way to contribute to the capital market development, through an instrument that enables the absence of financial intermediation, allowing for a reduction in funding costs by enterprises.

MANAGEMENT OF SOCIAL PARTICIPATION FUND [FPS]'S PORTFOLIO

BNDES was in charge of monitoring FPS's portfolio, which net worth in December 2005 reached R\$ 2.9 billion, corresponding to the participation in 63 enterprises, debentures of five enterprises and two mutual funds, submitting to the Board proposals of decisions related to events such as capital stock increase, public offers for acquisition of shares, among others. In addition to this, it sold 17 assets of such portfolio, amounting to around R\$ 2.5 million. By the end of the year, jointly with FPS Board of Directors, new disinvestment goals for the portfolio were established, since FPS is in a phase of extinction, within an estimated time of five years.

PURCHASE AND SALE OF BNDESPAR PORTFOLIO'S SHARES BY MEANS OF NEGOTIATION IN THE STOCK EXCHANGE

BNDES carried out a disinvestment of 17 assets (participation and rights) in a total amount of about R\$ 227 million. There were also purchases of eight types of shares of several enterprises, aiming at complementing the composition of PIBB's portfolio for the public offer performed in 2005, amounting to R\$ 104 million.

DISPOSAL OF MINORITY INTERESTS HELD BY ENTERPRISES DIRECT OR INDIRECTLY CONTROLLED BY THE FEDERAL GOVERNMENT, DEPOSITED IN THE NATIONAL PRIVATIZATION FUND [FND] – DECREE 1,068/94

BNDES carried out an auction of shares issued by 22 open capital enterprises with liquidity in stock exchange and held by 27 depositors. R\$ 40.8 million was collected.

MAIN INVESTMENT OPERATIONS APPROVED BY THE BOARD

- **Operations for subscription of convertible debentures of Light – Serviços de Eletricidade S.A. (R\$ 727.2 million) and Elejor** – Centrais Elétricas do Rio Jordão S.A. (R\$ 255.6 million), which details are described in Chapter “Electric Energy: Working to Enable the New Model” of this Report.
- **Aero LB Participações S.A. (Specific Purpose Company)** – This refers to a financing for the acquisition of shares held by Variglog (Varig Logística S.A.) and VEM (Varig Engenharia e Manutenção S.A.), Varig’s subsidiaries, which is under judicial recovery. Further information on this operation may be seen in Chapter “Electric Energy: Working to Enable the New Model”.
- **Suzano Bahia Sul** – In 2005, the financial support approved to Suzano Bahia Sul consisted of an amount of R\$ 2.59 billion, of which R\$ 240 million in debentures convertible into shares. In addition to this, BNDESPAR presently holds 17.8% of company’s class “A” preferred shares, which corresponds to 11.4% of total capital stock. Further details on this operation may be seen in Chapter “Productive Structure: In Line with the Industrial Policy”.
- **São Paulo Subway: Line 2 Works (Ana Rosa–Imigrantes), upon the Subscription of Debentures Convertible into Cesp’s Shares (Common Nominative and Preferred Nominative)** – Financing of the project was fully made through debentures issued by Companhia do Metropolitano de São Paulo S.A. (São Paulo Subway), convertible into common and preferred shares of Companhia Energética de São Paulo [Cesp]. Further information on this operation are included in Chapter “Social: Credit Democratization”.

OPERATIONS WITH SMALL AND MEDIUM-SIZED ENTERPRISES

- Conversion of the fifth and sixth series of debentures into preferred shares issued by Águia Participações S.A., representing a participation of 15% in capital stock. It was also approved a conversion of the seventh (and last) series of debentures, to be performed on April 15, 2006, which will increase BNDESPAR participation to 16.7%.
- Conversion of 410,526 debentures into preferred shares issued by Koblitz S.A., representing 24% of company’s capital stock. Simultaneously, it was carried out the preemption right exercise, which meant a funding of R\$ 7.25 million, in addition to formalizing the shareholders’ agreement, which establishes the company’s capital stock opening. Koblitz operates in the segment of development and installation of energy generation and cogeneration systems, mainly to the sugar and alcohol sector. The funds are destined to find out new business, advertising and publicity, completion of the plant’s physical expansion, investments in Information Technology and, mainly, to investment in new enterprises and reduction of liabilities.

- Conversion of total debentures of first, second and third series, issued by Lupatech S.A., held by BNDESPAR as preferred shares, representing 19.8% of company's capital stock. Further details of the operation are presented in Chapter "Technology and Innovation: Maximum Priority to new Operational Policies".
- Subscription and full payment of shares issued by the following enterprises: Microsiga (R\$ 40 million, equivalent to 16.67% of capital stock), Orbisat S.A. (R\$ 5.9 million), Ci&T S.A. (R\$ 3 million, or 15% of capital stock) and Senior Solution S.A. (R\$ 1.87 million, corresponding to 13% of capital stock), operations which details are included in Chapter "Technology and Innovation: Maximum Priority to new Operational Policies".

MAIN PROJECT INAUGURATED

- **Rio Polímeros** – Rio Polímeros S.A. (Riopol) Integrated Complex was inaugurated in June 2005, and is presently in pre-operating phase. The company's equity control is divided into the domestic private groups Unipar (33.3%) and Suzano Petroquímica (33.3%), in addition to the state controlled companies Petrobras Química (16.7%) and BNDESPAR (16.7%). Further information on this operation are included in Chapter "Productive Structure: In Line with the Industrial Policy".

OIL AND NATURAL GAS: CONTRIBUTING TO SELF-SUFFICIENCY

SECTORIAL OVERVIEW

Until some decades ago, the Brazilian reserves of oil and natural gas were not well-known and the resources were scarcely explored. Still in the 1980s, Brazil was strongly dependent upon the importation of oil and oil byproducts.

Due to the oil crises in the 1970s, Brazil had to put together strategies to reduce such dependence and improve the energetic security.

One of the strategies, in addition to the appreciation of local renewable energetic sources, was the incentive to research and development of oil production offshore, an expensive but necessary alternative at that time.

The advances were so significant in this field that Brazilian economy no longer presented the past vulnerability, even in the present times of high oil prices in the international market. Brazil stops being a highly oil-dependant country, that used to import about 80% of its needs in the beginning of the 1970s, and enters today to a very comfortable position.

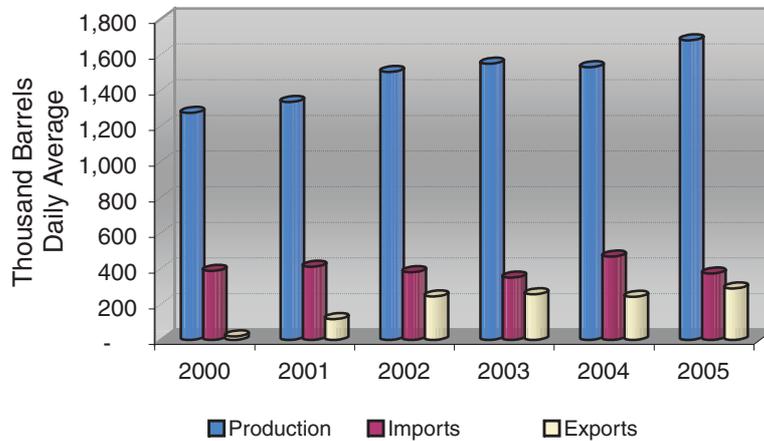
Self-sufficiency in production should be reached in 2006. However, Brazil will have to import light oil for some time, while the country's refineries are not fully adapted to process heavy domestic oil.

The average daily oil production in the Brazilian territory until November 2005 was 1.68 million barrels of oil equivalent per day (boe/day), with imports of 372 thousand boe/day and exports of 293 thousand boe/day, according to the National Agency for Oil, Natural Gas and Biofuels [ANP].

Net imports were reduced in 2005, thanks to the entry in operation of Petrobras P-43 and P-48 platforms, which were financed by BNDES.

Exports have not experienced large volume variations since 2002, and kept a range from 240 thousand to 290 thousand boe/day. At present levels of oil prices, Petrobras led the ranking of the largest export companies, by exporting US\$ 6.9 billion in 2005. The following table shows the evolution of oil production and foreign trade in recent years.

OIL PRODUCTION, IMPORTS AND EXPORTS

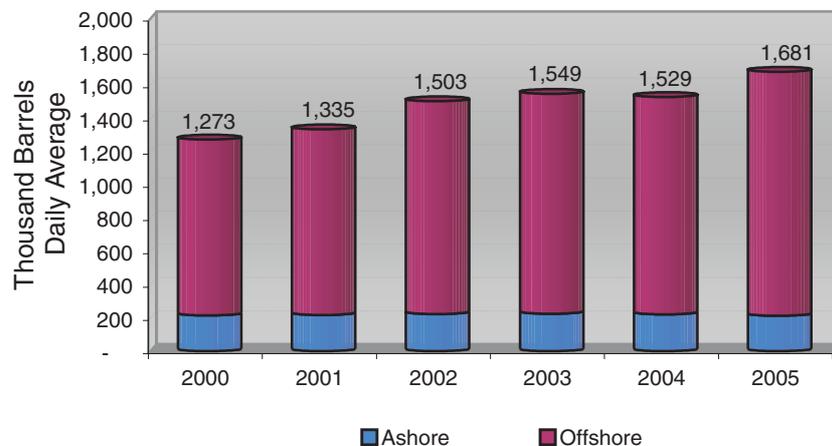


Source: ANP.

The domestic oil production is concentrated in Campos Basin. In 2005, 84% of the domestic production came from the State of Rio de Janeiro (daily average until October). The remaining production is spread between the States of Rio Grande do Norte (5%), Bahia (2%), Amazonas (2%), Sergipe (2%) and Espírito Santo (2%).

The Southeast oil production fields are located offshore, while the Northeast and North fields are predominantly located ashore. Despite the difficulties to extract oil in deep waters, Petrobras has managed to develop a technology at competitive costs. Presently, the oil production frontier is in offshore fields, which growth within last six years is shown in the graph that follows.

OIL PRODUCTION ASHORE AND IN THE SEA



Source: ANP.

The market has experienced big transformations throughout recent years, since the enactment of Law 9,478/97, the so-called Oil Act, which extinguished Petrobras monopoly. The company continues holding a significant market share, but a growing interest has been noted from new players in the Brazilian market.

It is worth mentioning ANP's successful 7th round, held in October 2005, focused in the concession of mature oil fields in areas producing natural gas, with a record number of participants and premium paid. From the 116 companies qualified, 85 presented individual or consortium offers, of which 41 were successful in signing the consequent concession agreements.

Presently, Brazil ranks a strategic position in terms of flow of investments. According to the *World deep water report 2003-2007*, the perspective is that Brazil composes, jointly with Africa West Coast and Gulf of Mexico, the so-called "golden triangle" of oil activity in deep waters.

The production and exploration growth offshore has been demanding investments in the several links of the production chain. In terms of platform supporting ships, the country was totally dependent upon foreign-flag vessels at a short time ago.

Upon such context, Petrobras launched two Fleet Renewal Plans for Platform Supporting Ships. The objective of these programs is to replace foreign-flag vessels for domestic-flag boats. Nationalization of the fleet of supporting ships revitalizes the Brazilian naval construction sector and allows an economy of foreign currencies through a decrease in freight paid to foreigners. The first Renewal Plan, an investment of around US\$ 400 million, was launched in 1999 and contracted 22 vessels, of which 14 were financed by BNDES, totaling a support of US\$ 310 million. The second Renewal Plan, launched by the end of 2003, has the objective of contracting 23 new vessels and 21 modernizations of vessels, with investments around US\$ 500 million. Of these 23 new vessels, only five have been bid up to now, and BNDES financed two of them, in the amount of US\$ 33 million.

In the refining segment, there is a need of modernizing and adapting the existing refineries to the domestic oil, because they were conceived to process the Arab light oil imported. Petrobras 2006-2010 Business Plan provides for the modernization of a refinery at each year until 2010. In addition to this, a new refinery will be necessary to meet the market growth. Petrobras and Petr leos de Venezuela S.A. [PDVSA] already decided that they will build a new refinery in the State of Pernambuco, focused on the production of diesel and LPG, to supply, from 2011 on, the Northeast, which today is an importer of oil byproducts.

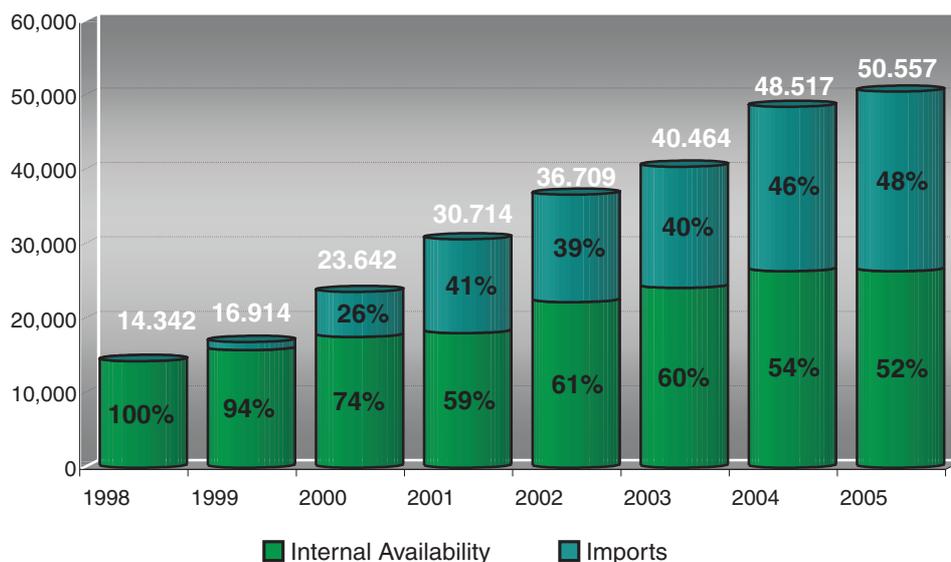
Natural gas participation in the domestic energetic matrix (8.9% in 2004) has been increasing in recent years, with an average growth of 20% p.a., due not only to the oil production growth in associated fields, but mainly due to the construction of Bolivia-Brazil Gas Pipeline (Gasbol), with over three thousand kilometers extension. Gasbol began operating in 1999 and presently guarantees around 50% of the internal offer of natural gas, as may be seen in the graph that follows.

The present infrastructure for gas transport and distribution is far short of necessities, despite Gasbol completion and expansion in progress of Southeast and Northeast

networks. Brazilian infrastructure has not the distribution capacity required to supply the several consumer segments and allow the insertion of natural gas in the energetic matrix, in levels closer to the existing in industrialized countries (over 20%).

INTERNAL OFFER OF NATURAL GAS

(In Thousand m³/Day)



Source: ANP.

MAIN OPERATIONS

OIL AND NATURAL GAS

BNDES financing covers the domestic portion of all investments in oil and gas industry productive chain, except for the research and exploration stage. Exploratory activities, due to the high risks, are not object of BNDES financing, and are mainly supported by risk capital.

The main subsectors that received financing in 2005 were oil and natural gas production, natural gas transport and distribution, and platform supporting vessels.

In 2005, financings approved to the oil and gas sector amounted to R\$ 2,380 million, while total investments reached R\$ 4,296 million.

SECTORIAL PROGRAMS

OIL AND GAS INDUSTRY MOBILIZATION PROGRAM [PROMINP]

Prominp, conceived in the ambit of the Ministry of Mines and Energy, has the objective of strengthening the domestic industry of goods and services, and is focused on the oil and natural gas area. Prominp's goals, prepared jointly with the companies in the sector, will conduct to domestic industry share maximization in the supply of goods and services, under competitive and sustainable bases, meeting the domestic and international demands.

Government, companies, and class entities that operate in these activities are represented in the program's Steering Committee. The challenge consists in developing projects to increase the domestic contents in specific areas of exploration and production, maritime transport, gas and energy supply. Therefore, the industry will be progressively and systematically improving to meet the demands, around US\$ 56 billion, from investments that will be carried out in the oil and gas sectors within the period from 2006 to 2010.

BNDES participated in preparation of the local contents' computation system, based on the experience obtained from FINAME's operations. In addition to this, it coordinates the Sectorial Committee for the Oil and Gas Industry, and integrates the Executive and Steering Committees.

MAIN OPERATIONS APPROVED

OIL AND GAS PROJECTS APPROVED			
	QUANTITY OF PROJECTS	AMOUNT APPROVED (R\$ MILLION)	TOTAL INVESTMENT (R\$ MILLION)
Oil and Natural Gas	12	2,380	4,296
Development and production	2	265	817
Transport and distribution	4	1,646	2,826
Support navigation	6	469	653

BNDES total disbursements to the oil and gas sector have been increasing in last years, due to a good performance of this segment and its increasing participation in the Brazilian GDP. In 2005, disbursements with projects for the sector reached R\$ 2,911 million.

BNDDES DISBURSEMENTS IN 2005 FOR OIL AND GAS SECTOR	
	TOTAL (R\$ MILLION)
Development and production	608
Oil	19
Gas	137
Platforms	452
Gas transport	1,431
Gas distribution	363
Supporting navigation	241
Gas thermoelectric	268
Total	2,911

OIL PLATFORMS

Construction of oil platforms is an important capital goods segment supported by BNDDES financing lines. Oil exploration platforms are high-value goods, involving a large quantity of direct and indirect jobs.

In addition to disbursements for construction of the P-52 platform, which amounted to US\$ 210.5 million, in 2005, BNDDES approved two financings in a total amount of up to US\$ 674 million, destined to the construction of two additional platforms to Petrobras: the P-51 (up to US\$ 402 million) and P-54 (up to US\$ 272 million). This refers to operations in the ambit of Post-Shipment Line, buyer credit modality (financing to purchaser), in which Petrobras Netherlands B.V. – the Hollander subsidiary of Petrobras – will be the importer of vessels exported in the ambit of the Special Customs System for Exports and Imports of Goods Destined to Activities of Research and Exploration of Oil and Natural Gas [Repetro], pursuant to the Law 9.826. In both cases, BNDDES supports exclusively the domestic portion of goods and services incorporated to both platforms and grants financing period times for about 13 years.

P-51, a semisubmersible type platform, budgeted at US\$ 775 million, is destined to oil and gas production in Marlim Sul Field, and will produce daily 180 thousand barrels of oil and 6 million cubic meters of natural gas.

On its turn, budgeted at US\$ 628 million, the P-54 is FPSO (Floating, Production, Storage and Offloading Unit) type, with the same oil and gas production capacity of the P-51. The P-54 platform will operate in Roncador Field. Both fields are designed for deep waters and are located in Campos Basin, in the North coast of the State of Rio de Janeiro.

Investments will be carried out in the municipalities of Niterói, Itaguaí and Angra dos Reis, and will enable Petrobras to meet its objective of oil production self-sufficiency in 2006.

URUCU-MANAUS GAS PIPELINE

BNDES approved a loan in the amount of R\$ 800 million to Transportadora Urucu Manaus S.A. to take the gas produced in the oil province of Urucu to the City of Manaus. Total investment is R\$ 1.44 billion.

This project is comprised of two gas pipelines. The first, with 279 kilometers, will transport liquefied petroleum gas (LPG) from Petrobras gas processing plants in Urucu to the fluvial terminal of Solimões River, in Coari. Petrobras presently transports LPG through a gas pipeline, which will be released to transport natural gas to the Urucu-Coari-Manaus project. The second gas pipeline, with 383 kilometers, connects the Cities of Coari and Manaus and will allow the natural gas from Urucu to be consumed by Manaus thermoelectric plants converted to consume gas.

This project will allow the monetization of Petrobras natural gas reserves in the Amazonia region, because presently the natural gas is mostly reinjected and burned. The gas will be also supplied to other seven municipalities throughout the gas pipeline route: Coari, Codajás, Anamã, Anori, Caapiranga, Iranduba and Manacapuru. Due the gas supply in Manaus, the thermoelectric plants, which today use diesel or fuel oil, will be converted to consume natural gas, therefore reducing generation costs and environmental pollution. In addition to this, it will bring positive consequences to the trade balance, by allowing the substitution of diesel oil, mostly imported, for natural gas locally produced.

Urucu is the largest ground natural gas reserve in Brazil, with 77 billion cubic meters. Located at 650 kilometers southeast of Manaus, the plant in Solimões Basin accounts for an average production of around 40 thousand barrels of oil per day and 9.5 million of cubic meters/day of associated natural gas. The Urucu oil, of high quality, is the lighter of oils processed in Brazil's refineries.

GASENE GAS PIPELINE

BNDES approved a financial support in the amount of R\$ 800 million to Transportadora Gasene S.A. for construction of a gas pipeline of about 298 kilometers of length between Cabiúnas (State of Rio de Janeiro) and Vitória (State of Espírito Santo). Total estimated investment is around R\$ 1.3 billion.

This gas pipeline will make possible to connect the State of Espírito Santo's gas fields to the Southeast gas pipeline network and will make available one additional source of natural gas to the region. This relates to one of the three distances of the Southeast-Northeast gas pipeline (Gasene), a gas pipeline to connect the Southeast and Northeast networks and will ensure a higher confidence in the natural gas supply in the country.

In 2007, the volume of gas transported will be up to 10 million of cubic meters/day.

MANATI

BNDES approved a financing of R\$ 245 million to Manati S.A. to apply in the production and transport of the natural gas extracted in Manati Field, in the State of Bahia's coast. The investments of R\$ 642 million are destined to the implementation of 7 wells, which are expected to reach a maximum outflow of 6 million cubic meters per day, in the first 4 years of production. The deadline for implementation of the project is 18 months.

Manati Field will be the largest in Brazil in terms of production of non-associated natural gas offshore. The wells will be connected to a production platform fixed offshore. The platform, on its turn, will be connected to a treatment station ashore, in the municipality of São Francisco do Conde, through a gas pipeline with 131 kilometers extension.

With this project, the State of Bahia will double its production of natural gas, becoming able to meet the present demand held back in the state itself.

MAIN PROJECTS COMPLETED

Companhia Distribuidora de Gás do Rio de Janeiro [CEG] – The CEG III project aimed at implementing a distribution network of pipelined natural gas for the municipalities of Niterói and São Gonçalo. The project covered the installation of 36.3 kilometers of high pressure network and 79 kilometers of average and low pressure network and extensions. It also had the objective of expanding natural gas consumption in residential, commercial and industrial markets in the municipalities of Rio de Janeiro and Lowland of Rio de Janeiro [Baixada Fluminense], with the construction of 221 kilometers of extensions. Deadline for implementation of the works was 15 months.

The completion of these projects provided for an increase in sales of natural gas around 308 thousand cubic meters/day, an increment of 54,816 new clients, and allowed an offer of a fuel not yet available in Niterói and São Gonçalo.

Total amount of the investment was R\$ 95 million, of which R\$ 58 million was financed by BNDES.

ELECTRIC ENERGY: WORKING TO ENABLE THE NEW MODEL

SECTORIAL OVERVIEW

Brazilian electric system holds a generating capacity of 92.87 GW, distributed in 1,479 endeavors. From the total generating capacity, 77% come from hydroelectric sources, 21% from thermoelectric plants and 2% from nuclear, wind and solar plants. Electric energy consumption in 2005 was 4.48% over 2004.

The Brazilian electric system is considered one of the world's largest and more competent, for, in addition to technically efficient, it is benefited by the country's geography, which presents a topography intense in plateaus with big water availability, allowing the use of a powerful source of renewable energy at low cost. This situation provides comparative advantages in relation to other countries, dependent mostly upon thermoelectric generation.

The Brazilian continental dimension, with hydrographic basins having distinct pluviometric systems, and the increasing necessity of exploring water potentials distant from the consumption centers conducted to the creation of a national interlinked transmission system, which presently operates with around 81 thousand kilometers of transmission lines.

In addition to transmission, Brazil has a distribution line operated by a group of 64 companies, with over 100 thousand kilometers of length.

In this Report of Activities, the electric energy sector comprises generation – coming from hydroelectric plants [UHEs], from small hydroelectric power stations [PCHs] and from thermoelectric plants using natural gas [UTEs] –, transmission and distribution of electricity.

The year 2005 was distinguished by a significant advance in the consolidation of a new regulatory landmark for the sector. Two auctions were held for the sale of energy, one for the already existing energy and the other for new energy, which is expected for delivery beginning in 2008, 2009 and 2010, in accordance with the dates forecasted for the completion of plants. In addition to guaranteeing the investments that will ensure confidence in the supply of energy necessary for the country's development, such auctions promoted a dispute, won by those that offered a lower price, allowing a low-priced tariff for consumers.

MAIN OPERATIONS

BNDES has been playing an important role in financing expansion and modernization of the electric sector, allowing the execution of projects that need a long-term maturation and high volume of investments.

In 2005, financings approved to the electric energy sector and disbursements reached, respectively, R\$ 4 billion and R\$ 4.3 billion, distributed as follows:

(R\$ Million)

SEGMENTS/PROGRAMS	FINANCINGS	DISBURSEMENTS
Generation – UHE and UTE (except alternative sources)	546	1,717
PCH	1,382	231
Transmission	669	664
Distribution (networks)	676	598
Distribution (capitalization)	727	1,121
Total	4,000	4,331

These approved financings will enable investments of R\$ 7,956 million, which will allow:

- implementation of projects representing an increment of 931 MW to the Brazilian generating sector, including hydroelectric plants, thermoelectric plants and small hydroelectric power stations;
- construction of new transmission lines, which will increase capacity and confidence to the Brazilian transmission system, and the distribution of energy throughout the various regions; and
- increase and modernization of the distribution network, which will contribute to improve the quality of services provided to electric energy consumers.

ENABLING THE NEW MODEL

In addition to introducing improvements in the Financial Support Program for Investments in Alternative Sources of Electric Energy in the ambit of Proinfa, BNDES has been adopting a series of initiatives to support this sector, such as the creation of three programs. For all of them, the only variation is the financing repayment term; the three have in common the subscription, by BNDES, of debentures issued by the beneficiaries, up to 20% of the financial support, using the Extended Consumer Price Index [IPCA] as indexer, which is part of BNDES strategy to develop the capital market. This index is also used to adjust the revenues obtained by generating companies.

SECTORIAL PROGRAMS

HYDROELECTRIC ENERGY GENERATION FINANCING PROGRAM (NEW ENERGY)

This program is destined to support generation projects in which energy was traded at new energy auctions, and financing repayment term is up to 14 years.

THERMOELECTRIC ENERGY GENERATION FINANCING PROGRAM (NEW ENERGY AUCTIONS)

This program, in the ambit of new energy auctions, provides financing to implementation and expansion of fixed assets, to investments in new machinery and equipment produced in Brazil and accredited with BNDES, and to imported machinery and equipment, provided that there is not a domestic similar.

There are distinct ways to support endeavors that use only domestic machinery and equipment, and those using imported machinery and equipment.

Financing repayment term is up to 12 years.

TRANSMISSION LINES FINANCING PROGRAM

This program was conceived to give financial support to winners of the concession auction for transmission lines held in November 2005. Financing repayment term is up to 12 years.

MAIN OPERATIONS APPROVED

GENERATION SEGMENT

- **Small Hydroelectric Power Stations [PCH]** – In 2005, BNDES approved R\$ 2.1 billion in financings to 29 projects for small hydroelectric power stations, in the ambit of Proinfa. Total investment is R\$ 3 billion, and the generating installed capacity reaches additional 763 MW, distributed to 11 states of Brazil.

TRANSMISSION SEGMENT

In 2005, BNDES approved financing to five new transmission lines, which are already operating, and aggregated 1,222 kilometers to the Brazilian transmission network. These endeavors required investments of R\$ 1 billion and BNDES financing of R\$ 669 million.

Execution of these five projects was fundamental to enable an integration of the country's subsystems, consequently leading to a higher capacity to use the generating sector.

Expansion of the transmission system may be seen as a "quasi-generation", to the extent that it allows transference of energy from regions presenting excess of offer to regions in shortage. This procedure avoids wasting and provides better quality and higher confidence in the National Interlinked System.

- **ATE Transmissora de Energia S.A.** – Implementation of a transmission line, in 500 kV and 440 kV, with 370 kilometers of length, between Londrina (State of Paraná), Assis and Araraquara (State of São Paulo) substations.

Total investment was R\$ 450.8 million with a financing of R\$ 285 million. The project was implemented within 21 months and completed in October 2005.

In accordance with the Plan for Basic Network Expansion and Reinforcements for the period 2004-2006, the project is an important link for connecting the transmission systems in the Southeast and South regions.

- **Artemis Transmissora de Energia S.A.** – Implementation of a transmission line in 500 kV, with 372 kilometers of length, in the State of Paraná. Its route crosses 17 municipalities and connects Salto Santiago, Ivaiporã and Cascavel Oeste substations. This line will allow releasing distribution of the energy produced by Salto Caxias UHE, with 1,240 MW capacity.

Total investment was R\$ 283 million, with a financing of R\$ 170 million. The project was implemented within 22 months and completed in November 2005. The closing of a 500 kV circuit in the State of Paraná and full integration of Salto Caxias UHE to the National Interlinked System will allow to reinforce the energy supply and to improve confidence in the electric system, especially in the west region of this state.

- **Munirah Transmissora de Energia S.A.** – Implementation of a transmission line in 500 kV, with 105 kilometers of length, connecting Camaçari II substation to Sapeaçu substation, in the State of Bahia.

Total investment was R\$ 91 million, with a financing of R\$ 61 million. The project was implemented within 19 months and completed in August 2005.

This transmission line is indicated by the National Operator of the Electric System [ONS] as the portion that was missing to complete the 500 kV transmission ring between the Northeast, Southeast and North regions.

Closing of the Southeast and Northeast connection ring will increase the distribution of energy produced by Itapebi Hydroelectric Plant, located in the South of the State of Bahia, which was underused. In addition to this, Itapebi's energy may be directed to supply Salvador metropolitan region, Camaçari Petrochemical Center and Aratu Industrial Complex.

- **Amazônia Eletronorte Transmissora de Energia S.A. [Aete]** – Construction of Cuiabá substation, expansion of Coxipó and Rondonópolis substations and implementation of two transmission lines in 230 kV in the State of Mato Grosso, one with 17 kilometers of length, connecting Coxipó and Cuiabá substations, and the other with 171 kilometers, between Cuiabá and Rondonópolis substations.

Total investment was R\$ 111 million, with a financing of R\$ 73 million. The project was implemented within about 12 months and completed in August 2005.

DISTRIBUTION SEGMENT

- **Light – Serviços de Eletricidade S.A.** – BNDESPAR subscribed R\$ 727 million in convertible debentures issued by Light. This operation integrated the company's financial restructuring process, which also involved a composition for R\$ 1.7 billion in debts with banks and the capitalization of about R\$ 1 billion by the company's controlling shareholder.

This operation was fundamental to guarantee the quality in electric energy services to the 3.5 million consumers resident in the 31 municipalities under Light's concession area in the State of Rio of Janeiro. Due to this support, the company could guarantee continuity to its operational improvement initiatives and reduce its own load losses from 24.65% in March 2005 to 23.3% in September.

Additionally, because of requirements included in the debentures, the operation contributed to improve the company's management procedures and it joined the Bovespa's New Market, with an increase in liquidity of its shares negotiated in stock exchange. Besides, the debentures establish incentive instruments for the company to improve its operational efficiency and attract new partners to its capital.

- **Ampla Energia e Serviços S.A.** – It was approved a financing in the amount of R\$ 165 million, for a total investment of R\$ 263 million, destined to implementation of a new distribution network, with 1,985 kilometers of length.

Ampla holds a concession to distribute electric energy within 65 municipalities of Rio of Janeiro, covering 73% of the state's territory, and a municipality in the State of Minas Gerais.

Installation of the new network enables the modernization of public illumination and improvement of the quality of services provided to consumers. It will also allow reducing considerably the stealing of energy by means of clandestine connections, which presently cause commercial losses of around 13% to the company – about R\$ 250 million/year – and fiscal evasion – just for sales tax on goods and services [ICMS] related to the non-billed energy portion, of about R\$ 37 million/year. In addition to this, it will also reduce a considerable portion of the so-called technical losses, presently around 10%, due to the transformation and the transport of electricity in the distribution system.

Construction of the new network will be completed in a period of two years and will supply around 321 thousand clients in the State of Rio de Janeiro's municipalities of São Gonçalo, Magé, Duque de Caxias, Itaboraí, Cabo Frio, Araruama, Macaé and Campos.

- **Companhia de Eletricidade do Estado da Bahia [Coelba]** – It was approved a financing in the amount of R\$ 231 million, corresponding to 61% of total investment, to the expansion, improvement and modernization of the company's transmission and distribution system.

The project includes an expansion and reinforcement in the subtransmission and distribution electric systems; implementation of a network management program; development of electric installation standards and technical norms; and acquisition of special equipment to the research and development program.

Funds are also destined to investments in the automation of substations and distribution networks; installation of information control centers; implementation of own telecommunication systems; and renewal of the company's IT area.

The investment program will increase the capacity and confidence in the concessionaire's electric system, provide energy supply to 310 thousand new clients and reduce the rate of losses, through the detection of commercial frauds and regularization of clandestine connections.

- **Companhia Energética de Pernambuco [Celpe]** – It was approved a financing in the amount of R\$ 150 million, to an investment of R\$ 197 million, destined to the program of expansion, improvement and modernization of the company's transmission and distribution system, within the period 2004-2006.

MAIN PROJECTS COMPLETED

GENERATION SEGMENT

During the year 2005, new electric energy generating units financed by BNDES started operations, adding 1,802 MW of installed capacity to the country. The main projects are presented below:

- **Centrais Elétricas do Norte do Brasil S.A. (Eletronorte)** – Expansion of the installed capacity to 8,370 MW in Tucuruí UHE, located in Rio Tocantins, in the State of Pará.

The Tucuruí UHE project, which began in 1975, recommended the installation of 12 turbines in the first stage of the endeavor, with an installed capacity of 4,245 MW.

Expansion works began in July 1998, and the plan forecasts the addition of 11 generating units of 375 MW to the existing 12 units. By the end, the plant's installed capacity will reach 8,370 MW.

In 2003 and 2004, the first five generating units started operating, followed by two other in 2005. Completion of the expansion is expected for August 2006.

Total investment in this project is R\$ 3.88 billion, of which R\$ 931 million correspond to BNDES financing.

The project contributes to an increase in regional installed capacity and increases the confidence in the North and Northeast electric system.

- **Baesa – Energética Barra Grande S.A.** – Implementation of Barra Grande UHE, with capacity of 690 MW, located in Rio Pelotas, at the border of municipalities of Anita Garibaldi (State of Santa Catarina) and Pinhal da Serra (State of Rio Grande do Sul).

Total investment was R\$ 1.39 billion, with a financing of R\$ 761 million. Works for implementation of the project began in July 2001 and, in November 2005, the first generating unit started operations. Start-up for the two remaining units is expected for February and May 2006.

- **Ponte da Pedra Energética S.A.** – Implementation of Ponte da Pedra UHE, with capacity of 176.1 MW, located in Rio Correntes, at the border of the States of Mato Grosso and Mato Grosso do Sul.

Total investment was R\$ 502 million, with a financing of R\$ 275 million. The endeavor was completed within 28 months and started full operations in October 2005.

Ponte da Pedra UHE operates integrated to the National Interlinked System, allowing an increment in the offer of energy, mainly to Center-West and Southeast markets.

The plant provided a significant tax collection increase for the surrounding municipalities, through the charge of a financial compensation rate for the use of water resources. Studies show that the amount collected in function of the plant operation represents about 11% of present tax collection in Itiquira (State of Mato Grosso) and 16% in Sonora (State of Mato Grosso do Sul). This increase in revenue will be reflected as an improvement in people's life conditions and in services provided by city halls.

- **Votorantim Cimentos Ltda.** – Implementation of Pedra do Cavalo UHE, with capacity of 160 MW, located in Rio Paraguaçu, in the State of Bahia.

Total investment was R\$ 240 million, with a BNDES financing of R\$ 144 million. The endeavor was implemented within 28 months and started full operations in January 2005.

Pedra do Cavalo UHE generates energy sufficient to supply 775 thousand people, corresponding to a growth equivalent to 10% of electric energy consumed in the City of Salvador and 4% of consumption throughout the State of Bahia.

During plant construction, it was created a social compensation program to communities at low tide of the dam, and that live from fishing and shell fishing activities.

TRANSMISSION SEGMENT

Six transmission line projects financed by BNDES started operations in 2005.

Five operations were approved by BNDES also in 2005: ATE Transmissora de Energia S.A., Artemis Transmissora de Energia S.A., Munirah Transmissora de Energia S.A., Empresa de Transmission do Alto Uruguai S.A. [Etau] and Amazônia Eletronorte Transmissora de Energia S.A. [Aete].

It was also inaugurated a project of Empresa Norte de Transmission de Energia S.A. [Ente] for implementing a transmission line in 500 kV, with 469 kilometers of length, between Tucuruí (State of Pará) and Açailândia (State of Maranhão) substations.

This line represents the fourth interlinking circuit for North and Northeast regions. Investments were around R\$ 450 million, with BNDES financing of R\$ 297 million.

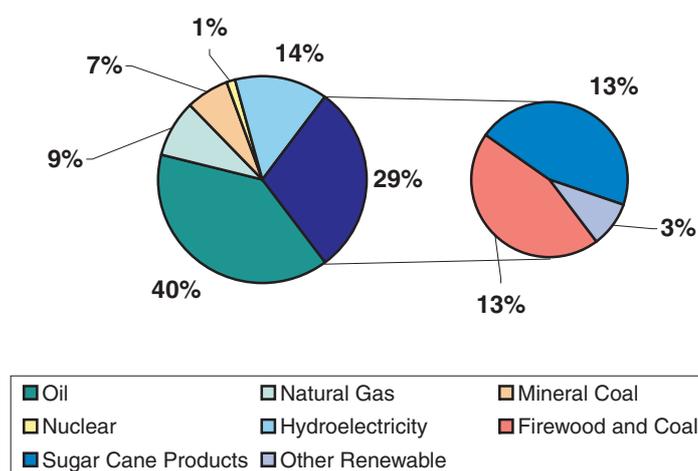
RENEWABLE SOURCES OF ENERGY: DIVERSIFYING THE ENERGETIC MATRIX

SECTORIAL OVERVIEW

The Brazilian energetic sector is very peculiar, differently of most countries, which energetic matrices are predominantly composed of fossil fuel. Brazil presents comparative advantages in the production of renewable energy, thanks to the availability of water resources and abundance of fertile land, stable winds and insolation. Therefore, the participation of renewable sources is significant in the Brazilian matrix.

Presently, in addition to hydroelectricity, the sources of renewable energy used in commercial scale in Brazil come from biomass, like the sugar cane byproducts (bagasse and alcohol), firewood and vegetal coal. In 2004, the sources of renewable energy accounted for 43% of the energetic matrix, of which the sugar cane byproducts held 13%; firewood and vegetal coal, 13%; hydroelectricity, 14%; and other renewable, mostly biomass (lye), 3%.

ENERGETIC MATRIX IN 2004



Source: MME (BEN, 2005).

The participation of new renewable sources of energy, such as wind and solar energy, is still very modest in the domestic energetic matrix, in spite of the great potential unused. These renewable sources are in a stage of technological maturation and can only be enabled with governmental support, such as the Financial Support Program for Investments in Alternative Sources of Electric Energy [Proinfa] and the Light for All.

In case of electric generation, the renewable sources of energy may play a complementary role in hydroelectricity, by reducing environmental impacts and, through diversification of the energetic matrix, the risks of undersupply.

The cogeneration using sugar cane bagasse is strategic for complementing the water generation in the Southeast Region, since the sugar cane harvest occurs in the dry season. As to the wind energy, it may complement the water generation in the Northeast, because the period of higher intensity of winds coincides with the dry weather. Solar energy, despite its high costs, may be enabled in isolate regions or for water heating in residences.

BIOFUELS

ALCOHOL AND SUGAR CANE BAGASSE

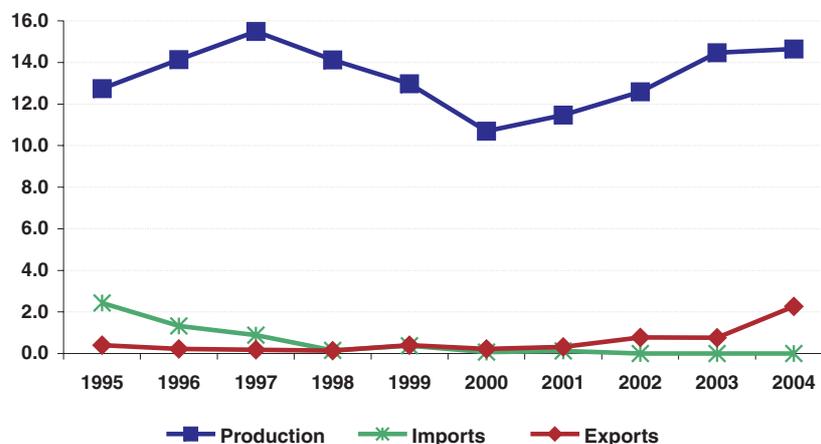
In the transport sector, Brazil is globally known for its technological development in the production and utilization of ethyl alcohol in automotive motors. In a context of high prices of oil and increasing environmental restrictions, expectations are highly favorable to the alcohol, either to meet the demands of domestic or foreign market.

Recently, the introduction of cars with hybrid motors, which may be used under any proportion of alcohol and gasoline, boosted domestic sales.

In foreign market, some countries are substituting MTBE (methyl-t-butyl ether) as an antidetonation additive to gasoline, for ETBE (ethyl-t-butyl ether), thus expanding Brazil's potential market. In addition to its use as an additive, ethyl alcohol may be added in a proportion even higher in blending with gasoline, as a way to some countries meet Kyoto Protocol's rules.

PRODUCTION, IMPORTS AND EXPORTS OF ETHYL ALCOHOL

(Billion liters)



Source: MME (BEN, 2005).

Ethyl alcohol peaked production in 1997, when 15.5 billion liters were produced. Beginning in 2000, increase in production resumed, and the need for imports virtually ceased. An increasing portion of production was destined to foreign market, mainly in 2004, because of a harvest break in the United States and the high oil prices.

Sugar and alcohol agribusiness operates around R\$ 40 billion yearly, corresponding to 2.35% of the Brazilian GDP. It is also one of the labor-intensive sectors, with the generation of 3.6 million direct and indirect jobs, gathering over 72 thousand farmers.

The sugar cane harvest period takes around six months, but happens in a differentiated way, depending upon the country's region. The North and Northeast Regions produce in a period complementary to the Center-West and South Regions, so reducing the necessity of regulator inventories in the country.

In 2004-2005 harvest, crushing reached 380 million tons of sugar cane, producing 24 million tons of sugar and 14 billion liters of alcohol. Presently, Brazilian sugar and alcohol sector has 304 industries in activity, of which 227 are in the Center-West and South Regions, and 77 in the North and Northeast Regions, in addition to around 40 projects under implementation.

Technologically, there are possibilities of big efficiency gains with a better energetic utilization of the sugar cane, with effects in the reduction of ethanol final prices. There is technology available to increase productivity in agriculture. Also in the industrial area, the plants may increase revenues from the transformation of sugar in alcohol and from the energetic utilization of bagasse.

As an example of efficiency increase, it may be said that, in the initial phase of the National Alcohol Program [Proálcool], the plants generated electrical energy just for own consumption, and their boilers operated at a pressure of 21 bars. The efficiency in boilers has already improved by almost 100%.

Today, the plants that propose to sell electrical energy in the ambit of Proinfa acquire 65-bar boilers. Such boilers consume half the quantity of bagasse required by a 21-bar boiler, employed in the 1980s, to generate the same quantity of energy. The efficiency could improve further if 80-bar boilers, employed by other sectors, were used by the sugar and alcohol industry.

BIODIESEL

Biodiesel is another biofuel that is expected to have a significant participation in the Brazilian energetic matrix within some years. The production and use of biodiesel were regulated by the Law 11,097, of January 13, 2005, which established the obligation of adding a minimum percentage of biodiesel to diesel oil sold to consumers, of 2% three years after publication of that law, and 5% eight years thereafter.

The production and trading of the 2% biodiesel blending with diesel will be allowed until January 2008, in a free condition. Beginning in 2008, at least 800 million liters of biodiesel will be necessary to be blended with diesel.

In order to stimulate at once the installation of biodiesel plants, the National Agency for Oil, Natural Gas and Biofuels [ANP] held, in November 2005, an auction for acquisition of biodiesel to be delivered in 2006. The full capacity offered of 70 million liters was bought. This fact has been motivating some potential producers to anticipate their entry in the market.

MAIN OPERATIONS

BNDDES support to the sector of renewable sources of energy is aligned with the federal government's programs of incentive to the sector. In 2005, the increase in BNDDES financings was mainly due to Proinfra. For next years, it is expected a presentation of various financings to projects for biodiesel production and use in the ambit of the Program for Biodiesel Production and Use.

In addition to hydroelectricity, the main subsectors in renewable sources of energy to which BNDDES offers financing are biomass cogeneration plants, wind plants and production and use of biodiesel and its co-products and byproducts.

In 2005, financings approved to the sector of renewable sources of energy amounted to R\$ 890 million, with disbursements of R\$ 355 million. BNDDES support will provide total investments of R\$ 1.4 billion.

PROJECTS APPROVED TO RENEWABLE SOURCES OF ENERGY			
	QUANTITY OF PROJECTS	AMOUNT APPROVED (R\$ MILLION)	TOTAL INVESTMENT (R\$ MILLION)
Renewable sources of energy	10	890	1,400
Biomass thermoelectric plant	9	425	737
Wind area	1	465	662

Total BNDDES disbursements in 2005 to renewable sources reached an amount of R\$ 422 million.

BNDDES DISBURSEMENTS TO THE SECTOR OF RENEWABLE SOURCES OF ENERGY	
	TOTAL (R\$ MILLION)
Renewable sources of energy	
Biomass	251
Wind	171
Total	422

In terms of installed capacity expansion, BNDDES approved financings representing an addition of 379 MW to the Brazilian generating sector, coming from biomass (229 MW) and wind (150 MW) sources.

SECTORIAL PROGRAMS

FINANCIAL SUPPORT PROGRAM FOR INVESTMENTS IN ALTERNATIVE SOURCES OF ENERGY IN THE AMBIT OF PROINFA

This program has the objective of supporting Proinfa, which seeks diversification for the Brazilian energetic matrix, through the generation of 3,300 MW of renewable sources, with investments in small hydroelectric power stations, wind plants and biomass thermoelectric plants. This energy is contracted by Eletrobrás and is integrated to the National Interlinked System.

The investment forecasted for the implementation of endeavors selected by Proinfa is R\$ 8.6 billion, of which R\$ 5.5 billion may be financed by BNDES.

In 2005, BNDES approved financings in the amount of R\$ 2.1 billion to 30 projects, totaling 971 MW, comprising 21 small hydroelectric power stations (468 MW), an wind area (150 MW) and nine endeavors for biomass (229 MW).

The effectiveness of this program was extended until December 30, 2006 and BNDES participation was extended from up to 70% to up to 80% of financeable items of each project supported.

PROGRAM FOR BIODIESEL PRODUCTION AND USE

BNDES approved a financing program with the objective of stimulating biodiesel production and improving co-products and byproducts, as well as fostering the use of biodiesel in machinery and equipment. The scope of this BNDES program comprises the supporting of:

- investments in all biodiesel production phases: agriculture, crude oil production, biodiesel production, storage, logistics and equipment for biodiesel production;
- investments to improve biodiesel co-products and byproducts; and
- acquisition of machinery and equipment approved for using biodiesel or crude vegetal oil.

MAIN OPERATIONS APPROVED

- **Ventos do Sul** – Ventos do Sul's wind area project, located four kilometers distant from the City of Osório (State of Rio Grande do Sul), aims at building Índios, Osório and Sangradouro wind areas, each one with 50 MW installed capacity, forming aggregately the largest Brazilian wind area and ranking second in the world. The project's technical configuration provides for the installation of 75 air generators of

2 MW, each area with 25 air generators. Wind areas are located in land alongside the Atlantic Ocean, next to the roadway infrastructure and to the electric network.

In the technological aspect, the project will use the most recent models of wind turbines, to be installed in concrete towers of 98 meters height.

BNDES financial support was R\$ 465 million, which corresponds to 69% of the total investment of R\$ 662 million. This endeavor, executed in the ambit of Proinfa, was the first one approved by BNDES to such type of energy generation.

- **UTE Santa Terezinha** – This project aims at expanding the electric energy cogeneration system using sugar cane bagasse in Usina de Açúcar Santa Terezinha Ltda., in its sugar and alcohol production plant located in Tapejara (State of Paraná). The plant will go from the present generating capacity of 12.8 MW, used for own consumption, to an installed capacity of 50.5 MW. The average power to be generated will be 37.7 MW, of which 28 MW tradable surplus will be released and 9.7 MW consumed in the productive process.

Investments will also be made to increase the agricultural area, to the acquisition of industrial implements and vehicles, with an increase of 44% in sugar cane processing capacity, and to generate energy at planned levels.

BNDES financing was R\$ 100 million, in the ambit of Proinfa. Expenditures with social infrastructure and agricultural expansion are financed by the Financing to Endeavors Line [Finem], under peculiar conditions, and the acquisition of vehicles by indirect operation through intermediation. Total investment is R\$ 162 million.

MAIN PROJECT COMPLETED

Goiasa Ltda. (Cogeneration) – BNDES financing was destined to expand the energy cogeneration capacity based on sugar cane residues. Goiás owned a cogeneration system with an installed capacity of 6 MW, which generated energy was consumed by the plant itself. With the investments, the company expanded its electric generation installed capacity to 36 MW, of which 26 MW correspond to electric energy available for trading.

To enable the trading of energy, the project also planned the construction of a lifting substation and a transmission line with 40 kilometers, to connect the cogeneration plant to the electric system.

Investment made in this project was R\$ 49.9 million, of which BNDES System funded R\$ 39.9 million.

TRANSPORTATION AND TELECOMMUNICATIONS: RESUMING INVESTMENTS ON RAILWAYS

RAILWAY TRANSPORTATION

SECTORIAL OVERVIEW

Rede Ferroviária Federal S.A. [RFFSA] was created purposing to administer, preserve, broaden and improve the Brazilian railway transportation. In 1992, RFFSA was included within the Brazilian Privatization Program [PND].

Up to the beginning of the privatization process, RFFSA controlled the entire cargo railway transportation network of the country, except Ferrovia Paulista S.A. [Fepasa], Companhia Vale do Rio Doce [CVRD] railways and Vitória-Minas railroads and Carajás railroads.

The privatization model established the transfer of railway transportation services operation to the private sector upon burdensome concession. The concessionaires took over the railway operation and became leaseholders of RFFSA's regional railroad networks.

During the first phase of the railway system investments coming from the Railroad Network, BNDES financed investments of Ferrovia Centro-Atlântica S.A. [FCA] – East-Central Network; Companhia Ferroviária do Nordeste [CFN] – Northeast Network; of América Latina Logística S.A. – Southern Network; and, subsequently, of Ferrovias Bandeirantes S.A. [Ferrobán] – *Paulista* [from the State of São Paulo] Network, the last one that faced the privatization process.

The Bank also supported the implementation of the railway and the acquisition of railway freight carts and locomotives of Ferronorte S.A. – Brazil Northern Railroads since its beginning, in 1992. That project consists of a large track railroad corridor connecting the agricultural region of the State of Mato Grosso to the Port of Santos, through the *Paulista* system Ferrobán.

The current configuration of the privatized railroad network is as follows:

CONCESSIONAIRE	NETWORK	TRACK WIDTH	EXTENSION (THOU. KM)	BEGINNING OPERATIONS
Ferrovía Novoeste S.A.	West	Metric	1.6	Jul/96
Ferrovía Centro-Atlântica S.A.	East-Central	Metric	7.1	Sept/96
MRS Logística S.A.	Southeast	Wide	1.7	Dec/96
Ferrovía Tereza Cristina S.A.		Metric	0.2	Feb/97
América Latina Logística S.A. [ALL]	South	Metric	6.3	Mar/97
Companhia Ferroviária do Nordeste	Northeast	Metric	3.6	Jan/98
		Wide	1.5	
Ferrovias Bandeirantes S.A.	-	Metric	2.4	Jan/99
		Mixed	0.3	
Total			24.7	

Since 2000, the granted railway system entered in the second investments phase, which was characterized by the increase of installed capacity (increase in supply) and promotion of logistic services. During that period, the maneuver yards were widened, the supporting ability of the permanent railways was incremented, highway-railway integration terminals were built and new rolling materials were acquired.

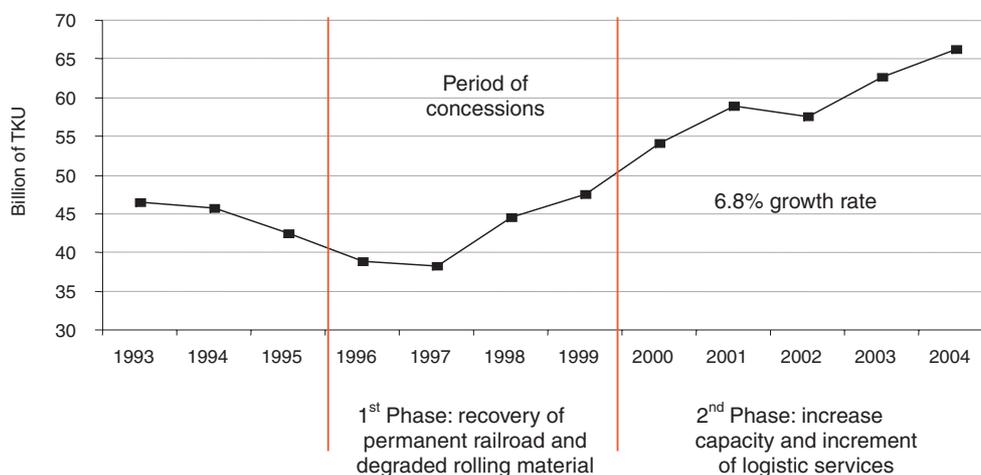
The system endured strong pressure due to increase in demand, mostly transportation of products such as export agricultural grains (soybean, bran and fertilizers), iron ore, coal, iron and steel products and fuels – traditional railroad products – besides other cargo such as construction materials (cement in bulk and bagged), sugar, alcohol and cold-stored containers.

It can also be highlighted the direct support from BNDES to operator clients and to railway freight cart rental companies, speeding up the development of the sector through entry of new players requesting credit (ADM, Cargill, Caramuru, Fiagril, Mitsui, among others)

Since the concession process, investments on the sector ranged from R\$ 400 million (1997) to about R\$ 1.8 billion (2004), including the acquisition of railway freight carts and locomotives. That investment resulted in the resuming of the railroad materials and equipment industry, with a demand of about five thousand railway freight carts per year.

In 1999, the system production reached the results presented by the Railroad Network in 1993. Since 2000, the activity level of the old Network system grows at a 6.8% rate per year.

EVOLUTION OF RAILWAY TRANSPORTATION PRODUCTION FROM RFFSA



FIRST ACTIONS

The development expectation of the railway sector indicates a new investment's phase which is characterized by the expansion of the network and the overcoming of logistic bottlenecks – not dealt with until then – and by the lack of common interests between concessionaires and the granting power, states and municipalities.

In the broadening of the permanent railways, the granting power must operate through public-private sector partnerships. The expansion may occur within the ambit of concessions in the implementation of branches, duplications of existing permanent railways or construction of new, more efficient sections, besides the expansion of the network in large projects, such as the North-South Network and the Ferrovia Nova Transnordestina – integrating the Northeastern region.

For the reduction of logistic bottlenecks, BNDES created the Program on the Overcoming of Railroad Logistics Bottlenecks, which purposes to evaluate the existent obstacles around cities and access to ports.

The Bank also approved the utilization of the Support Program for Companies' Social Investments [PAIS] within the railway transportation sector. The goals are to resettle families that inhabit within the railway domain, isolate the domain area and build public equipment to eliminate level paths from urban environments. For each one of both programs, it was provided R\$ 750 million.

Still in 2005, BNDES's Board approved the creation of the Financial Support Program to Investments on the North and Northeast Region of the Country, which purposes to support investments on railway transportation in those regions, such as the Nova Transnordestina Railroad.

Brazil faces the need to expand the logistic infrastructure to handle Brazilian exports growth and also to avoid the increase of railway operating companies' debt level.

In consequence, BNDES adopted a financing model for the purchase of railway freight carts by client-users of railway transportation or private investor. In that model, the railway freight carts will be acquired (or rented) by the railway transportation users and are rented (or sent in blocks) to railway concessionaires. In the last few years, 1,385 new railway freight carts were built and 180 railway freight carts and 7 locomotives were recovered. In 2005, 160 railway freight carts were recovered and 269 units were acquired. Records show that the demand for railway freight carts will remain heated, in which BNDES is the most important financing agent.

BNDES disbursements for the railway sector, in 2005, reached R\$ 616.9 million, surpassing – for the first time – the highway sector.

MAIN APPROVED AND COMPLETED OPERATIONS

BNDES's financial operation of greatest relevance within the railway sector involved Grupo Brasil Ferrovias' gathering of companies. There was the need to evaluate the previous financial and equity situation of those companies, which boosted the investments on permanent railroads, on the purchase of railway freight carts and locomotives and on the improvement of the access to the Port of Santos.

In 2005, the operational share ownership, and equity restructuring, and the restructuring of the management of the group companies – Ferrobán and Ferronorte (wide track system) and Novoeste (metric track system) – were successfully approved. Operation imported inversions of about R\$ 873 million, of which R\$ 461 million on new financial contributions of partners, including BNDES (R\$ 150 million), and the capitalization of debts in the amount of R\$ 412 million.

The solution for the Grupo Brasil Ferrovias makes feasible the revitalization and consolidation of the railway corridor that will distribute the growing flow of agricultural production of the West-Central Region to the Port of Santos.

BNDES also approved the following operations to companies of the railway sector:

OTHER APPROVED OPERATIONS			
(R\$ Mil)			
BENEFICIARY	TOTAL INVESTMENT	FINANCING	PURPOSE
Ferronorte S.A.	426,812	265,000	Investments on permanent railroads and rolling material purposing to increase the capacity of wide track corridors
Cia. Ferroviária do Nordeste	208,095	144,045	Recovery of 1895 kilometers of permanent railroads and of rolling material, besides operational improvements
MRC BNGE-BF Ltda.	55,575	37,996	Purchase of 189 bulk railway freight carts
Cargill Agrícola S.A.	18,240	14,291	Purchase of 80 bulk railway freight carts
Caramuru Alimentos Ltda.	14,507	9,429	Recovery or adaptation of seven locomotives and repair or conversion in bulk carriers of 180 conventional carts
Fiagril	2,562	1,227	Recovery or adaptation of three locomotives

HIGHWAY TRANSPORTATION

SECTORIAL OVERVIEW

In Brazil, there are approximately two thousand kilometers of roads, of which only 11% are paved. The private sector initiative currently manages 9,730 kilometers, through 36 concessions (six federal, 29 state and one municipal).

(In Thousands of Kilometers)

HIGHWAYS	PAVED	NON-PAVED	TOTAL
Federal	58	35	93
State	115	161	277
Municipal	23	1,359	1,382
Total	196	1,555	1,752

Source: National Agency of Terrestrial Transportation [ANTT], December 2005.

Up to now, four major concession programs have been carried out in Brazil, federal and state: São Paulo, Paraná and Rio Grande do Sul states. Other concessions which are not part of an extensive program, in the states of Bahia, Espírito Santo and Rio de Janeiro, were executed, besides a municipal concession in the city of Rio de Janeiro.

The Federal Highways Concession Program made feasible the increase of roadway infrastructure and its maintenance throughout time, adapting to the increment of the traffic volume. That concession program is also characterized by the generation of jobs and by the introduction of assistance services – such as medical rescue, telephone services, towing, mechanical aid and traffic control – that distinguish the granted

highways from the remaining ones, as they provide greater comfort and safety to its users.

The federal program had its first phase implemented between 1994 and 1997, resulting in six concessionaires operating today, responsible for the administration of 1,474 kilometers of highways. The second phase – currently going through public tender process – will probably render to the private sector administration three thousand more kilometers.

Between 1996 and 2005, total investments of the 36 concessionaires together surpassed R\$ 11 billion. BNDES supports 28 of those concessionaires and it has already disbursed 2.4 billion.

The granted highways became very important economically speaking, due to presenting greater traffic and greater operational complexity to assist in the distribution of production, to improve the access to ports (Santos, Paranaguá and Rio Grande) and to assist in the increment of demand.

It is projected the concession of 3,320 more kilometers in the next few years (the second stage of the federal program and the continuity of the state program of São Paulo) and of 1,078 more kilometers referent to the beginning of the programs through partnerships with the public and private sectors and in the States (Minas Gerais and São Paulo).

MAIN ACTIONS

BNDES has supported the expansion, duplication, paving, modernization and recovery of the highway network with financing operations to highway concessionaires and to states. The logistics companies have also been having their programs supported by the Bank.

In 2005, three operations were approved, which totaled R\$ 339 million on investments and R\$ 189 million on financing, with the recovery of 323 kilometers of highways. The Bank's disbursements reached R\$ 212 million on 14 operations (11 concessionaires, two state and one logistics company).

BNDES has operated beside many governmental entities in studies of potential project modelings of public and private sector partnerships (MG-050, BR-163 and BR-116-BA). The Bank also has gathered active participation in making access to federal highways – BR-040 and BR-116 – feasible to the Port of Sepetiba.

As regards the state highway system, BNDES supported in the last few years initiatives of state governments in the recovery of distribution highways and highways of local or regional importance. Among those projects, one may highlight: Bahia, Ceará, Rondônia and Minas Gerais.

MAIN APPROVED OPERATIONS

- **State of Pará** – Paving and recovery of four sections of the following highways PA-279, PA-320, PA-370 and PA-431, totaling 241 kilometers with BNDES financing of R\$ 130 million for a total investment of R\$ 162.5 million.
- **Vianorte S.A.** – Support to investments of recovery and capacity increase, purposing to improve traffic conditions, safety and cooperation of highways from São Paulo's Lot 5 (Ribeirão Preto's region). BNDES's support will be of R\$ 45.6 million for a total investment of R\$ 132.5 million.

AIR TRANSPORTATION

SECTORIAL OVERVIEW

In the last 30 years, the domestic market presented growth as regards transported passengers per kilometer, except during times of significant retraction of the economic activity, just like the one caused by petroleum crisis and the moratoria of the Brazilian debt in the 1980s and the economic recession and the political instability during the beginning years of the 1980s.

Brazil is the fifth major aviation global domestic market. The "air bridge" between São Paulo and Rio de Janeiro is one of the most transited in the world, just behind New York-Washington D.C, and London-Paris. In 2005, Brazilian commercial aviation flew more than 30 million passengers within the domestic market, according to the Department of Civil Aviation [DAC], linked to the Ministry of Defense.

During the last seven years, the passenger air traffic growth rate was 6.8% per year, compared to an available capacity growth rate of 4.7% per year, while the GDP growth rate in the same period was 1.7%, according to DAC data and Brazilian Central Bank's data.

The occupation rates grew during the recent period, curiously starting in 2003, benefiting the sustainability of airline companies. That is one of the consequences of the control upon the supply exerted in the last few years by DAC, as it reduces predatory competition, existent until mid-2002.

Historically, the domestic civil aviation income growth has exceeded GDP's growth. However, the consolidated result of the sector did not accompany the income growth, influenced both by endogenous factors (exceeding operational costs and excess supply), and by exogenous factors (fuel price variations, deregulation effects and costs indexed to foreign currency). It is expected that until 2012, the air transportation sector will continue to grow at estimated average rates between 5% and 7% per year.

In that sense, to face the expected increase in the volume of passengers and cargo, the Brazilian Airport Infrastructure Company [Infraero] makes investments totaling R\$ 5

billion, to remodel, modernize and to significantly expand the capacity of the main Brazilian airports. The main investments will be made on the following airports: Santos Dumont (State of Rio de Janeiro), Congonhas and Guarulhos (State of São Paulo), Confins (State of Minas Gerais), Salvador (State of Bahia) and Brasília (Federal District).

Brazilian air transportation system is divided mainly into four categories:

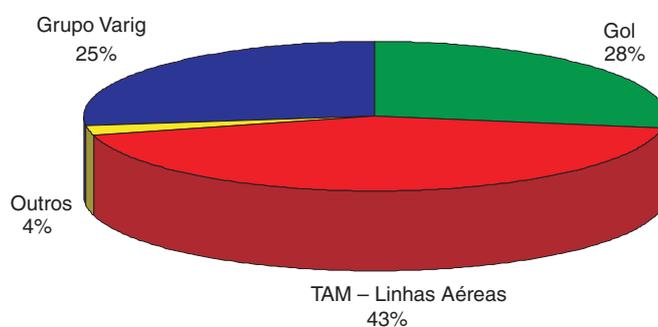
- domestic airlines, which provide regular public transportation services inside Brazil and operate principally with large aircrafts between major cities;
- regional airlines, which provide regular public transportation services inside Brazil generally connecting smaller cities with larger cities, and which are operated by regional airline companies with smaller aircrafts, regional jets and turboprops;
- airline charter flights, which provide non-regular transportation services; and
- international airlines, which operate regular international air transportation services to and from Brazil.

Brazilian civil aviation is currently formed mostly by the following companies that represent a group of more than 96% of the domestic market:

- TAM, which offers all types of services, among which regular services within national routes and, in greater extent, within international routes;
- Gol, which uses a costs strategy, providing regular services within national routes and an incipient supply of international routes (only South America); and
- Varig, which provides regular services both in national and international routes and holds the largest Brazilian participation within the international market.

DOMESTIC MARKET SHARE

(Passenger per Paid Kilometer Transported)



Source: DAC, October 2005.

For the coming years, it is expected the economic result growth of national airline companies, operating within a market with such competitive level that it would render compatible the interests of the three parties involved: users, with attractive service prices and quality; granting power, under good service providing and widening of the number of cities assisted; and, operating companies, as they preserve their financial-economic balance.

MAIN ACTIONS

BNDES participated in the last few years in a group effort to accompany and propose measures to the air sector, purposing – among other things – the medium and long term sustainable development of the segment. In mid-2003, it elaborated with DAC general guidelines for the enhancement of the regulation of the sector, according to the most prominent needs (“Structuring of the Brazilian Air Transportation Market”).

That debate ended up leveraging measures subsequently executed by the Department of Civil Aviation to reduce predatory competition among companies and the excess supply – generator of exceeding costs, one of the main motivators of the crisis experienced by the sector.

The commercial agreement (code-share) between the two main domestic airline companies, between 2003 and 2004, ended up increasing the operational results of both companies, thus providing a significant rise in the sector's profitability.

Due to the end of the agreement, the issue of balance between the increase of supply (pressured by the greater sector competition) and the need to reduce operational costs (obtained, among other ways, through a greater integration of the services provided and the standardization of the aircraft fleet). However, the sector's situation today seems less critical than the situation before the referred cooperation agreement.

Right now, BNDES is working to finance – in national currency – aircrafts manufactured in Brazil for national airline companies and to finance TAM investments.

MAIN APPROVED OPERATIONS

- **Varig** – Evaluation of aircrafts confiscation by the United States high court, before financing to Aero – LB Participações S.A. The financing of US\$ 41.33 million, equivalent to 2/3 of the investment, given the acquisition of 95% of the VarigLog stock (Varig Logística S.A.) and of 90% of VEM stock (Varig Engenharia e Manutenção S.A.)

That financial operation was concluded after prolonged negotiations, having been fundamental to suggest – at that time – the continuity of Varig operations. The financing assisted to the immediate cash needs of the company and enabled, therefore, the continuity of the company's legal recovery process. BNDES's support helped to keep 6,200 jobs on those companies, besides avoiding the confiscation of

more than 20 aircrafts by the leaseholders. Portuguese Air Transportations [TAP] provided bail to that operation.

- **Concessionária Estacionamento de Congonhas S.A.** – The undertaking consists of the construction of a parking-edifice with 61 thousand square meters of constructed area, with capacity to park 2,550 vehicles. BNDES financing is R\$ 27.5 million, for an investment of R\$ 45.9 million.
- **TAM Linhas Aéreas S.A.** – The financing of R\$ 84.9 million aims to support the investment plan of R\$ 1.1 billion to be carried out in 2005 and 2006. The focus of the Bank's support is the broadening of Centro Tecnológico de São Carlos – State of São Paulo facilities, the acquisition of national equipment and materials, the software development, personal development and habilitation and the development of environmental projects.

PORT TERMINALS

SECTORIAL OVERVIEW

The port sector has depended upon the State since its constitution. Throughout the years however, the public sector lost its ability to invest, causing a rapid deterioration upon the installed bases of the most varied economy sectors. In the case of ports, the situation was not different. In the end of the 1990s, the main results of the adoption of that model were the lack of investments on equipment and infrastructure, high production costs and the long waiting time of shipments, among other things.

The improvement of port services quality is a basic condition so that the production of goods and services would achieve international levels. The port sector has evolved under pressure springing from globalization processes and from international competition intensification. Cargo transportation costs represent a key element in global competitiveness.

In Brazil, the leasing of areas within public ports was started after the publication of Law 8,630, dated February 25th, 1993, known as Port Law. Private sector's investments on super-structure of ports reduced the transaction costs and cargo warehousing costs, as well as reduced the waiting moor time of shipments.

Regarding the general cargo – for a short period – it was generalized the concept of cargo transactions on containers as solution for the long waiting time of ships during the loading and unloading operations. The unitization of cargos, the standardization of ships and the utilization of cargo handling equipment of greater productivity enabled greater agility in port operations. The use of containers is also important in multimodal transportation, making viable the utilization of different modes so to reduce logistic costs.

Another observed world trend is hub ports. The creation of hub ports in Latin America still depends upon some factors, such as maturing of the investments on railways and improvement of highways, besides consolidation of cabotage navigation.

Brazil currently possesses huge diversity of exportable products and manufactured products have evermore participation in foreign trade. Port efficiency is, therefore, fundamental to increase Brazilian competitiveness.

MAIN ACTIONS

BNDES participation in the port sector purposed mainly to make financially feasible the execution of investments on leased public port terminals. The port infrastructure was also one of the objects BNDES wanted to support as regards the access from highways to the Ports of Sepetiba e Itajaí.

The project analysis and the subsequent concession of long term financings were destined to the expansion, modernization and improvement of services provided and they prioritized aspects related to technology (information system, civil construction and machinery and equipment), through changes of production factors, management factors and the environmental factors.

The Ports of Santos, Sepetiba and Paranaguá were assisted by BNDES financings. Within a five-year period (1999-2004), disbursements totaled R\$ 217 million for investments of R\$ 481 million and were destined mainly to leased public port terminals. They are container and bulk terminals that obtained productivity gains through the reduction of costs and tariffs, improving the performance of Brazilian exports.

Future needs, besides requiring continuous modernization of leased terminals, also require the evaluation of terrestrial accesses (highway and railway) and maritime accesses (dredging of access channel) of public ports – main logistics bottlenecks of the sector. The perspectives indicate the feasibility of a leaseholder responsible for the investments on port accesses, with own income, to adapt and adjust the capacity of accesses to the port demand.

MAIN APPROVED ACTIONS

BNDES approved financing to the expansion of the Port of Pecém (State of Ceará) in the amount of R\$ 150 million, in a total investment of R\$ 330 million. The project consists of the construction of another cradle with 17 meters load-draught for containers and general cargo. At the end of the construction, the current cradle will become available to operate exclusively with cargo and iron and steel products and assist to the iron and steel company that is being built in the state.

BNDES also approved financing of up to R\$ 332 million for an investment of R\$ 399 million, which Companhia Siderúrgica Nacional [CSN] will carry out in the Coal Terminal of Port of Sepetiba [Tecar], located in the municipality of Itaguaí (State of Rio de Janeiro). That terminal is currently dedicated to the importation of coal and cooking coal. The project

includes the adaptation and adjustment of the port terminal to receive, to transport and to load up to 31 million tons/year of iron ore destined to exports.

Teaçu Armazéns Gerais, through the operation contracted with BNDES's financial agent, obtained R\$ 47 million to expand and modernize the port transaction terminal of vegetable-origin products in the Port of Santos (Warehouses 16, 17 and 19). The project enables it to broaden the transaction capacity in bulk from 450 thousand to 1.6 million tons/year. The total investment surpasses R\$ 74 million.

The financing of Port of Santos Terminal 39 expansion, in the amount of R\$ 7 million, is destined to the broadening of the total capacity of 135 thousand static tons to 180 thousand. The volume of transported grains will surpass 1.9 million tons/year, yielding an increase of 400 thousand tons.

WATERWAY TRANSPORTATION

SECTORIAL OVERVIEW

The extensiveness of the Brazilian coast, the coastal localization of main cities and the vast group of navigable waterways in the interior of the country are characteristics that determine the strategic importance of waterway transportation in Brazil.

Currently, the participation of the waterway mode within the Brazilian cargo transportation matrix is about 15%, being segmented into long distance navigation, cabotage navigation, interior navigation, port support and maritime support. Cargo classified transported through this mode is diversified, being qualified as general cargo (including containers), solid cargo or liquid cargo. Each market has its specialties.

On the other hand, companies of the sector are characterized by the high degree of financial leverage, generated due to the need of large investments on acquisition of operational assets. Given the high investments on the acquisition of vessels are, just like other infrastructure segments, the sector presents a business scenario which implies a return on investments on longer terms compared to usual standards. Thus the financings to the sector need to be adjusted to that reality.

In Brazil, the waterway mode counts on the Merchant Marine Fund – FMM, of which BNDES is the main financial agent. Recently, with the participation of the Bank, changes in the time limits and fees regarding FMM rules have been made to enable that accessibility to credit would promote the sector's growth.

SOLID CARGO

Brazilian bulk cargo ship fleet is formed by 28 ships registered in Brazil, totaling 1.4 million TPBs (gross tons). They are two Capesize ships (over 80 thousand TPBs), four Panamax ships (60 thousand to 80 thousand TPBs) and 22 Handy ships (20 thousand to

55 thousand TPBs), given that two companies (Elcano and Norsul) concentrate 71% of the fleet capacity.

Some companies decided to register the vessels abroad. For example, Docenave possesses three Capesize-type ships under convenience banner.

The national fleet operation is directed toward supplying cabotage demands. The main flows are bauxite (7 million tons/year), iron ore (3 million tons/year) and salt (1.5 million tons/year).

Within long distance traffic, the segment of solid cargo presents expressive cargo volumes, mostly regarding exports. In 2003, it was transported 281 million tons, being that exportation was responsible for 85% of that total. However, few operations are executed with Brazilian ships, basically having ships with foreign banners being utilized.

Brazilian fleet average age is 18.9 years. The obsolescence of the vessels enables one to predict that – in case there are no replacements – in 2010 the fleet capacity will be reduced to 58% of the current capacity.

LIQUID CARGO

Transpetro, company belonging to Grupo Petrobras, is the largest navigation company of Brazil. It possesses 50 owned vessels – 46 which are registered abroad: 39 oil tankers, six gas ships and one water-tank ship. Among the oil tankers, only two have double hull and will be able to continue operations after 2010.

Total capacity of the fleet that supplies Petrobras reaches 5.5 million TPBs, considering Transpetro ships (42%) and the foreign leased ships (58%).

To supply the need of fleet renewal, Transpetro published a public tender edit for the purchase of 26 vessels, including oil tankers, gas ships and clear product ships. Also, it is expected the construction of 20 more vessels until 2015.

The companies Flumar, Global and Metalnave – smaller – basically operate in reserved cabotage traffic for Brazilian ships, transporting chemical products and GLP. The fleet of gas and chemical ships belonging to those companies present higher average age (older than 20 years), with exception to the Metalnave ships which were recently added.

In cabotage, there is an important flow of petroleum transportation and also transportation of petroleum derivatives and chemical cargos. Those traffics need Brazilian ships due to the regulation that entitles cabotage to the Brazilian banner. Those flows will probably grow much more in the next few years, with the increase of offshore oil production, requiring crude oil transportation between the production platforms and the terminals.

It is noted that the transportation of liquefied gases present significant differences in terms of vessel technology and in terms of market conditions in each one of the cases of petroleum liquefied gas (GLP) and natural liquefied gas (GNL).

Another niche within the liquid cargo segment regards chemical ships. There are four main cargo types: organic products (methanol, MTBE, styrene, etc), inorganic products (sulfuric acid, phosphoric acid, sodium hydroxide), vegetable oils and animal oils (palm tress, soybean, sunflower) and others (lubricant oils, sugar-cane syrup, among many other types of products).

CONTAINERIZED CARGO

The containerized waterway transportation, in an international level, is extremely concentrated upon large companies with global operation (mega-carriers). The five largest world companies are accountable for 31% of the fleet capacity in TEU (twenty-foot equivalent unit). That percentage reaches 45% and 65% for top ten and top twenty largest operator companies, respectively.

The segment presents the greatest growth rates in the navigation sector in the world. The annual growth average of vessel fleet only for the transportation of containers between 2000 and 2003 was of 10.7%.

That growth is more noticeable within the greater capacity level ships, reaching an annual average of 29.3% for ships over four thousand TEUs. The construction of ships greater capacity shows the trend to explore economies of scale in containerized cargo services.

Currently, only three Brazilian companies (Aliança, Libra and Global) regularly operate in the long distance maritime containers transportation, given that two of them belong to foreign groups.

In 2001, from the total cargo only 18% were transported by Brazilian companies, being only 1% with owned ships (the rest was carried out with leased ships).

The main long-distance foreign operator companies in Brazil are Hamburg Süd and CSAV. Aliança (controlled by Hamburg Süd) and Libra (controlled by CSAV) possess expressive market participations, which have been keeping it relatively stable throughout the last three years.

In the maritime container cabotage transportation (including Mercosul routes), three Brazilian companies (Aliança, Docenave and Mercosul) operate regularly, given that two of them belong to foreign groups. Mercosul Line is a subsidiary of the Anglo-Dutch P&O Nedlloyd.

Generally, the Brazilian general cargo fleet reveals itself not sufficiently adapted to traffic of containers in long distance and in cabotage.

It is worth noting that, in 2005, the Brazilian naval construction sector was responsible for the maintenance of 30 thousand jobs. Within maritime transportation, 7.5 thousand jobs were offered.

MAIN ACTIONS

There is a perception of opportunities for efficiency gains in all Brazilian transportation matrix modes, particularly with the increase of the waterway mode participation.

With that system vision, BNDES participated intensely in 2005 of the discussions that purposed to stimulate the growth of the Brazilian navigation sector, such as the reduction of capital cost for the acquisition of vessels by Brazilian companies, the adaptation and adjustment of FMM rules regulation and the development of the structuring of a performance insurance for naval construction.

Additionally to the relevancy of those measures, the feasibility of the Brazilian merchant marine still involves the issue of production cost of national shipyards, comparatively to the international market, and facing the issue related to the operational cost under the Brazilian banner, without revealing issues referent to the efficiency and accessibility of the country ports.

In 2005, BNDES provided support to new operations for the maritime and river cargo transportation sector, with investments of R\$ 312 million and financings that total R\$ 239 million, which represents a 125% increase in relation to the total approved in 2004. As regards the carried out disbursements, the Bank freed up the total of R\$ 224 million.

The major part of the total approved and freed up was directed toward transportation in bulk throughout the Brazilian coastline (cabotage) of dedicated products, such as lumber, pulp and steel bobbins, as well as waterway transportation of agricultural commodities.

MAIN APPROVED OPERATIONS

The highlight of that sector was both approved financings in favor of Companhia de Navegação Norsul, in the total amount of R\$ 180 million, to carry out investments of about R\$ 200 million.

One of the operations is destined to the purchase of three coasters and one ocean tug for transportation of pulp bale for Veracel Celulose S.A., between the maritime terminal of Belmonte in the State of Bahia, and the Portocel terminal in the State of Espírito Santo.

Another contract refers to the acquisition of four coasters and two ocean tugs for the transportation of iron bobbins between Companhia Siderúrgica de Tubarão [CST], in the State of Espírito Santo, and the re-laminating plant Usina Vega do Sul S.A., in the State of Santa Catarina.

All the ocean tugs will be manufactured by the Promar shipyard, located in the city of Niterói (State of Rio de Janeiro), while the coasters will be supplied by Eisa (Estaleiro Ilha S.A.) of the city of Rio de Janeiro (State of Rio de Janeiro).

The company Norskan Offshore Ltda. gathered a financing of R\$ 91 million from BNDES to invest R\$ 116 million in the acquisition of a maritime support vessel type AHTS-15000 for anchor handling, towing and supplying (towing, anchor handling and supplying), destined to the providing of services to oil exploration and production companies. The vessel construction was contracted to Promar shipyard.

Navegação Aliança Ltda. gathered a financing of R\$ 13.7 million from BNDES for purchasing two bulk cargo vessels, which investment is of R\$ 25.2 million. Hidronave Transporte Hidroviário Ltda., in turn, gathered a financing of R\$ 7.6 million from BNDES for purchasing two river tugs, which investment totals R\$ 10.5 million.

MAIN COMPLETED PROJECTS

- **Companhia Brasileira de Offshore (CBO)** – BNDES financing made feasible the acquisition – by CBO – of a type AHTS-12000 maritime support vessel, built by Ebin shipyard, in the city of Niterói (State of Rio de Janeiro). The boat is destined to carry out offshore support operations to deep water oil exploration, development and research units. The construction of the boat started on November 2003 and it was delivered on December 2005.
- **Companhia de Navegação Norsul** – The Promar shipyard delivered to Norsul an ocean tug and the Eisa shipyard delivered three coasters, which compose Veracel pulp transportation system. Besides that, Eisa shipyard completed Aracruz tree trunk transportation system, formed of two ocean tugs and four coasters.

TELECOMMUNICATIONS

SECTORIAL OVERVIEW

The total user quantity of telecommunication services in Brazil continued to grow in 2005, due to the strong expansion of the mobile phone service base, which resulted in the increase of telecommunications service penetrations in less favored casts. Overall, there are about 40 million fixed phone service subscribers in Brazil and approximately 85 million mobile phone users.

The number of broadband accesses to the internet grew 68% in 2005, closing out the year with 3.8 million. There was also significant VoIP (voice over IP) supply advancement, having been accounted – at the end of 2005 – 38 operator companies that offered that service through the public network.

In the cable TV sector, the year was marked by financial and share ownership restructuring, with the beginning of a new investment cycle oriented toward the modernization and adaptation of the companies' networks to providing new services.

FIXED TELECOMMUNICATIONS

The number of fixed telecommunication subscribers remained stable compared to 2004. In an attempt to minimize the income losses due to changes from local traffic to mobile operator companies and from long distance traffic to VoIP companies, the concessionaires are investing on broadband and on the development of aggregate value services.

Additionally, in 2005, groups that operated in fixed and mobile telecommunications started to sale packages including both types of services, together with broadband and internet.

Fixed telecommunication services provider companies, which were already offering VoIP to the corporate market, announced the launching of that service within the residential market in 2006, which will probably be provided defensively. The objective of the concessionaires is to minimize loss traffic and increase a faithful legion of clients. The concessionaires will probably not compete on prices, but instead through aggregate value services and through the integration of VoIP to service packages already offered.

In December 2005, the fixed phone concessionaires signed with the National Agency of Telecommunications [Anatel] the adjournment, for a period of 20 years, starting from January 1st, 2006, of the concession contracts signed in 1998.

The changes, which were immediately put into effect, are: conversion of local phone services pulse per minute, the detailing of the calls in the phone bill, the definition of stricter universalization goals and quality goals and the creation of the social telephone or Special Class Individual Access [AICE]. The latter is a new pre-paid service modality, to be mandatorily offered by the operator companies with the lowest subscription costs, for exclusive residential use and limited to one access per domicile.

MOBILE TELECOMMUNICATIONS

After having soared from 46.4 million in the end of 2003 to 65.6 million in 2004, the base of mobile subscribers continued to grow in 2005. Until November, one could count 82.3 million subscribers, 81% being pre-paid. The estimations show that the years will probably close with 85 million subscribers – number equivalent to a density of 46 cell phones per 100 inhabitants. That made the country be positioned as the fifth in the world as regards number of cell phones, trailing behind China, the United States, Russia and Japan.

Even though the mobile phone service segment corresponds to 68% of the total base of subscribers (fixed and mobile), it represented only 39% of the sector's revenues in 2005, with profitability quiet inferior to the fixed phone service segment. The mobile base expansion continued to depend upon subsidies practiced by service operator companies through the sales of devices, due to the strong competition observed within the sector, with the operation of three or four operator companies in each area.

It is still worth highlighting the strong relevance of interconnection incomes in the revenue of mobile telecommunication companies, observing that the tendency is of a drop in the interconnection rates. To increase profitability, the mobile operator companies are betting on the income growth from data and aggregate value services.

CABLE TV

On November 2005, the cable TV sector summed up 4.1 million subscribers, corresponding to an increase of 7% in the year, after similar growth experienced in 2004 and stagnation observed during the four previous years.

Despite showing small representation in broadband access – led by clients of fixed telecommunication operator companies – the cable TV sector presented significant increase of subscribers of that service in 2005: the accumulated growth in the first three quarters of the year was 45%, summing up 528 thousand accesses.

Just as the fixed telecommunication company providers, the cable TV sector companies are getting ready for the launching of the triple play promotion, service which contemplates video, voice and data transmission.

MAIN ACTIONS

BNDES's main operation objectives within the telecommunication sector are the development of the local equipment industry, including associated software, and the increment of the universalization of services, placing emphasis on making it cheaper to the lower income population. The Bank supports the investments on the implementation and expansion of the networks, purposing to improve the quality of those services and to introduce new technologies.

In 2005, BNDES approved financings in the amount of R\$ 1.78 billion for telecommunication projects, corresponding to total investment of about R\$ 3.56 billion. The amount disbursed in the year by the Bank to the sector reached R\$ 1.59 billion.

MAIN APPROVED OPERATIONS

- **TIM Celular S.A.** – Investments on the GSM cell phone services network, purposing to increase the coverage area; to broaden the speed of data transmission, internet and images; and to supply aggregate value services. The investments totaled R\$ 2.6 billion, with financing of R\$ 1.34 billion.
- **Telemar Norte Leste S.A.** – Execution of the investments program of General Plan on Universalization Goals [PGMU/2005] and of the social project School in Progress [Escola em Movimento], in the city of Recife (State of Pernambuco), with total investment of R\$ 384 million and financing of R\$ 218 million.

The other operation, approved for Telemar Norte Leste S.A., contemplates the system implementation project (hardware and software) with technology developed in the country, enabling the detailing of telephone bills and the providing of other services. The investments sum up R\$ 23.9 million – 100% being financed by BNDES.

- **Global Village Telecom Ltda. (GVT)** – Expansion of the company's telecommunication network, which operates in the South and West-Central regions, changing the capacity from 744 thousand to 997 thousand installed lines demanding investments of R\$ 294 million, with BNDES financing R\$ 120 million.
- **Companhia de Telecomunicações do Brasil Central (CTBC Telecom)** – Investments on equipment and on network infrastructure, for the broadening of the capacity to supply data and internet (broadband) services, of the processing of commutation centers and network transmission. The investments totaled R\$ 177.6 million, with BNDES financing R\$ 55.2 million.
- **CTBC Celular S.A.** – Implementation of the GSM network, with the acquisition of equipment and adaptation upon support systems and in the infrastructure of the existing network. The investments are of R\$ 64.9 million, with BNDES financing 18.1 million.
- **Engeredes Redes Multimídia S.A.** – Investments for the broadening of the network transmission capacity, in the amount of R\$ 22.8 million, with BNDES financing 3.4 million.

All three CTBC Telecom, CTBC Celular and Engeredes – companies belonging to Grupo Algar – projects totaled R\$ 265 million, with BNDES financing R\$ 76.7 million.

CREDIT DECENTRALIZATION: CONTRIBUTING TO THE REDUCTION OF REGIONAL INEQUALITIES

DISBURSEMENTS PER REGION

In 2005, BNDES total disbursements grew 18% compared to 2004. Disbursements gathered increases of 30% in the Southeast Region, 10% in the South Region and 39% in the Northeast Region, while it recorded decreases in the West-Central Region (37%) and North Region (17%).

As regards the North Region, the drop in disbursements refers mainly to the large operations within the electric energy sector. If one disregards the drop recorded in this sector, all remaining disbursements doubled.

In the observed growth displayed by the Northeast Region, it is highlighted the influence of non-automatic operations with the electric energy sector. Paper and pulp, chemical, food and oil and gas sectors contributed importantly as regards the disbursements.

As to the projects, the following can be highlighted:

- BNDES financing of R\$ 2.6 billion for the Bahia Sul venture located in the city of Mucuri (State of Bahia), with total investment of R\$ 4.6 billion. It encompasses social projects in the amount of R\$ 24 million, 90% financed by the Bank, and it will generate eight thousand job openings during implementation and 950 during operations.
- Financing of R\$ 245 million for Manati S.A. to invest on the production and transportation of natural gas of Campo de Manati, in the coast of the State of Bahia, with total investment of R\$ 642 million, consisting of the implementation of wells. Campo de Manati will enable that Bahia doubled its gas production and it will be Brazil's greatest non-offshore-related natural gas production.
- Financing to expand the Port of Pecém (State of Ceará) in the amount of R\$ 150 million, with total investment of R\$ 330 million. The project encompasses the construction of one more cradle, freeing up the existing cradle to – at the end of the construction – operate exclusively with bulk cargos and iron and steel products and to assist the iron and steel company that is being built in the state.

After strong growth in 2004, the West-Central Region experienced sharp disbursement reduction in 2005. The change is due to the agricultural and infrastructure sectors, those exactly responsible for the good performance recorded in 2004.

In spite of the reduction in the disbursements for the regions, Bank's support to important projects must be highlighted, which had social-economic impact upon the region:

- Financing of R\$ 800 million to Transportadora Urucu Manaus S.A. (Petrobras), purposing the construction of gas pipes between the city of Urucu and the city of Manaus, in the State of Amazonas, with total investment of R\$ 1.44 billion. Besides Manaus, another seven municipalities from the State of Amazonas will receive natural gas reserves from Urucu. The supplying will enable that the thermoelectric that use diesel fuel or fuel oil today will begin to consume natural gas, reducing the generation costs and environmental pollution.
- Financing of R\$ 137 million to the Integrated Sustainable Development Program of the State of Acre, with total investments of R\$ 170 million. The program comprises twenty different subprojects, integrated within a social and economic development plan, considering the sustainable exploring of local potentialities, and mainly the forestry-based economy.

The growth regarding the Southeast Region disbursements reflects the demand behavior of many industrial sectors and of the infrastructure. One can clearly observe voluminous disbursements on the following sectors: gas and energy, telecommunications, food products, metallurgy, motor vehicles, chemical and paper and pulp.

The South Region experienced in 2005 a 13% growth in disbursements. At the same time that the disbursements toward automated operations for the farming and cattle raising sector (just like it happen with the West-Central) decreased intensely, the transactions were sufficiently offset by the demand increase of other economic sectors.

According to the table below, as regards the approved operations, it is worth mentioning the expressive growth of approvals for the North and Northeast Regions in 2005, which reached 101% and 159% respectively, in comparison to 2004. As to the West-Central Region, the drop of approvals is probably attributed to the adverse climatic conditions that had strong effect upon the investments of the region.

BNDES: APPROVALS PER REGION (R\$ BILLIONS)					
REGION	2001	2002	2003	2004	2005
West-Central	1.23	2.88	4.29	5.26	3.65
Northeast	3.42	4.21	4.95	2.74	7.09
North	0.84	1.56	2.02	0.97	1.95
Total WC/NE/N	5.49	8.65	11.25	8.97	12.69
Southeast	16.94	25.64	20.37	21.58	30.53
South	4.70	6.78	8.74	7.35	11.27
Total SE/S	21.64	32.42	29.11	28.93	41.81
Brazil	27.13	41.07	40.36	37.90	54.49

INITIATIVES TO IMPROVE REGIONAL FOCUS

Aiming at promoting greater deconcentration of its disbursement, since the 1990s, BNDES has been creating many regional development programs adopting macro-regional geographical delimitation criteria, not considering the social-economic differences of each macro-region. The performance analysis of those programs indicated dissatisfactory results and stimulated the Bank to reformulate its approach, which resulted in the creation of the Regional Dynamism Program [PDR].

With effective date of three years and resources of R\$ 5 billion, the PDR provides distinguished conditions for investments on less developed regions, using a new criterion, according to the National Policy Regional Development methodology, implemented by the Ministry of Integration. That methodology is based on the *per capita* domicile income and on the economic dynamism per territorial unit and follows micro-regional delimitation patterns, better capturing the existent territorial diversity.

Purposing to grant greater efficacy to BNDES's regional development policies, it was created the Regional Policy Committee, which will act in identifying structuring projects characterized by strong regional impact potential and capacity to attract other investments. The Committee will operate in the definition and coordination of the Bank's actions in the project's realm of influence, so to stimulate investments and to grant them with distinguished financing conditions.

Another initiative aiming at regional development was the creation of the Financial Support Program to Investments on Railways in the North and Northeast Regions, about R\$ 1 billion, and offering distinguished conditions for investments on cargo transportation in those regions. Under the program's coverage, in 2005, BNDES signed operation of R\$ 144 million with Companhia Ferroviária do Nordeste, purposing to finance the quality increase of services provided, of the productivity and of the production capacity, with total investments of R\$ 180 million on the following states: Maranhão, Piauí, Ceará, Paraíba and Pernambuco.

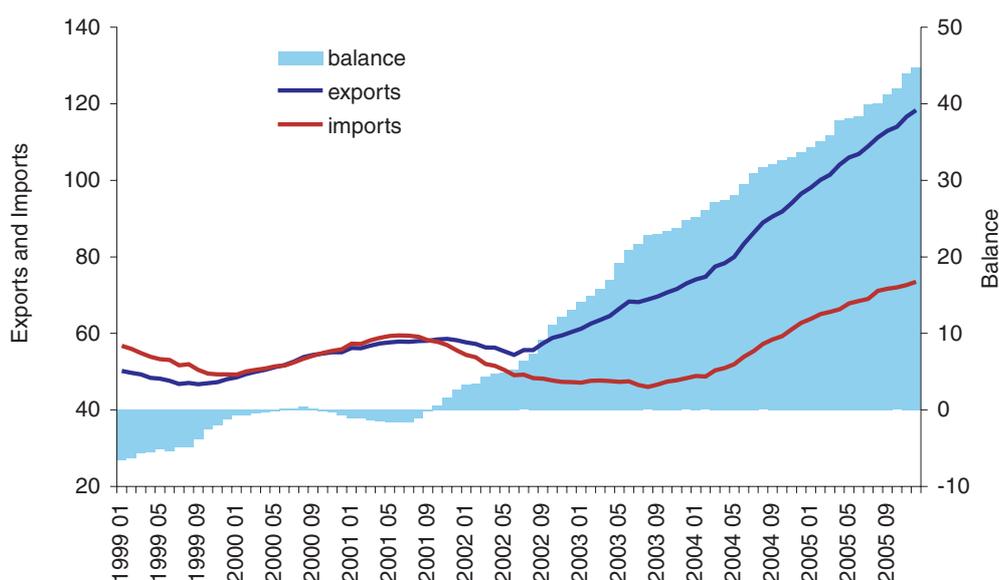
In 2005, BNDES signed a technical cooperation agreement with the Ministry of National Integration purposing to increase the potential of the results of the parties' studies and interventions. In the agreement, it is predicted to promote the spatial social-economic dynamic analysis, aiming at supplying base material to the actions to activate potential production and reduce regional inequalities, the close operation within the subregions and within priority economic sectors, as well as the articulation with constitutional funds in the financing of large undertakings inserted in the subregions' development programs.

FOREIGN TRADE: LATIN-AMERICAN INTEGRATION IS A PRIORITY

EVOLUTION OF BRAZILIAN EXPORTS

Brazilian exports totaled – in 2005 – US\$ 118.3 billion, recording a 22.6% expansion compared to 2004. It was the greatest amount ever recorded in all its historic series. The trade balance reached a historical record of US\$ 44.8 billion.

BRAZILIAN EXPORTS AND IMPORTS ACCUMULATED IN 12 MONTHS: 1999-2005 (US\$ Billion)



Source: Own elaboration based on Foreign Trade Office [Secex] data, and Ministry of Development, Industry and Foreign Trade [MDIC] data.

BNDES participated in the export increase both directly, through financing using BNDES-Exim (within the Pre-shipment, Special Pre-shipment and Post-shipment lines) mechanisms, and through financing industrial projects that contributed to the substitution of imports or for the increment of exports.

Those financings strengthen the Brazilian industry, for an industry that produces for internal and external market possesses greater scale and better conditions to develop. Financing to exports enables Brazilian companies to compete within the international market in similar conditions to other countries that receive support of their respective credit agencies to exportation.

The expansion of foreign trade by BNDES was fundamental because exports generate strong currency monetary resources, which enable a country to face its importation needs and needs to pay foreign debts, making possible the reduction of foreign vulnerability. The Bank's stimulus to exports of greater aggregate value products purposes the continuous and sustainable expansion of exports throughout time.

Besides that, exports contribute to economic growth and to the generation of jobs in the country. BNDES support lines to exports look to also widen the percentage of domestic inputs in exported goods, because the greater products with national content, greater the impact upon the domestic growth.

MAIN ACTIONS

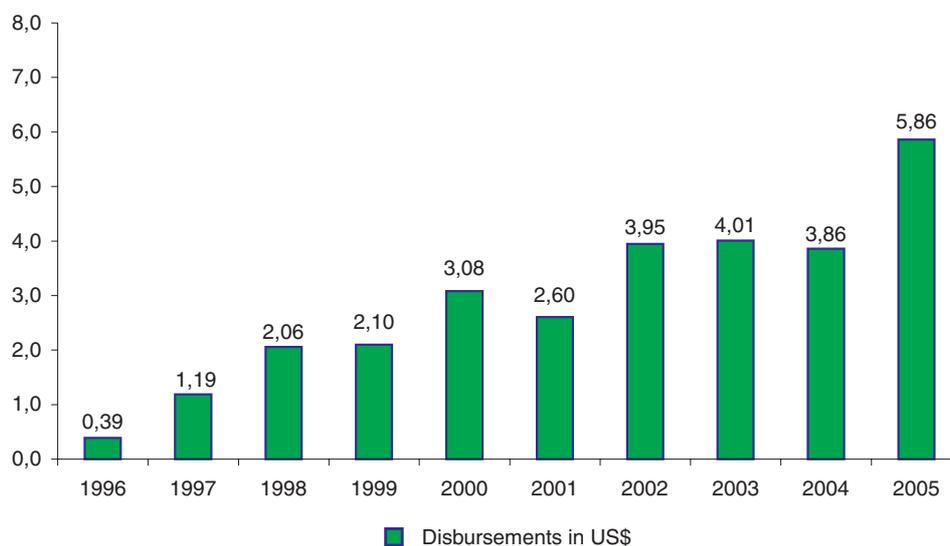
The Bank's support to Brazilian exportation achieved 15 years in 2005. The first request for financing within the ambit of exportation lines was presented on November 8th, 1990, by Prensas Schuler S.A. Throughout that decade and a half, almost US\$ 30 billion were disbursed for the most varied sectors, contributing to the expansion of Brazilian exports quantitatively and qualitatively.

BNDES disbursements for the financing lines to exports closely accompany the growth of exports during the period. During those 15 years, Brazilian exports amount increased almost four fold, going from an average of US\$ 30 billion during the first half of the 1990s to US\$ 118 billion in 2005. In that period, the growth of the Bank's financing lines to exports occurred at a significantly higher rate. The resource disbursements soared from an annual average of US\$ 100 million during the first half of the 1990s to US\$ 4 billion in the beginning of this century.

In 2005, the disbursement on foreign trade support lines were of US\$ 5.86 billion, being the largest annual amount of resources disbursed in the entire operations of these lines. In comparison to 2004, it recorded a 51.8% growth in the amounts disbursed. In 2005, the disbursements to the Foreign Trade Area represented about 30% of the Bank's total disbursements.

BNDES DISBURSEMENTS TO EXPORTS: 1996-2005

(US\$ Billion)



BNDES support lines are present in the financing to both production (Pre-shipment Line) and trade (Post-shipment Line), both important for the competitiveness of the exporting companies. In a financing through Pre-shipment Line, the company obtains resources to execute the productive process of the good to be exported. The Pre-shipment Line enables that the importer would be financed and the exporter receives the resources beforehand. In 2005, disbursements were distributed between Pre-shipment Line (54%) and Post-shipment Line (46%). There is significant risk reduction when one can choose between an excellent company to be financed in Brazil through Pre-shipment Line and another excellent company abroad through Post-shipment.

As regards the sector's profile, BNDES financings provide assistance to the most varied segments, practically reaching all the economy activity branches (see table below).

Capital goods represented 68% of the disbursed amount in 2005 – corresponding to US\$ 4 billion, 34% more than 2004 – encompassing the following segments: industrial machinery, telecommunication devices, energy generation equipment, aircrafts, tractors, railway vehicles, buses and trucks.

BNDES DISBURSEMENTS TO EXPORTS			
USE CATEGORY	SHARE (%)	AMOUNT (US\$ MILLIONS)	VARIATION (%) 2005/2004
Capital goods	68,4%	4.010,3	34%
Transportation equipment	53,9%	3.160,6	15%
Machines and equipment	9,6%	563,1	186%
Repetro ¹	3,6%	210,5	-
Others ²	1,3%	76,1	77%
Consumer and intermediate goods	26,6%	1.560,3	140%
Motor vehicles and autoparts	15,3%	897,7	484%
Food	3,7%	214,7	-23%
Metallurgy material and metal products	1,7%	100,2	144%
Electronic and communication materials	1,3%	75,0	2049%
Chemical products	1,1%	66,9	62%
Footwear and leather	0,6%	34,7	33%
Lumber products	0,5%	31,9	231%
Paper and pulp	0,5%	28,5	359%
Furniture and various industries	0,5%	26,9	91%
Non-metallic mineral products	0,5%	26,6	59%
Textile products	0,4%	25,0	33%
Rubber and plastic	0,3%	17,1	119%
Household devices	0,2%	11,8	-61%
Electric material	-	3,3	-
Services	5,0%	292,2	28%
Total	100,0%	5.862,8	52%

¹Special Exports and Imports Regimen of Goods Destined to Research Activities and Oil Natural Deposit Exploration (Law 9.826, dated August 23rd, 1999).

²Electronic material and communication material and medical and precision instruments.

In the first half of 2005, the spread in the Pre-shipment Line was reduced to 2% on capital good operations (Circular-Letter 17, dated May 2nd, 2005). The answer was quick, liberating US\$ 700 million only in May and June.

The liberations for the consumer and intermediate good sectors presented expressive growth (140%) compared to the previous year. The main measure that enabled that growth rate occurred within Pre-shipment Lines: participation reduction on foreign currency from 40% to 20% and entailing only to currency exchange fluctuation plus a fixed rate (Circular-Letters 11, dated April 20th, 2005 and 24, dated June 1st, 2005), instead of the currency portfolio practiced previously.

Those changes in conditions regarding support lines happened in the end of the first half of 2005 and revealed effects right in the beginning of the following semester. Disbursement averages started to be higher than US\$ 100 million per month in the second semester, compared to smaller amounts of US\$ 20 million of the previous period. Pre-shipment Lines are responsible for 95% of the total disbursements for the consumer and intermediate good sectors.

Still in the second half of 2005, specific conditions were established for the support of automobiles exports (Circular-Letter 47, dated September 27th, 2005). The main objective of the program is to consolidate the national motor vehicle industry also as an exporting platform, operating within the low cylinder vehicles niche and/or double-fuel. Financing represents 30% of the amount to be exported by the companies on a 12-month period, fulfilling their needs for working capital, given the production cycle. Operations in the amount of US\$ 853 million were approved for the following companies: Volkswagen, Ford, General Motors and Fiat.

Disbursements for operations of services were of US\$ 292 million in 2005, presenting growth of 28% in relation to the previous year. That was the greatest disbursement amount for service exports since the beginning of the BNDES support lines to foreign trade.

In 2005, exports of Brazilian goods and services to South America represented 84% of the amount disbursed by BNDES to those operations and are entailed to large infrastructure projects within the ambit of South-American Integration.

MAIN OPERATIONS

In this topic, only large amount export operations are presented, not forgetting those referent to the substitution of imports, an in-house BNDES title.

OIL PLATFORMS

BNDES approved two financings in the total amount of up to US\$ 674 million, destined to the construction of two platforms for Petrobras: P-51 (up to US\$ 402 million) and P-54 (up to US\$ 272 million). Those operations are described in Chapter 9, which deals with petroleum and gas.

AERONAUTICS SECTOR

Bank's support was essential for the consolidation of the national aeronautics industry. Better technical condition and lower prices are not enough to ensure aircraft sales, thus being necessary assure financing conditions at interest rates and limit dates compatible to international rates and limit dates. Currently, Embraer has about 16 thousand employees and is the fourth largest aircraft exporter in the world – present in 58 countries in five continents.

In 2005, it was completed the deliveries related to the financing contract with the American company American Eagle – largest regional airline company in the United States – which total amount reached US\$ 3.5 billion. Signed in 1998, that contract enabled the exportation of 217 aircrafts manufactured by Embraer, as it ensured that all of them were acquired by American Eagle with BNDES financing. Resources referent to that contract summed up US\$ 380 million.

Among the approvals, it can be highlighted the financing to first exports of new aircraft models – EMB-170 and EMB-190 – for the South-American market in June. The financing through Post-shipment Line, within the supplier credit modality (refinancing to the exporter), will be of up to US\$ 61.6 million to the Tame company (Línea Aérea del Ecuador), for exportation of three aircrafts: two EMB-170 models were delivered in 2005 and one EMB-190 has its delivery scheduled to 2006. The contract predicts that Tame will have options to purchase two other EMB-170 and two more EMB-190, exchangeable to models even more advanced – two EMB-175 and two EMB-195, for delivery up to three years after the effective date of the current contract.

Tame's debt will be included in the Reciprocal Credits and Payments Plan (CCR), of the Latin-American Integration Association (Aladi),¹ and will have the guarantee of the credit insurance to exports of the Insurance Fund to Exports (FGE).

Still as regards the support to exports within the aeronautics sector, it was granted credit in the Post-shipment Line ambit, within the supplier credit modality, which will enable Helibrás's sales to the government of the Mendoza province in Argentina.

MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES [MSMES]

In 2005, the Pre-shipment Anchor Company Line was continued, created during the second semester of 2004 with a specific line for the assistance of micro, small and medium-sized companies that indirectly export, through trading companies or industrial companies that make the exportation of small size companies feasible.

Those companies face both barriers to the access to credit and difficulties in the management of business processes within the exporting activity, such as logistics, certification, dispatch, commercial promotions, among others, when they look to place their products in the foreign market.

The Anchor Company, working with groups of micro, small and medium-sized enterprises, is responsible for negotiating with clients (with negotiation capacity enhanced due to scale), of the consolidation of importation order mix, of the importer risk evaluation, of the feasibility of payment dates and of distribution logistics and specialized operational management (financial and administrative) within the exportation area, besides exports of goods produced by smaller-sized enterprises. It is, therefore, under the clout of the Anchor Company those attributions that represent obstacles to the closing of deals abroad by the MSMEs.

Since the last quarter of 2004, the Pre-shipment Anchor Company Line provided benefits to more than 400 MSMEs, making feasible annual exports of US\$ 230 million. It was carried out operations with many sectors, such as: footwear, textile, furniture and fishing (see table).

¹ CCR mitigates the political risk and eliminates the trade risk, once the Central Bank of the indebted country commits to pay the debt in the multilateral compensation between the Central Banks of the plan signing countries.

MAIN PRE-SHIPMENT ANCHOR COMPANY LINE OPERATIONS			
STATE	EXPORTER SECTOR	BENEFITED COMPANIES	PROJECTED ANNUAL EXPORTS (US\$ MILLIONS)
Rio Grande do Sul	Footwear and leather products	310	115
São Paulo	Furniture	8	3
Santa Catarina	Bed cloth, table linen, and towels bath	60	56
Pernambuco	Shrimp and fishing	30	55

SOUTH-AMERICAN INTEGRATION

South-American regional infrastructure integration is a priority in the Brazilian foreign policy list. It deals with an initiative directed toward the increment of economic flows between Brazilian and neighboring countries and to broaden the South-American presence – as a block – in the progressing international negotiations. It is within this context that BNDES's financings to exports of Brazilian goods and services to countries of the region are inserted, such as:

- **Widening of Argentina's Gas Pipe Capacity** – It deals with contracted financings in the amount up to US\$ 237 million, in the Post-shipment Line ambit, within the supplier credit modality, for the support to Brazilian exports of goods and services destined to the expansion of natural gas gas-pipe transportation capacity:
- **General San Martín and Neuba II, operated by the Transportadora Gás del Sur [TGS], controlled by Petrobras Energía S.A. [Pesa], wholly-owned subsidiary of Petrobras** – Financing of up to US\$ 170 million for exportation of engineering goods and services by the construction company Norberto Odebrecht and up to US\$ 30 million for exports of tubes by Confab. The total project amount is US\$ 315 million.
- **North Gas Pipe, operated by the Transportadora Gás del Norte [TGN]** – Financing of up to US\$ 37 million for exports of tubes by Confab. The total project amount is US\$ 180 million.

Those projects aim to overturn the recent energy crisis in Argentina, given that about 50% of the country's electric matrix depend upon natural gas, and enable to broaden the gas transportation capacity in up to 2.9 million cubic meters/day in the TGS gas pipes system and in up to 1.8 million cubic meters/day in the North Gas Pipe, enabling the supply to the growing energy demand in that country.

The financial support to those undertakings was structured within the Cooperation Mark Agreement, signed by BNDES with the Argentinean banks Banco de Inversión y Comercio Exterior [Bice] and Banco de La Nación Argentina [BNA], in 2004, which predicts the technical cooperation between the institutions and the financial collaboration concession regarding financing operations whenever there is the possibility of support to exports of Brazilian goods and services for integration projects and projects involving the Argentinean government interest.

The Bank's support to exports to Argentina when that country was renegotiating its foreign debt became possible thanks to the feasibility – facilitated by the Argentinean government – of continuity of Aladi's Reciprocal Credits and Payments Plan operations. Those operations establish the reopening of that instrument on Argentina's side. Besides the inclusion within CCR, the operations also counted on the contracting of credit insurance to exports of the Insurance Fund to Exports [FGE].

- **Construction of the International Airport of Tena, in the Equatorial Amazon** – Operation approved by BNDES in 2005, in the Post-shipment Line, within the buyer credit modality, of support to exports of Brazilian engineering and construction goods and services by Norberto Odebrecht S.A., for the construction of the International Airport of Tena, in the Amazon region of Equator.

The amount of the operation is of up to US\$ 50.4 million for a total investment of US\$ 70 million. The objectives are to increase the intra-regional trade; to promote tourism in the Equatorial Amazon region and to serve as base for the installation and operation of a safety and surveillance system of the region.

Among the goods associated to the construction services to be exported, one may highlight navigation aid equipment, escalators, elevators and lighting signal systems, fire fighting system, air conditioning, conveyor belts, security and drainage.

That operation will be included in Aladi's Reciprocal Credits and Payments Plan, and will count on the Credit Insurance to Exports of the FGE.

- **Agricultural Modernization in Venezuela** – Financing to the exportation of 205 harvesters by Cotia Trading S.A. for Fondo de Desarrollo Agropecuario, Pesquero, Forestal y Afines [Fondafa], under a Venezuelan agricultural modernization project. The operation, in the amount of US\$ 19.9 million, was approved and totally liberated in 2005, in the Post-shipment Line, within the supplier credit modality

That was the first operation with Venezuela included in Aladi's Reciprocal Credits and Payments Plan, within the ambit of the Mark Agreement established between BNDES and that country.

INSTITUTIONAL ACTIONS

In 2005, the following institutional actions were implemented:

- An understanding memorandum established between BNDES and Corporación Andina de Fomento [CAF], which defines their cooperation mechanisms.
- Accompaniment of the works and projects of the South-American Infrastructure Integration Initiative [IIRSA], which has as its purpose to develop the South-American infrastructure.
- Participation in meetings in the Ministry of Foreign Relations, supporting the preparation and arranging governmental missions in events related to South-

American countries, such as the South American-Arabic Countries Heads, the Coordination Meeting about the Free Trade Area of the Americas [Alca] and the negotiations about the access to markets between Mercosul and Canada, the I Meeting of State Chiefs of the South-American Community of Nations and the VIII Neighboring Commission Meeting and Integration Brazil-Colombia.

OTHER OPERATIONS WITH LATIN AMERICAN IMPORTERS

Besides the operations destined to projects of South-American integration, one can also highlight the BNDES support to other operations with Latin-American importers. The region is an important destination of Brazilian manufactured goods exports.

Total BNDES disbursements in the support lines to exports for Latin-American importers were of US\$ 466 million. It is highlighted exports of engineering goods and services to importers in the Dominican Republic (US\$ 72.7 million) and exports of foods, generators and buses to Cuba (US\$ 30.3 million).

SOCIAL: CREDIT DEMOCRATIZATION

Brazil's economic policies, since the 1950s, prioritized the modernization of the productive capacity. Until the end of the 1970s, development prevailed at all costs, famous in the following phrase: "Let's first make the cake rise then we divide it up". Since the beginning of the 1980s, the emphasis has been to obtain monetary stabilization. The country grew, achieved productive modernization, obtained stability, but unhappily there remained deep social inequalities.

Today, the federal guidelines are pointing that the economic development must simultaneously provide social development. For BNDES, a challenge was presented: maintain its support acting line to productive modernization, with the incorporation of social evaluation parameters to process analyses and to operational policies.

To face that challenge, BNDES's Social Inclusion Area was restructured in 2005, with a new strategy and new organizational structure. The new strategy defines that the actions would have to be – as a priority – directed to the regions characterized by lower economic development and lowest family income. The synthesis-purpose of the interventions is to provide support to those people so that they would find ways to take them out of poverty.

The Social Inclusion Area departments operate purposing the improvement of these people's quality of life, through interventions within the areas of education, health, social assistance, employment and income, urban development and regional development.

The departments also operate in an integrated fashion and with supplementary objectives. Programs have been reviewed and developed seeking to harmonize the actions in the benefited areas, at the same time that it is promoted integration with other BNDES's financing tools and with federal government actions and actions of other public institutions and private entities.

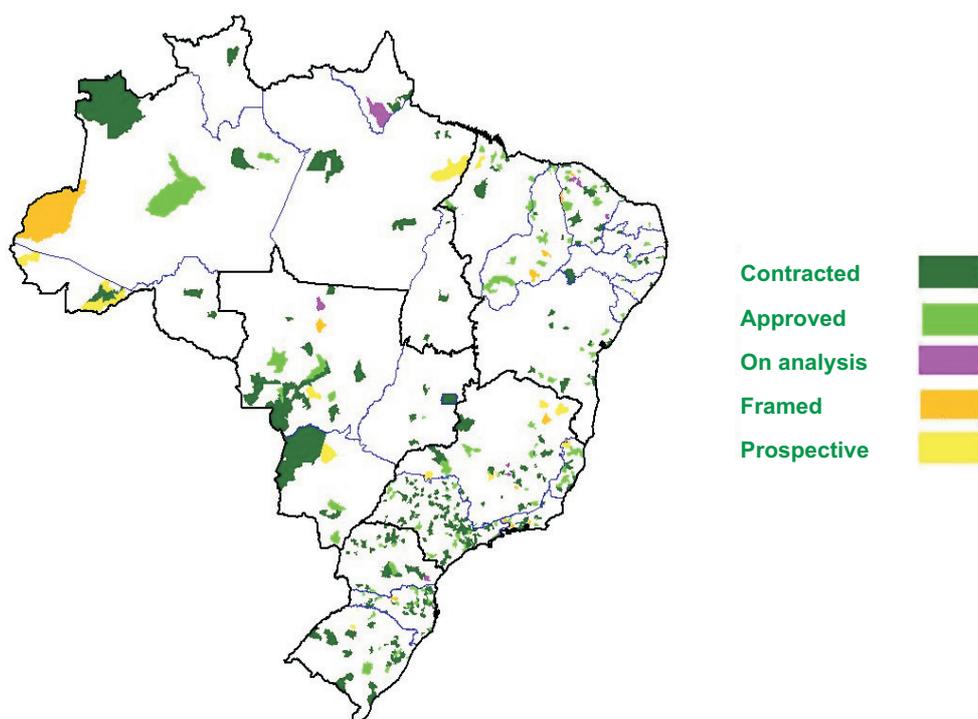
SOCIAL INCLUSION AREA



BNDES's Social Inclusion Area has accompanied the guidelines set by the federal government with priorities and actions linked to those developed by ministries and by private institutions, through plans, technical cooperation agreements and united actions. The goal is to detect supplementary items and favor the rising and advantage/utilization of synergies. It must be highlighted that the Bank's actions are always characterized by intricacies of its financial products and by its mission as a development bank.

For the crafting of indicators that would capture, qualify and quantify the demands dispersed throughout the national territory, it was built – and is constantly applied – a statistical information and database with geo-referencing technology: GeoBNDES. The map below represents the municipalities experiencing BNDES operations.

MUNICIPALITIES EXPERIENCING AS/BNDES OPERATIONS



Source: GeoBNDES.

In 2005, the Social Inclusion Area managed 634 operations, of which 555 with projected investments of R\$ 2.1 billion.

OPERATIONS MANAGED BY BNDES SOCIAL INCLUSION AREA			
CONTRACTED	QUANTITY CONTRACTED	AMOUNTS	TOTAL (R\$ MILLIONS)
2005	54	Disbursed	182,290
Previous years	501	To be disbursed	1,800
Existing contracts	555	To be disbursed	2,100
Operations approved to be contracted in 2006	249	To be disbursed	1,500

This year, 489 liberations were done, which summed R\$ 718 million. There was a drop of 33% in the amount liberated compared to 2004. The main reasons for that decrease were:

- delay in concluding negotiations of important infrastructure projects, such as the subway of São Paulo;
- reduction of new PMAT operations in 2005, due to the change in municipal administrations; and
- creation of credit contingency rules upon the public sector, which impede the contracting of many operations, in the amount of R\$ 4.6 billion.

OPERATIONS SUBJECTED TO CREDIT CONTINGENCY RULES UPON THE PUBLIC SECTOR – RESOLUTION 2,827, OF THE CENTRAL BANK (R\$ MILLIONS)				
OPERATIONS	GLOBAL LIMIT	SANITATION	DRAINAGE	TOTAL
Approved	611	77	30	720
On analysis	1,905	33	41	1,979
Framed	314	1,594	-	1,908
Total	2,830	1,704	72	4,608

Despite those external restriction, the year 2005 has shown to be very positive: it was approved a total of R\$ 1.3 billion in financings for 83 new operations, of which 54 have already been contracted and received R\$ 182 million in liberations.

OPERATIONS APPROVED BY THE DEPARTMENT OF SOCIAL INCLUSION AREA				
DEPARTMENTS*	2003 (R\$ MILLIONS)	2004 (R\$ MILLIONS)	2005 (R\$ MILLIONS)	2005-2004 (%)
DEPOS	43	68	150	+ 119
DEREGI	14	34	117	+ 239
DESOL	-	7	23	+ 217
DEURB	233	934	982	+ 5
Total	291	1,044	1,274	+ 22

*Department of Social Operations [DEPOS]; Department of Regional Development [DEREGI]; Mutual Economy Development [DESOL]; Department of Urban Development [DEURB].

DEURB, department which was most affected by the Central Bank rules and by the changes in municipal administrations, completed an analysis of 43 operations, with increase of R\$ 50 million in approvals compared to 2004. The DEPOS developed intense effort to complete pending analyses, which resulted in the 119% increase in the amount approved for 30 operations. The DEREGL had a 239% increase in its operations, which constituted operations framed under the new priorities. The DESOL also presented an index above 200%, with highlights for the fact it deals with microcredit operations and support operations to automanagement ventures, programs which were totally restructured in 2005.

The increase in the number for framed operations – result of foment activities – also deserves to be highlighted, for it reveals the right moves made regarding the changes performed, the restructuring of older programs and the launching of new programs.

FRAMED OPERATIONS				
DEPARTMENTS	2003 (R\$ MILLIONS)	2004 (R\$ MILLIONS)	2005 (R\$ MILLIONS)	2005/2004 (%)
DEPOS	44	108	466.	+ 330
DEREGI	63	74	58	- 22
DESOL	-	9	145	+ 1,365
DEURB	924	1,571	2,830	+ 80
Total	1,032	1,764	3,500	+ 98

In the lines below are listed the main programs created or restructured throughout 2005:

MICROCREDIT PROGRAM

The Microcredit Program, restructured in 2005 according to federal government's guidelines in the Directed Productive Microcredit Program, provides credit to micro-entrepreneurs purposing the generation of employment and income. As to assure the program's effectiveness, it is required from the microcredit repassadores agents a work plan that represents the focus, the goals and the actions strategies.

The ones that may be program agents, besides the civil society organization of public interest and of credit companies to the micro-entrepreneur, the foment agencies, the credit cooperatives and public financial institutions that have good capilaridade to reach the greatest number of interested parties. Every agent has to develop follow up and monitoring systems of the liberated resources, so that it would be possible to learn about the profile of micro-entrepreneurs and evaluate the benefits springing from the microcredit. There has been approved six operations, with R\$ 20 million in financings, and 16 operations are being analyzed, in the amount of R\$ 43 million.

PROGRAM FOR COLLECTIVE PRODUCTIVE INVESTMENTS PROINCO]

Proinco supports the implementation of productive equipment or trade equipment of joint use, such as technological centers, labor formation centers and purchasing and commercialization centrals, which are some of the instruments for the cooperation and improvement of the competitive capacity of a group of companies or a group of producers.

The municipalities were categorized according to income and economic dynamism, which enabled to identify those with lower development, which are in turn the focus of

the program. And the foment activities performed already resulted in 68 projects, with a total of R\$ 100 million in financings, which will be analyzed in 2006.

RECOVERY AND BROADENING PROGRAM OF THE HIGHER EDUCATION INSTITUTIONS PHYSICAL MEANS [IES]

The support program to higher education institutions has its total resources broadened to R\$ 900 million. The program objectives are: to build for the consolidation and modernization of higher education in Brazil and to support the renewal and broadening of the physical means directed toward education, research and administration of higher education institutions. For private universities, it was established a limit of R\$ 650 million in financings and for public universities, R\$ 250 million.

SUPPORT PROGRAM TO THE CONSOLIDATION OF AUTO-MANAGED VENTURES

BNDES finances auto-managed companies since 1994. Ten companies were supported and about R\$ 50 million were liberated. On December 6th, 2005, the Board of Directors approved the new program with initial resources of R\$ 200 million for the next three years.

It will support the recovery of industrial sector companies managed by workers under automanagement system and that present financial-economic feasibility, preferentially within market niches in which labor would be a prominent factor of competitiveness (quantity or quality).

Six new operations are being analyzed by DESOL, with R\$ 132 million in financings – in all of them, the option for automanagement was the best alternative for the preservation and improvement of job quality.

Following some projects developed in 2005:

- **Urban Development: Santo André (State of São Paulo), Niterói (State of Rio de Janeiro) and Diadema (State of São Paulo)** – The theme of urban development integrates BNDES's strategy, once the sustained economic growth requires social inclusion and reduction of social and regions inequalities. The Social Inclusion Area supports public transportation projects, environmental sanitation projects, urban and social infrastructure projects and tax administration modernization and public management modernization projects. The Urban Integrated Projects implement structural solutions for problems rising from uncontrolled urbanization.

The municipality of Santo André – for example – will receive financial support of R\$ 42 million for investments in environmental recovery and in the requalification of

housing nucleus, which will reduce its intra-urban inequalities. Niterói will invest R\$ 30 million on improvements and broadening of transportation infrastructure, on integration terminals, on traffic control systems and on other measures that ensure greater safety and comfort to pedestrians and public transportation users. And Diadema, obtained financing of R\$ 38 million for multi-sector projects: transportations, urbanization of low income areas, solid residues treatment and sanitation, health and urban revitalization.

- **Urban Transportation: Vitória (State of Espírito Santo) and Subway of São Paulo** – Financing to high and medium capacity passenger transportation is destined to track, tire and waterway systems, especially to the economic racionalization, for the reduction of the onus and time of deslocation of users and for the revalorization of urban areas of surrounding areas.

The third stage of the Investments Program for Collective Transportation and Urban Circulation of the Metropolitan Region of Vitória will receive financing of R\$ 101 million (the first two phases were also financed by BNDES). And the expansion of Line 2 of the Subway of São Paulo will be supported with subscription of R\$ 311 million in debentures.

- **Sanitation: Sanepar, in the State of Paraná, and Águas do Imperador, in the city of Petrópolis (State of Rio de Janeiro)** – Priorities are the universalization projects to access to sanitation services for public companies or private companies and the environmental recovery of degraded areas, through the integrated management of hydric resources.

The project developed by the Sanitation Effort of the State of Paraná [Sanepar], framed in 2005, predicts financing of R\$ 825 million for the broadening of the water supply systems, sanitation of sewage and treatment of solid residues. It was also approved the first operation in the State of Rio de Janeiro, within the ambit of the Program to Eliminate Pollution of Paraíba do Sul [Prodespar]: the project Águas do Imperador, in the city of Petrópolis.

- **Health: Small Size Hospitals in the State of Piauí and Hospitals in the State of Pará** – Changes as to strategic directions of the Social Inclusion Area has shown growing results. The State of Piauí presented a project of R\$ 11 million to the Social Fund for the support to the redirection of the small-sized hospitals and to the regionalization of the assistance to health in 103 of the 223 municipalities. Two million people will benefit through the following actions: improvement of the assistance profile of 105 hospitals as to basic assistance, installation of medical equipment and dentistry equipment and integration of those hospitals to the regionalized and hierarquical health networks.

For the State of Pará, it was framed financing of R\$ 231 million for the implementation of medium and high complexity hospital chains in the cities of Altamira, Santarém, Redenção and Breves and also for the widening of the Ophir Loyola Hospital in Belém, and the implementation of the micro-regional general hospital in the city of Tailândia.

- **Education: Cecierj, in the State of Rio de Janeiro, Mackenzie, in the State of São Paulo, and Mepes, in the State of Espírito Santo** – Distance education is an important social inclusion tool and a democratization tool of the access to public, free and quality higher education. The Center of Sciences and Distance Higher Education Foundation of the State of Rio de Janeiro [Cecierj] will receive the support of R\$ 4.9 million for the implementation of physics, biology, chemistry and computer labs, and for the widening of the library books of 24 regional distance education centers of the metropolitan region and the interior region of the state.

Within the ambit of the support program to higher education institutions, it was contracted financing of R\$ 35 million for the Mackenzie Presbyterian Institute to widen and improve class rooms, labs and auditoriums, which will represent a total investment of R\$ 61 million.

In the State of Espírito Santo, it will be contemplated investments that will benefit 14 family agricultural schools of the Promoting Education Movement of the State of Espírito Santo [Mepes] and the Center of Teacher Formation/Development. The utilization of Alternance Pedagogy methodology will be intensified, which will contribute to the social and educational development of its 2,100 students. Besides that, it will ennoble agro-family practices and culture, with the diffusion of knowledge acquired by the students for their families. The financial support with resources from BNDES Social Fund will be of R\$ 3.5 million, and the project will also receive investments from the state government and from the mayor's offices of the municipalities.

- **Regional Development: Pids-Acre and Tapajoara** – The Sustainable Development Integrated Program of the State of Acre [Pids-Acre] will support the sustainable exploration practice of Amazon's forestry resources, acting in four vertexes: strengthening tourism, urban infrastructure, economic infrastructure and social development. It will be invested R\$ 170 million on 20 different projects, with immediate generation of 2,500 jobs.

Among the projects, one may highlight the historic and cultural rescue, with valorization of citizenship of the people from the State of Acre; the consolidation of the transportation system in the capital city of Rio Branco; the conservation and sustainable economic exploring of forests; and the implementation of agro-forestry villages and settlements.

BNDES financings sum up R\$ 136 million, R\$ 26 million of which come from the Basic Inputs Area operation, through Department of Paper and Pulp Industry [DEPACEL], for investment of resources on local reforest company, and R\$ 110 million from Social Inclusion Area operation, through DEREGL, to support the State of Acre.

The Tapajoara project, presented by the Tapajós-Arapicuns Organization of Extractivist Reserve Associations, will support the communities of those extractivist reserves in their sustainable exploration, with the elaboration of a multiple use handling plan, the adoption of short and mid-term emergency measures, the construction of two centers of knowledge dissemination and the purchasing of equipment. The National Rubber Latex Extractor Council [CNS], the Brazilian Environmental and Renewable Natural Resources Institute [Ibama] and the National

Traditional Population and Sustainable Development Center [CNPT] are associated to that project.

The projected investments are of R\$ 2.9 million, with financial support of BNDES of R\$ 1.9 million, with Social Fund resources.

- **Microcredit: ICC Blusol** – ICC Blusol will receive support of R\$ 3.5 million to widen the financing on fixed investments and of working capital to micro-entrepreneurs linked to the textile chain, in 40 municipalities in the proximities of Blumenau (State of Santa Catarina).

The institution will supply the demand of micro-entrepreneurs of the textile productive chain, through partnership with the Trade and Industrial Association of Blumenau (Acib) and through the direct contact between the large and medium-sized companies of the region.

It will also be given priority to the broadening of the credit to the informal sector, with training of microcredit multiplier agents, according to the methodology developed by Brazilian Support Services to Micro and Small Enterprises of the State of Santa Catarina [Sebrae-SC] and by Agência de Fomento do Estado de Santa Catarina S.A. [Badesc].

- **Automanagement: CTMC** – The first operation of the new program will benefit the Canoas Metallurgic Workers Cooperative [CTMC], in the State of Rio Grande do Sul. Founded on January 2001, it is responsible for the recovery of the activities of the old Metalúrgica Vogg and has conciliated the automanagement practice with competitive industrial capacity, thanks to the professionalization of its management area, to the institution of worker participation mechanisms and to professional qualification.

BNDES financing, in the amount of R\$ 2.8 million, will enable CTMC to acquire its industrial plant and modernize its manufacturing park, subsequently broadening its revenues.

- **Institutional Development Program [PDI]** – The program purposes to support the federal government's strategy in strengthening the microcredit system. It will be contemplated the managerial and operational strengthening actions and habilitation actions of the microcredit repassing company entities, besides those entities directed to the improvement of activity's regulatory structure.

The Social Inclusion Area will operate in an articulated manner with the National Directed Productive Microcredit Program, of the Ministry of Work and Employment. It was signed, on December 22nd, 2005, a protocol between BNDES and the ministry for the support with non-reimbursements resources of the Technical Cooperation Plan InterAmerican Development Bank [BNDES-BID]. Negotiations are in the final stages with BID for the full program implementation.

- **Regional Dynamization Program [PDR]** – The program, created in 2005, will provide from January 2006 credit incentives for the localization of new investments on less developed regions and on impact areas of structuring projects and of the program-

operations. The PDR will substitute four regional programs: PNC, PAI, PCO and Reconvertul.

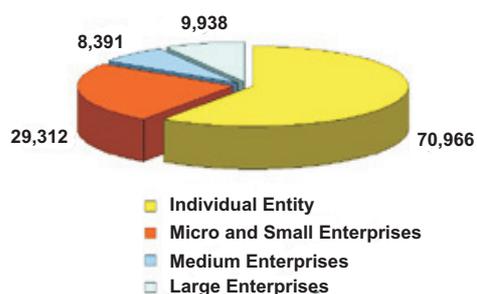
PDR will use a new criterion regarding regional operation, based on house income per capita and on the economic dynamism of the territorial unit, with micro-regional delimitation parameters, which enables it to better capture the diversity existent in the territory. That criterion is aligned with the National Regional Development Policy [PNDR] guidelines, of the Ministry of National Integration. The program will be in effect for three years and counts on the total resource amount of R\$ 5 billion.

- **Program for the Modernization of the Tax Administration [PMAT]** – The municipalities that benefited from the PMAT were the most developed in the country, whether it was through the GDP criterion, whether it was with the use of the Human Development Index [IDH], both considered within the municipal ambit. Based on that verification, a review of the program's priorities was made, which resulted in the redefinition of its scope with the broadening of the actions that could be supported on large and more organized municipalities, and in the operation strategy so to enable that the less developed and structured municipalities would have their projects supported by the program.

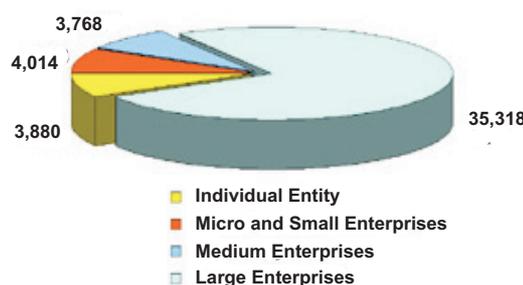
MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES: BNDES CARD CONSOLIDATION

BNDES disbursements for the micro, small and medium-sized enterprises [MSME] reached R\$ 11.7 billion in 2005. The volume of releases for the sector represented 25% of the total disbursed. In the period, 108,669 operations corresponded to 92% of the BNDES total operations. In terms of growth, it is highlighted the operations with BNDES Card, which, from 2004 to 2005, respectively, increased, in figures, from 1,029 to 5,790 and, in amount disbursed, from R\$ 12 million to R\$ 72 million.

**NUMBER OF OPERATIONS
2005**



**R\$ MILLION
2005**



BNDES performance in the MSMEs financings becomes effective especially through the automatic indirect support lines, being responsible for, in 2005, R\$ 5.6 billion to the FINAME Line, R\$ 2.1 billion to the FINAME Agriculture Line and R\$ 2.9 billion to the Automatic BNDES Line. Concerning the FINAME Agriculture and the Automatic BNDES Lines, statistics include disbursements referent to agriculture programs of the Brazilian federal government. As mentioned above, BNDES Card highlighted by its strong growth presented.

Operations referent to the FINAME and Automatic BNDES Lines are carried out through the network of 172 financial agents, representing more than 16 thousand branches,² which cover about 3,683 municipalities. Concerning the BNDES Card, the operations are carried out in the e-commerce environment, through the BNDES Portal on the internet.

² Survey held on February, 2004 by the AOI/DESCO with accredited financial agents.

BNDES CARD

Directed especially to the MSMEs, BNDES Card is an instrument that provides credit of up to R\$ 100 thousand for micro, small and medium-sized enterprises so that they can carry out productive investments. Through the BNDES Card, MSMEs can have access to pre-approved credit line of automatic use.

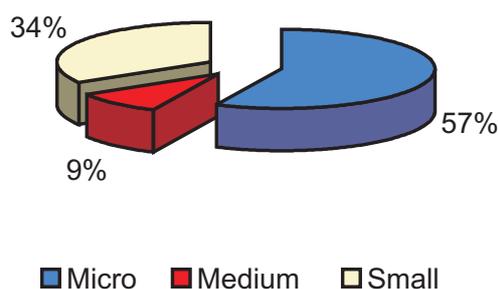
Released in 2003, in a little more than two years of operation, over 50 thousand cards were issued and credits with an amount exceeding R\$ 1 billion were granted, with an average credit limit of R\$ 21.7 thousand.

All those operations are carried out through the BNDES Card Portal, from the card request to the acquisition of products. The Portal is supported by BNDES and is available on www.cartaobndes.gov.br.

The Portal has 1,931 suppliers accredited, with about 24 thousand products on sale, including light transportation vehicles, equipment for trade automation, computers, refrigerators, machines, engines, pumpers, equipment for service points, kits for natural gas vehicle and security market among others.

In terms of percentage, disbursements through the BNDES Card have grown 491%. The great performance reflects the series of measures taken over the year, in the sense of extending the reach of such line, with the increase in credit limits, terms and, furthermore, information for the user, through advertising. The potential growth of the line is substantial, in accordance with the characteristics of simplicity, which make the line suitable for the MSMEs' interest.

BNDES CARD DISBURSEMENTS IN ACCORDANCE WITH THE ENTERPRISE SIZE



Over the year of 2005, with the purpose of granting the Card more agility, several routines related to the accreditation have been reviewed. Concerning the operational activities, a range of new procedures have also been developed and implemented, being highlighted the following:

- The execution of agreements to speed up the control of certificates with the Brazilian Central Bank (systematic fulfillment of registrations in the Informative Record of Unpaid Credits of Federal Bodies and Entities [Cadin]) and the Caixa Econômica

Federal (information on Certificate of Good Standing of the Employee's Dismissal Fund [FGTS]);

- Credit limit extension of the BNDES Card to R\$ 100 thousand (100% increase);
- Adoption of new financing terms: besides 12, 18 and 24 months, the 36-month term;
- Accreditation, for the Prosoft Commercialization line, of software developers;
- Inclusion of manufacturers of printing and writing papers for the edition of books in the roll of authorized suppliers; and
- Definition of the inclusion modality of authorized distributors on the BNDES Portal of Operations (under development).

In December, the interest rate for BNDES Card was 1.39% p.m.

The credit limit increase of BNDES Card from R\$ 50 thousand to R\$ 100 thousand must attract a larger number of small enterprises, as well as spur more manufacturing enterprises of capital goods to the accreditation as suppliers in the system.

Currently, the BNDES Card issuing partners are Banco do Brasil, Caixa Econômica Federal and Bradesco, and also, Visa and Mastercard flags. Issuing Banks which define the credit limit.

Out of the total cards issued, 80% were granted to microenterprises, 17.5% to small-sized enterprises and 2.5% to the medium-sized ones.

As a result from the revision of some routines in the accreditation and the implementation of new operational procedures, the BNDES Card performance presented a substantial improvement, as set forth in the table below.

EVENTS	2004	2005	VARIATION (%)
Cards issued	27,807	49,458	78
Credit granted (R\$ million)	428,705	1,061,396	148
Suppliers accredited	796	1,915	141
Available products	9,692	23,389	141
Number of transactions	1,029	5,792	463
Total amount of releases (R\$ million)	12,142	71,743	491

Source: AOI/DENET.

The profile of enterprises bearing the BNDES Card, per size, in 2005, is set forth as follows:

CARDS ISSUED, QUANTITY AND AMOUNT OF TRANSACTIONS (SHARE IN ACCORDANCE WITH THE ENTERPRISE SIZE) (In %)			
Enterprise Size	Cards Issued	Transactions	
		Quantity	Amount
Micro	80.0	68.0	56.0
Small	17.5	26.0	35.0
Medium	2.5	6.0	9.0

FINAME LINE

In 2005, disbursements of FINAME Line reached R\$ 9.33 billion, growing 42,1% over 2004, thereby being R\$ 278 thousand the average amount of operations. Those disbursements were directed, especially, to finance the acquisition of road transportation equipment (52%) and machinery and equipment in the ambit of Modermaq program (18%), as described as follows. In the amount of approvals performed in the FINAME Line, in 2005 (R\$ 10 billion), 57% were directed to the MSMEs.

Created in 2004, Modermaq finances the acquisition of machinery and equipment aiming at modernizing the Brazilian industrial park and stimulating the sector of capital assets. Extractive industry, transformation industry and civil construction industry are the benefited sectors. In the following table, we present the Modermaq performance in 2004 and 2005, in which the strong growth of disbursements is highlighted between 2004 (R\$ 31 million) and 2005 (R\$ 1.68 billion), of which 35% (R\$ 584 million) were directed to the MSMEs.

MODERMAQ PERFORMANCE IN 2004 AND 2005 (R\$ Thousands)

Enterprise Size	Disbursements	
	2004	2005
Micro	5,601	120,003
Small	2,783	226,479
Medium	11,148	238,061
Total MSMEs	19,532	584,543
Large	11,661	1,094,792
Total	31,193	1,679,335

Source: AOI/DESCO

BNDES CAMINHÕES

Created in 2005 and operated through the FINAME and Automatic BNDES Lines, the program BNDES Trucks finances the acquisition of new and second-hand trucks, aiming at modernizing the Brazilian fleet, as well as tractor-trucks, mechanical horses, towings, among others. BNDES Caminhões disbursed R\$ 1.5 billion, of which 85% were directed to the MSMEs and, above all, to finance the acquisition of new trucks.

AGRICULTURE PROGRAMS OF THE FEDERAL GOVERNMENT

Agricultural programs of the federal government (Moderagro, Moderfrota, Moderinfra, Prodeagro, Prodecoop, Prodefruta, Pronaf e Propflora) finance several items of the agriculture sector, with fixed rate equalized by the Brazilian Treasury. In 2005, those programs dropped 9.9% in comparison with 2004 (see following table). Such drop is explained by the crisis in the agriculture sector, especially, by climatic problems in the Middle South, and currency valuation, which affected especially the sector of agriculture equipment and machinery.

DISTRIBUTION OF DISBURSEMENTS TO THE AGRICULTURE PROGRAMS OF THE FEDERAL GOVERNMENT* IN ACCORDANCE WITH THE BENEFICIARY SIZE (R\$ THOUSANDS)				
BENEFICIARY SIZE	2004		2005	
	AMOUNT	%	AMOUNT	%
Individual Entity	4,216,633	91.1	3,576,253	85.8
Micro	14,073	0.3	12,665	0.3
Small	136,624	3.0	64,258	1.5
Medium	57,332	1.2	61,025	1.5
Large	202,788	4.4	453,242	10.9
Total	4,627,450	100.00	4,167,442	100.00

* Moderagro, Moderfrota, Moderinfra, Prodeagro, Prodecoop, Prodefruta, Pronaf e Propflora.

According to the table, from the R\$ 4.17 billion disbursed in 2005, 89,1% were directed, especially, to the individual entities and micro, small and medium-sized enterprises and only 10,9% to the large ones. Within several programs, Moderfrota and Moderagro are the most representative ones – added, they correspond to 70% of disbursements –, followed by Moderinfra, Prodecoop and Prodeagro, corresponding to 26% of disbursements.

FINAME LEASING

FINAME Leasing finances the acquisition, through the leasing enterprises, of Brazilian machinery and equipment directed to the leasing. The line represents 3% of the total disbursements of the Indirect Operation Area. In 2005, its disbursements reached R\$ 471

million, with a growth of 86% over the year of 2004. MSMEs responded by R\$ 304 million of disbursements (64.5%).

AUTOMATIC BNDES

In 2005, Automatic BNDES Line disbursed R\$ 1.8 billion against R\$ 1.5 billion in 2004, with an accrual of 19.3%; the average amount of operations was R\$ 682.7 thousand. From the approved amount in 2005, 64% were directed to the MSMEs, corresponding to 91.1% of operations.

The increase in amount and number of Automatic BNDES Line operations can be credited, especially, to the Support Program for the Strengthening of the Employment and Income Generation Capacity [Progeren]. The program finances the working capital, aiming at promoting the increase in production, employment and wage mass. In 2005, Progeren disbursed R\$ 385 million to the MSMEs, totaling 1,346 operations.

The larger Automatic BNDES demand is directed to the financing traditional line of up to R\$ 10 million for investment projects, by the final beneficiary, in which approvals to support the transformation industry sector correspond to 46.7% out of the total approved in the line (R\$ 1.09 billion), followed by the sector of trade and services with 42.1% (R\$ 984 million).

FUND FOR PROTECTION AND COMPETITIVENESS [FGPC]

Established by Law 9,531/97, FGPC is an aval fund with the purpose of promoting resources to guarantee part of the risk of financing operations carried out, directly or indirectly, by BNDES and FINAME, when directed to the micro and small-sized enterprises or to medium-sized enterprises which export or supply inputs used in products exported. Therefore, it is an important mean of granting the MSMEs credit access, because it helps them overcome difficulties on the constitution of guarantees to credit operations.

Operations having FGPC guarantee are carried out through the network of financial agents accredited in BNDES. It has already been approved over 17 thousand operations with the FGPC guarantee, since its creation, in the amount of R\$ 3.56 billion.

FGPC equity is comprised by the Brazilian federal government resources and by the collection of fees paid, arising from the contracting of loans, as well as by the financial income.

In the fiscal year of 2005, 465 operations were carried out with the FGPC coverage, granting R\$ 96.6 million worth of credit, thereby being 93% of operations were carried out with micro and small-sized enterprises.

In 2005, controls were improved, referring to the follow-up of execution proceedings of operations guaranteed by the Fund, efforts increased to clarify the rules to BNDES financial agents, as well as the inspection extended aiming at the correct application of resources. The improvement of controls allow the FGPC governing enhancement and to meet its targets.

Besides the follow-up and the enhancement of proceedings, a communication channel was created (e-mail) exclusively for the FGPC to get in touch with financial agents, beneficiaries and people at large. The measures taken permit the follow-up and a critical analysis of FGPC to all interested parties.

INSTITUTIONAL RELATIONS: OPERATING WITH TRANSPARENCY

BNDES is committed to the communication transparency with its target markets (company, clients, suppliers and employees), aiming at offering large knowledge and debate on its projects and strategic lines, through the wide-ranging communication channels.

INSPECTION OF GOVERNMENT AND SOCIETY

BNDES management acts are inspected by several public sector organs. Its Board is appointed by the president of the Federative Republic of Brazil, and its operations are assessed by the Fiscal Council, comprised by representatives of foreign organs and by the Administration Council. The later is comprised by government representatives, as the ministers, and by civil society representatives, as the enterprise and union leaders.

As a financial institution, its operations are inspected by the Brazilian Central Bank.

CODE OF ETHICS

BNDES aims at contributing to the Brazilian social and economic development, thereby increasing the responsibility level of its representatives and employees, concerning the sincerity and transparency when running the Institution's businesses.

Ethics means ideal behavior (moral proceeding) which guides the human beings, concerning their fellow beings, to decide between Hell and Heaven (fair and unfair, convenient and inconvenient, opportune and inopportune, honesty and dishonesty), aiming at the well-being, honor and tradition of public services. Ethics is the institution's framework, comprising enterprise and employees therein.

Ethical principles and rules of conduct established in the Code of Professional Ethics of the Civil Public Worker of the Federal Executive Power, approved by Decree 1,171, of June 22, 1994, in the Code of Conduct in the High Federal Administration and in the BNDES Code of Ethics, are applied to all administrators and employees of BNDES and its subsidiaries, BNDES Participações S.A. [BNDESPAR] and Special Agency for Industrial Financing [FINAME].

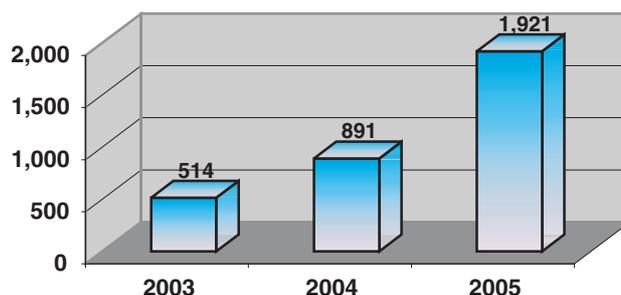
Thus, BNDES Code of Ethics represents, at the same time, an individual, collective and institutional commitment.

OMBUDSMAN'S OFFICE

BNDES Ombudsman's office aims at creating a conductor channel of opinions, complaints and denouncements, thereby guaranteeing the ethical principle, effectiveness and transparency of its relations with the society.

The Ombudsman's office does not replace the service of other BNDES Customer Support Centers, but it consists of another channel of interlocution with the public. Operating autonomously, impartially, and confidentially, the Ombudsman's office is the citizen's voice in the enterprise, contributing to the improvement of the democratic process. Its role is, fundamentally, to listen to and operate with the public sector, enterprises, civil society and employees of the BNDES. It shows the Management commitment to ethics, transparency and citizen's share. Thus, it is a social inclusion instrument.

CONSULTATIONS CARRIED OUT FROM JULY, 2003 TO DECEMBER, 2005*



* Through e-mail, fax and letter.

Besides the call and personal support, which shall be previously scheduled, Ombudsman's office relies on the following communication channels: *email* ouvidoria@bndes.gov.br; telefax 2172-8777 and 2172-7117; post office box 15054, CEP 20031-120, Rio de Janeiro, RJ; and directly at the BNDES principal office, at Av. República do Chile, 100, 19º andar, CEP 20031-917, Rio de Janeiro, RJ.

ENTREPRENEURIAL SUPPORT

BNDES provides support to the external public through the institutional *e-mail* faleconosco@bndes.gov.br, telephone 2172-8888, letters, fax 2220-2615 and the personal contact, providing institutional information on its financing program lines, as well as on miscellaneous topics.

The institutional *e-mail*, accessed through the Portal in option *Fale Conosco*, is the BNDES permanent communication channel for receiving messages referent to all the topics. In 2005, 25,727 messages were answered (against 20,491 in 2004).

- **Call and personal support** – In 2005, in the call support, 4,135 inquiries were recorded (2,752 in 2004) and 749 personal supports were carried out (654 in 2004).

PROGRAM OF LECTURES “O BNDES MAIS PERTO DE VOCÊ” [BNDES CLOSER TO YOU]

The lectures have the purpose of complementing the disclosure of the operating forms, of programs and financing lines of BNDES. It offers entrepreneurial guidance and opportunity of debate with clients, permitting a better measurement of demands and improvement of internal process.

In 2005, the program of lectures “O BNDES mais Perto de Você” began. Over 21 lectures were delivered in several regions of Brazil, totaling 3,662 participants.

- **Institutional Lectures** – Delivered in 2005, meeting the solicitations of interested institutions, 21 institutional lectures on the BNDES role and its financing lines.
- **BNDES Seminars** – Comprising several topics linked to the current BNDES operational policy, in 2005, 39 seminars were held, thereby being eight organized by several operational areas, 18 under shared management between BNDES team and external enterprises, and 13 under the system of assignment of auditoriums.

Those events totaled 59 days and used the auditoriums of the Services Building Condominium in Rio de Janeiro [Edserj], with an attendance of 14,500 people, adding the external and internal public.

BNDES support to this operation aims, especially, at promoting opportunities of reflection and debate with several types of sectors on relevant topics for the Brazilian development, thereby contributing to strengthen its image as an important articulator of investment policies in the country.

Some seminars held with the BNDES support were: Inclusão Digital [Digital Inclusion], Como Dinamizar o Crédito Bancário no Brasil [How to Stimulate Bank Credits in Brazil] – Libertar o Crédito [Release the Credit], Investimento para o Desenvolvimento [Investment for the Development], Encontro Nacional Banco para Todos: O Desafio do Microcrédito Produtivo Orientado e Visão Estratégica Sul-Americana no Brasil [Brazilian Summit, Bank for All: The Oriented Productive Microcredit Challenge and the South-American Strategic View in Brazil] – IRSA, among others.

- **Fairs** – BNDES participated in 28 fairs, with its own stands, aiming at disclosing the financing lines and meeting the solicitations of adhesion and affiliation to the BNDES Card. Among the fairs in which BNDES participated, Feira Internacional de Máquinas e Matérias-Primas e Acessórios para Indústria Moveleira [International Fair of Machinery and Raw Materials and Spare Parts to the Furniture Industry] (RS), a Feira Internacional da Indústria Elétrica, Energia e Automação [International Fair of Electrical Industry and Automation] (SP), Mecminas 2005 (MG), Hospitalar [Hospital Fair] (SP), Brazil Offshore (RJ) e a Fispal Tecnologia [Fispal Technology] (SP), among others.

ELABORATION OF LEAFLET AND OTHER MATERIALS TO THE INSTITUTIONAL PROMOTION

In 2005, several materials to the BNDES institutional promotion were elaborated, such as institutional leaflets, scales over financing lines and programs and primers to the micro, small and medium-sized enterprises.

- **Advertisement** – It can be emphasized that in 2005 the BNDES return to the media was remarkable. The current Management decided to carry out advertisements with the objective of getting closer to its potential clients and society group. Three large campaigns were carried out: one with institutional character, one referring to the BNDES Card and, another one referring to the Brazil Bovespa Index Securities [PIBB].
- **Institutional Campaign** – The objective of this initiative was to rescue the BNDES mission of contributing to the development promotion of all economic sectors, thereby supporting the micro, small and medium-sized enterprises even the large priority projects for the Brazilian growth process.
- **BNDES Card** – BNDES Card is a financing modality which consists of offering pre-approved revolving credit to the micro, small and medium-sized enterprises, with a credit limit of up to R\$ 100 thousand and payment term in 12, 18, 24 or 36 months, besides the drop in interest rates.

In research developed by the Focus Institute, in 2004, the product acceptance became evident by its priority target market. Even though, it was verified that BNDES Card is unknown for the most part of micro, small, and medium-sized entrepreneurs. Verifying its potential, BNDES outlined as its target for 2005 to extend the users base and spur the Card use.

Focusing on this sector, in March of 2005, BNDES carried out campaigns in newspapers of wide circulation in the most important Brazilian capitals, thereby achieving excellent results. After the first week of campaign, there was an increment of 65% in Card solicitations.

It was decided to carry out the second step of the campaign (Sustenance), which was broadcasted within the months of November and December, on open and paid TV and in newspapers with economic focus. Again, the results achieved were very significative and helped BNDES overcome the number of 50 thousand cards issued.

- **PIBB** – In 2005, BNDES released the second PIBB offering, which is an important instrument to spur investments in stock exchange, in accordance with its diversified composition and strong correlation with the economic result.

The campaign, specially directed to small investors, has been broadcasted for two weeks on TV, radio and Internet, and in magazines. PIBB offering result was excellent, with 75% being allocated in the retail and over 121 thousand individual entities that participated in the offering. The initial forecast, the sale of R\$ 1 billion in PIBB, duplicated, thereby reaching R\$ 2.3 billion.

- **Publications and Events of Third Parties** – BNDES approved, in 2005, 54 solicitations to support the publications and events of third parties. Those supports embody several sectors, such as science and technology, industry and foreign trade, culture, environment, social development, planning, health, management, transport, education, job, tourism, among others.

Solicitations of support totaled R\$ 2.3 million, thereby being the BNDES logo widely disclosed in such events, which had the attendance of about 187 thousand people.

SOME EVENTS SUPPORTED BY BNDES	
Event	Proponent
1º Workshop de Reuso de Água na Indústria [1st Workshop of Water Reuse in Industry]	Fundação de Ensino e Engenharia de Santa Catarina [Education and Engineering Foundation of Santa Catarina] (SC)
Workshop de Bioeletricidade – A Segunda Revolução da Cana-de-Açúcar [Workshop of Bioelectricity – The Second Revolution of Sugar Cane]	Inee – Instituto Nacional de Eficiência Energética [Brazilian Institute of Energy Efficiency] (RJ)
Edition of the book on the Information Technology applied to the business management and social programs	Fundação Getulio Vargas [Getulio Vargas Foundation] (RJ)
3º Congresso Latino-Americano de Microcrédito [3rd Latin-American Congress on Micro Credit]	Instituição Comunitária de Crédito Portosol [Portosol Credit Communitarian Institution] (RS)
2º Seminário Internacional de Inovação Tecnológica no Nordeste – Inova 2005/Febratecno [2nd International Seminar on Technological Innovation in the Northeast Region]	Instituto de Desenvolvimento Industrial do Ceará [Industrial Development Institute of Ceará] (CE)
Seminário O Futuro das Pequenas e Médias Empresas no Brasil [Seminar: The Future of Small and Medium-Sized Enterprises in Brazil]	Valor Econômico (SP)

REFORMULATION OF BNDES PORTAL ON THE INTERNET

BNDES Portal on the Internet (www.bndes.gov.br) focus on the BNDES institutional disclosure and on its several financing lines. The Portal content is updated every day, to embody novelties and disclose information of external public interest.

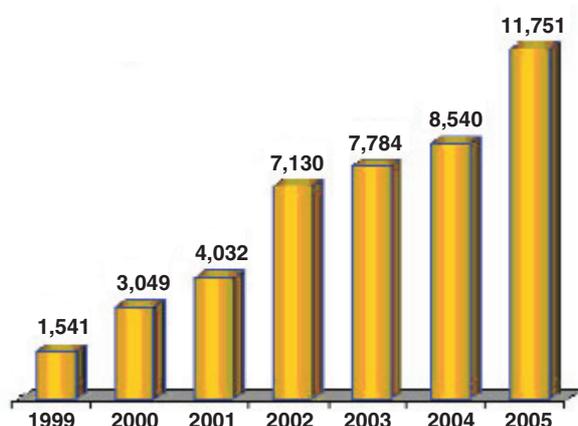
The Portal offers a narrow approach and an improvement in the relationship between BNDES and its several types of public, especially in the entrepreneurial environment, thereby facilitating the access to information for the acquisition of financings.

In October of 2005, BNDES Portal was clearly restructured. Changes were carried out with the objective of reflecting better the current institutional communication standard. The Portal was also adapted to guarantee disabled people full access to information, eliminating images and graphic highlights. New pages were created, with topics of specific interests, such as agriculture, trade and services, industry, capital markets and micro, small and medium-sized enterprises, added to the existing ones – industry, infrastructure, exportation and social.

In 2005, 11.7 million accesses to the BNDES Portal were recorded (pages visited), figure 37% superior to the year of 2004, arising from the extension of the embracing area and the Portal content and, also, the base of users. Download of documents available for the public reached 2,543 thousand throughout 2005, thereby recording the significant growth of 45% comparing with the previous year. Studies and publications, with 1,893 thousand downloads, were responsible for 75% of the total transferred documents.

The Portal offers English and Spanish versions. The Spanish version obtained 326 thousand accesses (178 thousand in 2004), whereas the English version reached 401 thousand accesses (236 thousand in 2004).

ACCESSES OF [ILLEGIBLE] VS. ALL OF IT.



Some novelties embodied to the Portal, such as:

- Consultation to the BNDES operations with states and municipalities, with the objective of giving the operations carried out between BNDES and direct public administration entities full transparency. Information on contracted operations started being disclosure on the Portal and the information on ongoing projects with states and municipalities. Consultations to the operations can be carried out online.
- Operational statistics with several files resuming the operational performance of BNDES System, in current amounts, from the year of 1995, excluding applications in the secondary market. Information on operations with the private sector was arranged, jointly, in statistical series, bound to bank secrecy. Data on disbursements, approvals, eligibility and consultations were classified by sector, region and enterprise size. Also, data on exports and disbursements with social objective were arranged.

Aiming at giving administrative acts full transparency, BNDES disclosures, through its Portal, relevant information on the process of purchase of goods services carried and to be carried out.

Seminars and events are, also, disclosure, synopses and other materials published by BNDES, thereby promoting the highlight needed for the disclosure to the external public.

SHARES IN REPRESENTATIVE GROUPS

BNDES seeks to participate actively in representative discussion groups, with the purpose of collaborating in the elaboration of models and offerings for the Brazilian development.

In 2005, BNDES participated, with appointed representatives, in ten chambers, 27 committees, 20 councils and 25 working groups, and, among which, we point out the Management Committee of the Computing Sector Fund, Export and Guarantee Financing Committee, Securities and Exchange Commission of the National Association of Financial Market Institutions [Andima], Incentive Commission for the Private Productive Investments in Brazil, Studies and Projects Funding Body [Finep], State Council of Science, Technology and Innovation [Conecti], Sebrae Brazilian Deliberative Council, Microcredit Working Group, Biodiesel Management Group and Permanent Forum of Micro and Small-Sized Enterprises.

Also, BNDES, through its Department of Affairs with the Government, attended the following events: parliamentary hearings (51), government executives (25), hearings with journalists (5), hearings with assessors (8), hearings with other institutions – universities, foundations, banks, others (32), public hearings (5), technical support to enterprises, government bodies and others (107), diplomatic events (5) and other events (23).

AFFILIATIONS AND ENTITIES

BNDES is affiliated and contributes, financially, to 17 entities, such as Brazilian Association of Corporate Communication [Aberje], Brazilian Association of Development Financial Institutions [ABDE], Latin-American Association of Development Financing Institutions [Alide], Brazilian Library Friends Association [Sabin] and the Foreign Trade Studies Center Foundation [Funcex].

NGOs

Civil society, through the representatives of non-governmental organizations (NGOs), has solicited BNDES more and more detailed information. In this sense, measures were taken to strengthen the transparency and improve the information system disclosed through the implementation and articulation of several initiatives, of which we highlight the following:

- **Periodic Meetings with Network Representatives of Civil Society Organizations** – Monthly summits were held with NGOs representatives aiming at the Institution of a Permanent Communication Forum, based on the discussion and formulation of an information policy for BNDES.
- **Balance Formulation or Social Synopsis** – Elaboration of document to present the type of operation and to explain the results achieved by the BNDES Social Inclusion

Area, thereby having the quantitative and the qualitative balance of results achieved in 2005.

- **Presentations of Studies, Programs and Methodologies of Assessment for Representatives of Non-Governmental Organizations** – Lectures were delivered to NGOs representatives by BNDES technicians on the *modus operandi* of the institution and on the measures adopted, in order to improve the BNDES operational policies. It was presented topics on social fund, impact of BNDES operation over the income and employment, environment, statistical series and indicators.

BNDES ECONOMY AWARD

BNDES Economy Award, which has been held annually since 1977, has the objective of selecting professionals with concentration in the field of economics, as well as spurring the research in fields of pure economic science and applied economics to the Brazilian economic problems, regional and sectorial. Master's thesis authors from all of the Brazilian economics graduate centers are allowed to participate.

In 2005, 30 theses were received, examined by a board whose names were chosen through the appointments of said graduate centers.

The amount paid to the first five places of the 28th BNDES Economy Award was R\$ 14 thousand, to the first place, R\$ 10 thousand, to the second place, R\$ 7 thousand, to the third place, R\$ 4 thousand, to the fourth place, and R\$ 2 thousand to the fifth place.

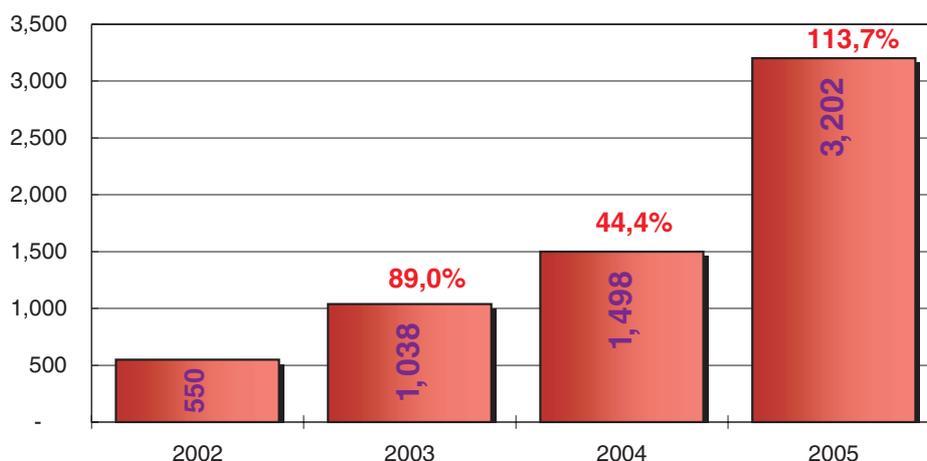
ECONOMIC AND FINANCIAL PERFORMANCE: RECORD PROFIT

The BNDES System reported profit of R\$ 3.2 billion in 2005 – the highest amount already recorded throughout the entire Bank's history –, 113.7% over the obtained in 2004, of R\$ 1.5 billion, which had already been 44% over the amount recorded in 2003, in current reais.

This result reflects the good performance of the financing portfolio, the earnings obtained by the variable income portfolio, mainly in the form of dividends, and the interests on own capital. It is also worth mentioning the successful operation of launching Brazil Bovespa Index Securities [PIBB], which provided a net profit of R\$ 534 million.

NET INCOME VALUE

(R\$ Million)



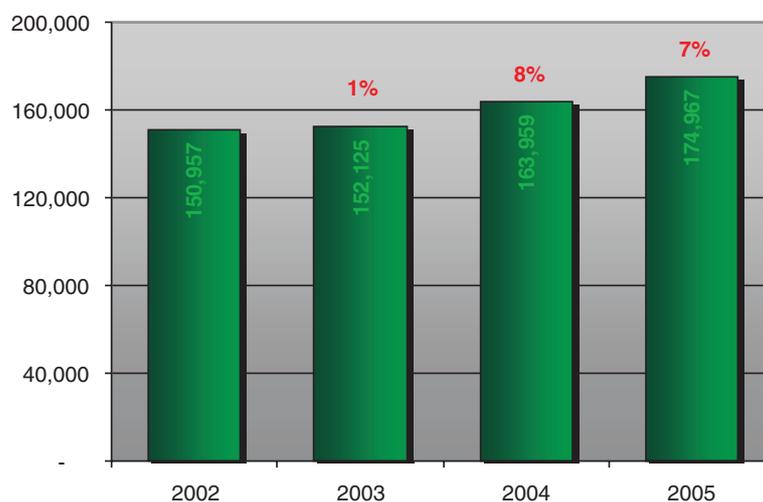
Note: Percentage related to net income growth in relation to previous year.

Shareholders' equity amounted to R\$ 15.7 billion in 2005, higher than R\$ 14.1 billion in the previous year. Profitability on average shareholders' equity reached 21.4%, exceeding the 11.1% obtained in 2004. These results were due to an increase in revenues and reduction in administration expenses. Among the rationalization actions implemented, we highlight the improvement in the system of travels.

BNDES total assets reached R\$ 175 billion, 7% over total assets in 2004 (R\$ 164 billion). The default level in relation to total portfolio was 2.08%, of which 90.1% of credits consolidated on December 31, 2005 are classified between AA and B levels, considered of very low risk. This position is higher than the average presented by the domestic financial system, of 83.3% in private banks and 74% in public banks. In 2004, the default level was 0.6%, with 87% of credits classified between AA and B risk levels.

TOTAL ASSETS VALUE

(R\$ Million)



Note: Percentage related to total assets growth in relation to previous year.

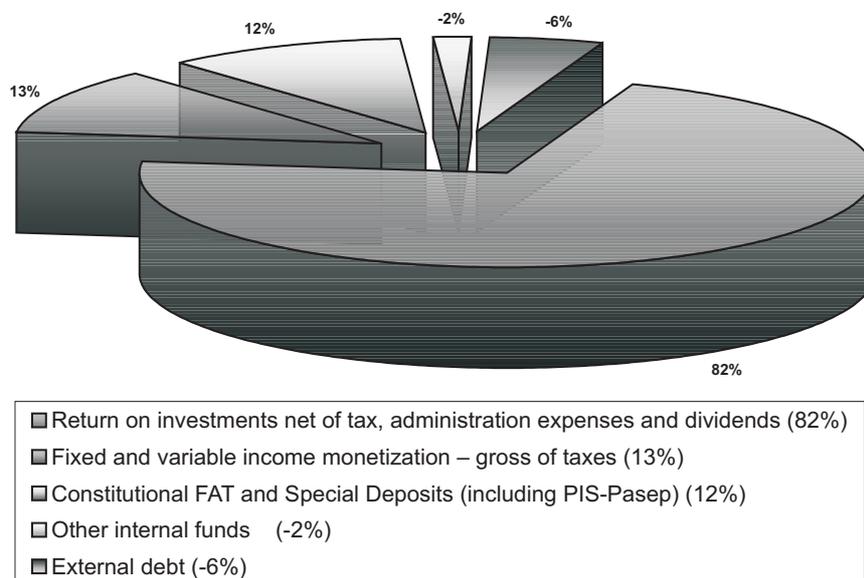
Permanent assets reached R\$ 14.7 billion, against R\$ 15 billion in 2004. Profitability on average assets grew from 0.95% in 2004 to 1.89% in 2005, also reflecting a growth in net income for the year.

Investment budget was R\$ 47.1 billion, representing a new record. Consequently, disbursements made in 2005 were 17.7% over R\$ 40 billion in 2004. For industry, the releases reached R\$ 23.4 billion, a growth of 48.1% when compared to previous year (15.8 billion). For the infrastructure sector, disbursements were R\$ 17,1 billion, a growth of 12.7% in relation to 2004 (R\$ 15 billion).

Net funds generated of about R\$ 48.6 billion were sufficient to finance disbursements and were composed of 82% coming from the return on financing operations, 13% through fixed and variable income monetization and 12% from transfers of funds from Constitutional Workers' Supporting Fund [FAT] and Special Deposits (including Social Integration Programs [PIS-Pasep]).

The external source of funds represented a negative net absorption of 6% of annual budget, as a result of market's external financing amortization and prioritization of the funding from multilateral organs and governmental agencies. Compensation for the drop in funding was a lower cost of transfer to BNDES clients.

CASH FLOW IN 2005 – NET CONTRIBUTION FROM SOURCES OF FUNDS



The capital adequacy index (Basil index) recorded by BNDES in 2005 was 17%, a comfortable situation in relation to the minimum limit of 11% required by Brazilian Central Bank. As to the exposition index to the public sector, it was closed at 26%, much lower than the 45% limit.

WORKERS' SUPPORTING FUND [FAT]

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The Workers' Supporting Fund [FAT] continues as the main external source to finance the BNDES System investment budget. In 2005, BNDES received R\$ 13,7 billion from FAT, of which R\$ 6.8 billion from Constitutional FAT and R\$ 6.9 billion from Special FAT.

The net FAT contribution (incoming funds less payments of interests and amortization) to execute the BNDES System investment budget was R\$ 8.1 billion, of which R\$ 3.6 billion from Constitutional FAT and R\$ 4.5 billion from Special FAT. The resources from this fund financed 41% of the investment budget between 2004 and 2005.

In 2005, BNDES invested a record value of R\$ 6,9 billion, resulting from new Special FAT Deposits, distributed among the following programs: Infrastructure FAT, R\$ 4.04 billion, Exporting and Developing FAT, R\$ 2.5 billion, and Rural Working Capital FAT, R\$ 340 million.

EXTERNAL SOURCES OF FUNDS

It is worth mentioning the change carried out in the composition of external financing sources.

Agreements were entered into with international organs providing for an incoming of R\$ 1.67 billion, while payments related to the external debt service with bodies and for market operations amounted to R\$ 4.5 billion, generating a negative net balance of R\$ 2.8 billion.

In the first half of 2005, a financing agreement was entered with Japan Bank for International Cooperation [JBIC], in the amount of US\$ 500 million, the highest amount ever entered into with that institution. The funds are destined to support investments of export companies and infrastructure projects. It is worth mentioning that the operation was negotiated in a record time and without guarantee from federal government. On December 16th, the first portion of the loan was released, in the amount of US\$ 226 million.

In the second half of the year, three important agreements were entered into with international organs. The first was a conditional credit line convention, entered into with IDB, establishing the basic conditions to the contracting of up to three loans with that institution, in a global amount of US\$ 3 billion, to be disbursed within a period of nine years and destined to finance investments by micro, small and medium-sized enterprises. The signature of this convention was followed by contracting the first of these three loans, at IDB head office, in Washington.

The third agreement was a loan agreement entered into on November 9th with Nordic Investment Bank [NIB], in Stockholm, Sweden, in the amount of US\$ 60 million, with the purpose of supporting investments of mutual interests between Brazil and the Scandinavian and Baltic countries, held in our country.

Finally, it was held in Brasília, by the end of November, a formal meeting for negotiation of the first loan to be entered into between BNDES and the European Bank of Investment (EBI), in the amount of US\$ 50 million. The agreement is expected to be signed during the first half of 2006.

FINANCIAL PROTECTION OPERATIONS WITH LOCAL MARKET

BNDES has been carrying out since 1997 hedge operations (swaps and options) at the international market with the main objective of increasing the dollar weight in the currency basket formed by debts in foreign currency.

Starting in 2005, the hedge external operations at the over-the-counter international market lost attractiveness to Brazilian enterprises, due to tax changes (in particular, Laws 11,033/2004 and 11,196/2005), which removed the possibility of deducting eventual expenses in these protecting operations for purposes of computing income tax, Social Contribution on Net Income [CSLL], Social Integration Program [PIS] and Social Security Financial Contribution [Cofins].

In order to improve efficiency in hedge cost and allow BNDES to give continuity to the use of these risk management instruments, during the year there were inquiries with first

line financial institutions and with the Clearing House and Custody of Securities [Cetip], with the purpose of checking the contracting capacity in local market, seeking a high level of efficiency, similar to the operations performed abroad.

Such effort of preparation allowed closing the first foreign exchange swap of BNDES with local market, carried out in four blocks, quoted between December 9th and 19th, 2005.

The operation converted, with a high efficiency in price, the debt of 400 million deutsch marks (204.5 million euros), with a coupon of 9%, for a principal of US\$ 244.54 million, with an average interest rate of 10.93%. The exchange of principal in the operation will occur in October 2007, on a date matching the anticipated redemption option date of the security under protection. The coupon in dollars after the swap imposes an increase of about seven basic points in currency basket charges.

This operation expanded BNDES currency basket dollarization level by 3.75 percentage points, having the dollar weight reached about 88% on December 31st. Additionally, by reducing the lack of matching between the strong currencies in BNDES balance sheet, the operation generated an estimated economy of regulatory capital (shareholders' equity required), at the contracting date, of about R\$ 96 million.

BANCO NACIONAL DE DESENVOLVIMENTO ECONÔMICO E SOCIAL [BNDES] CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET AS OF DECEMBER 31

(R\$ Thousand)

	CONSOLIDATED		
	2005	2004	2003
ASSETS			
CURRENT ASSETS	48,522,463	37,498,997	33,413,347
CASH	12,847	13,185	3,550
SHORT-TERM INTERFINANCIAL INVESTMENTS	1,844	6,369	10,481
MARKETABLE SECURITIES	12,197,315	8,933,799	4,130,176
Banco do Brasil Funds	10,657,151	6,721,390	2,762,686
Public Securities	243,361	295,334	112,949
Shares, share certificates and subscription bonus	406,067	157	211,519
Debentures	611,156	688,212	285,311
Provision for credit risk – debentures	(121,182)	(108,065)	(7,086)
Foreign fixed income securities	1,294	9,667	–
Quotas of variable income funds	399,165	469,482	481,462
Derivative financial instruments	303	857,622	283,335
INTERFINANCIAL RELATIONS	17,697,080	9,514,441	9,361,148
Interfinancial transfers	17,809,240	9,586,516	9,408,461
Free funds	15,356,166	8961264	7,985,591
PIS-Pasep funds	2,453,074	625252	1,422,870
Provision for credit risk	(112,160)	(72,075.00)	(47,313)
CREDIT OPERATIONS	15,606,720	16,670,998	16,873,813
Credit operations	16,712,516	17,789,251	18,387,604
Free funds	14,362,519	14,024,343	15,596,933
PIS-Pasep funds	2,210,514	3,755,316	2,782,518
Merchant Marine Fund funds	139,483	9,592	8,153
Provision for credit risk	(1,105,796)	(1,118,253)	(1,513,791)
OTHER RECEIVABLES	3,005,689	2,358,471	3,031,647
Credit sales of marketable securities	1,193,715	852,058	1,488,459
Provision for credit risk – credit sales of marketable securities	(82,073)	(74,630)	(98,252)
Receivable rights	82,250	84,220	70,775
Provision for credit risk – receivable rights	(823)	(216)	(180)
Tax credits	186,136	214,396	89,967
Taxes and contributions recoverable	293,763	318,802	245,144
Miscellaneous	1,332,721	963,841	1,235,734
OTHER ASSETS	968	1,734	2532
LONG-TERM ASSETS	111,749,517	111,418,077	104,178,391
MARKETABLE SECURITIES	8,628,733	10,330,489	12,494,685
Debentures	8,402,253	8,630,499	9,151,477
Provision for credit risk – debentures	(803,033)	(708,166)	(962,606)
Public securities	796,833	2,214,908	3,561,539
Derivative financial instruments		105,370	638,756
Foreign fixed income securities	232,680	87,878	105,519
INTERFINANCIAL RELATIONS	39,500,233	40,594,235	37,469,268
Interfinancial transfers	39,832,605	40,872,625	37,746,032
Free funds	29,230,133	26,064,140	24,622,764
PIS-Pasep funds	10,602,472	14,808,485	13,123,268
Provision for credit risk	(332,372)	(278,390)	(276,764)
CREDIT OPERATIONS	60,303,376	55,704,504	49,963,166
Credit operations	64,153,122	58,919,154	53,272,786
Free funds	53,813,090	54,621,669	48,526,963
PIS-Pasep funds	8,273,998	2,220,146	2,971,695
Merchant Marine Fund funds	2,066,034	2,077,339	1,774,128
Provision for credit risk	(3,849,746)	(3,214,650)	(3,309,620)
OTHER RECEIVABLES	3,317,175	4,788,849	4,251,272
Tax credits	1,434,336	1,726,257	1,213,045
Credit sales of marketable securities	849,083	2,045,061	2,071,062
Provision for credit risk – credit sales of marketable securities	(133,193)	(180,739)	(164,799)
Receivable rights	1,098,319	1,100,300	1,084,775
Provision for credit risk – receivable rights	(10,987)	(2,820)	(2,756)
Fiscal incentives	79,617	100,790	49,945
PERMANENT INVESTMENTS	14,695,246	15,042,306	14,533,750
INVESTMENTS	14,583,303	14,906,981	14,398,632
Holdings in subsidiaries and affiliates	7,729,203	7,481,674	7,242,495
Other holdings	6,518,562	7,119,132	6,927,682
Other investments	335,538	306,175	228,455
FIXED ASSETS	100,627	124,808	124,367
DEFERRED CHARGES	11,316	10,517	10,751
TOTAL ASSETS	174,967,226	163,959,380	152,125,488

BALANCE SHEET AS OF DECEMBER 31

(R\$ Thousand)

	CONSOLIDATED		
	2005	2004	2003
LIABILITIES & SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES	14,096,162	16,339,201	13,121,082
DEPOSITS	463,978	2,187,417	1,580,693
Special deposits – FAT	–	1,804,605	1,223,769
Restricted deposits	463,381	382,267	355,880
Miscellaneous	597	545	1044
INTERDEPENDENCE RELATIONS	4	1,437	787
Third-party funds in transit	4	1,437	787
BORROWING AND TRANSFER OBLIGATIONS	7,933,388	8,886,766	5,614,668
Borrowings abroad	2,111,089	4,092,471	1,420,426
Syndicated borrowings	–	265,659	–
Bonus	2,111,089	3,826,812	1,420,426
Domestic transfers	5,320,489	4,235,198	2,727,214
National Treasury	4,074,320	3,792,118	2,347,698
Subsidiaries	–	–	–
Merchant Marine Fund	169,553	41,444	44,226
Others	1,076,616	401,636	335,290
Transfers abroad – multilateral institutions	501,810	559,097	1,467,028
OTHER OBLIGATIONS	3,927,830	3,683,829	4,600,137
Financial and development funds	1,602,018	1,507,714	2,300,766
PIS-Pasep fund	1,214,731	1,279,492	2,014,752
Others	387,287	228,222	286,014
Taxes and contributions on income	411,948	487,305,00	940,696
Other taxes and contributions	100,390	25,778	118097
Creditors bound to settlement of foreign exchange operations	59,900	35,516	40463
Dividends and interests payable on own capital	760,591	355,724	246483
Provision for labor and civil contingencies	6,958	6,267	6605
Accounts Payable – FAPES	14,635	12,742	4315
Bound to National Treasury	634,291	802,188	815,834
Actuarial liabilities – FAMS	14,310	11,462	10,022
Derivative financial instruments	97,509	108,334	1,772
Miscellaneous	225,280	330,799	115,084
SUBORDINATE DEBTS	1,770,962	1,579,752	1,324,797
Constitutional FAT	1,770,962	1,579,752	1,324,797
Other subordinate debts	1,770,962	1,579,752	1,324,797
LONG-TERM LIABILITIES	145,160,185	133,505,447	126,147,505
DEPOSIT OBLIGATIONS	20,773,204	12,763,374	10,729,705
Special deposits – FAT	20,773,204	12,763,374	10,729,705
BORROWING AND TRANSFER OBLIGATIONS	34,398,588	39,481,943	43,269,137
Foreign borrowings	4,623,402	8,066,920	12,722,535
Bonus	4,623,402	8,066,920	12,722,535
Domestic transfers	21,109,670	22,843,418	21,249,461
National Treasury	15,547,718	16,784,966	15,711,638
Subsidiaries	–	–	–
Merchant Marine Fund	2,279,827	2,331,459	2,084,847
Others	3,282,125	3,726,993	3,452,976
Foreign transfers – multilateral institutions	8,665,516	8,571,605	9,297,141
OTHER OBLIGATIONS	24,068,373	21,432,428	19,167,195
Financial and development fund	22,444,870	20,247,922	18,430,058
PIS-Pasep fund	22,444,870	20,247,922	18,430,058
Accounts payable – FAPES	564,588	579,656	332,395
Provision for labor and civil contingencies	676,441	220,131	188,595
Derivative financial instruments	29,476	1,971	53,082
Actuarial liabilities – FAMS	344,845	314,115	154,912
Deferred taxes	8,153	68,633	8,153
SUBORDINATE DEBTS	65,920,020	59,827,702	52,981,468
Constitutional FAT	65,920,020	59,827,702	52,981,468
Other subordinate debts	58,094,274	52,606,380	46,565,785
Eligible to capital	7,825,746	7,221,322	6,415,683
SHAREHOLDERS' EQUITY	15,710,879	14,114,732	12,856,901
Capital stock	12,949,065	11,362,584	11,362,584
Capital reserves	36,650	1,586,481	106,885
Revaluation reserve of invested companies' assets	49,196	16,514	25,536
Income reserve	235,014	74,889	326,719
Retained earnings	2,440,954	1,074,264	1,035,177
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	174,967,226	163,959,380	152,125,488

STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31

(R\$ Thousand)

	CONSOLIDATED		
	2005	2004	2003
REVENUES FROM FINANCIAL INTERMEDIATION	12,348,406	12,915,488	7,612,380
Credit and interfinancial transfer operations			
Local currency	10,293,298	10,286,474	9,589,603
Foreign currency	(1,949,580)	(792,830)	(5,976,900)
Income from investments in marketable securities	3,084,965	2,652,113	3,132,839
Income from operations bound to the National Treasury	390,961	316,537	456,273
Income from management of funds and programs	489,728	434,530	403,809
Monetary updating of assets – Basic interest rate [Selic]	39,034	18,664	6,756
FINANCIAL INTERMEDIATION EXPENSES	(8,245,528)	(11,084,929)	(6,081,578)
Market funding – financings and transfers			
Local currency	(10,338,858)	(9,958,929)	(10,042,536)
Foreign currency	3,335,296	390,396	5,489,258
Income (expense) from derivative financial instruments	(409,354)	125,993	377,077
Expenses with operations bound to the National Treasury	167,898	13,646	59,358
Provision for credit risk	(844,636)	(1,637,605)	(1,880,251)
Monetary updating of dividends and interests on own capital – Selic	(155,874)	(18,430)	(84,484)
GROSS INCOME FROM FINANCIAL INTERMEDIATION	4,102,878	1,830,559	1,530,802
OTHER OPERATING INCOME (EXPENSES)	895,619	47,863	432,633
Equity income	412,242	318,815	275,223
Amortization of goodwill	(34,438)	(22,870)	(375,492)
Provision for investment adjustments	(393,196)	(142,410)	(296,058)
Income from foreign exchange portfolio	90,224	12,946	20,447
Income from dividends and interests on own capital	1,077,263	1,013,846	733,194
Income from sales of marketable securities	1,510,556	349,350	814,775
Provision for labor and civil contingencies	(459,352)	(31,744)	(82,834)
Tax expenses	(661,522)	(339,129)	(313,913)
Personnel expenses	(534,921)	(675,673)	(449,677)
Administration expenses	(165,691)	(120,574)	(112,089)
Other operating income	141,711	82,023	438,695
Other operating expenses	(87,257)	(396,717)	(219,638)
OPERATING INCOME	4,998,497	1,878,422	1,963,435
NON-OPERATING INCOME	(151,980)	(899)	(17,706)
Non-operating income	345	1,409	1,238
Non-operating expenses	(152,325)	(2,308)	(18,944)
INCOME BEFORE INCOME TAXES	4,846,517	1,877,523	1,945,729
Income tax	(956,944)	(656,306)	(1,011,253)
Social contribution	(365,177)	(237,112)	(330,447)
Deferred taxes – net realization value	(259,701)	577,161	474,569
INCOME BEFORE PROFIT SHARING	3,264,695	1,561,266	1,078,598
Employees' profit sharing	(62,206)	(63,482)	(40,774)
NET INCOME FOR THE HALF-YEAR/ YEAR	3,202,489	1,497,784	1,037,824

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2005

(R\$ Thousand)

	Capital stock	Capital reserves		Revaluation reserve of invested cos.' assets	Income reserve		Total
		Capital increase in progress	Fiscal incentive reserve		Legal reserve	Retained earnings	
As of January 01, 2005	11,362,584	1,586,481	-	16,514	74,889	1,074,264	14,114,732
Capital increase	1,586,481	(1,586,481)	-	-	-	-	-
Complementary dividends – year 2004	-	-	-	-	-	(917,284)	(917,284)
Fiscal incentive reserve	-	-	36,650	-	-	-	36,650
Revaluation reserve	-	-	-	34,883	-	-	34,883
Provision	-	-	-	(2,201)	-	2,201	-
Realization	-	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	3,202,489	3,202,489
Net income appropriation	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	160,125	(160,125)	-
Interests on own capital	-	-	-	-	-	(760,000)	(760,000)
Dividends	-	-	-	-	-	(591)	(591)
As of December 31, 2005	12,949,065	-	36,650	49,196	235,014	2,440,954	15,710,879

STATEMENTS OF FINANCIAL POSITION FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(R\$ Thousand)

	CONSOLIDATED		
	2005	2004	2003
SOURCES OF FUNDS	13,881,942	13,714,932	4,945,453
FROM OPERATIONS	4,557,449	3,048,803	3,409,201
NET INCOME FOR THE HALF-YEAR/ YEAR	3,202,489	1,497,784	1,037,824
EXPENSES (INCOME) NOT AFFECTING CASH	1,354,960	1,551,019	2,371,377
Constitution (reversal) of the provision for credit risk	844,636	1,637,605	1,880,251
Constitution (reversal) of the provision for labor and civil contingencies	459,352	31,744	82,834
Income from holdings in subsidiaries and affiliates	(412,242)	(289,004)	(275,223)
Depreciation and amortization	35,580	5,394	11,965
Amortization of goodwill	34,438	22,870	375,492
Provision for investment adjustments	393,196	142,410	296,058
FROM THIRD PARTIES	9,324,493	10,666,129	1,536,252
Net increase in borrowing and transfer obligations	2,538,047	7,610,905	929,571
Net increase in other liabilities accounts	6,414,299	2,933,412	-
Net decrease in financing credits	-	-	499,796
Net decrease in interfinancial investments	4,525	4,112	-
Net decrease in permanent assets	330,972	-	-
Investments in fiscal incentives (shareholders' equity)	36,650	117,700	106,885
USES OF FUNDS	13,882,280	13,705,297	5,082,172
Net increase in financing credits	10,653,649	9,802,604	-
Net increase in interfinancial investments	-	-	8,785
Net decrease in other liabilities accounts	-	-	351,534
Net increase in other assets accounts	1,550,756	3,154,814	346,716
Net increase in permanent assets	-	392,155	3,737,086
Complementary dividends	917,284	-	391,568
Dividends proposed	591	724	6,483
Interests on own capital	760,000	355,000	240,000
INCREASE (DECREASE) IN CASH	(338)	9,635	(136,719)
CHANGE IN FINANCIAL POSITION			
Beginning of half-year/ year	13,185	3,550	140,269
End of half-year/ year	12,847	13,185	3,550
INCREASE (DECREASE) IN CASH	(338)	9,635	(136,719)

PERSPECTIVES FOR 2006

There are strong signs that Brazil is before a new economic cycle of sustainable development. Before that new reality, BNDES had to adjust its operation strategy to allow Brazil to capture open opportunity windows, by having always in mind the objective of contributing to the reduction of Brazilian regional and social inequalities.

Thus, the operation strategy was focused on reviewing Operational Policies, with the reduction, on average, in 30% of BNDES basic spreads. Those new policies established different priority levels, reflecting, directly, in the collected interest rates, and granted maximum priority level to technological development, with fixed interest rates of 6% p.a. and 100% financing of the investment.

Therefore, it is expected the new growth frontier to be focused on innovation and, for this reason, fully tuned with the Industrial, Technologic and Foreign Trade Policy released by the Ministry of Development, Industry and Foreign Trade in March of 2004.

Concerning the fight against social inequalities and regional unevenness, it is important to point out two strategic views adopted by BNDES.

In first place, it was overcome the punctual investment practice, by adopting, instead, an approach in which is privileged the seek for integrated solutions for social problems.

In second place, concerning the regional unevenness, it is admitted that problematic areas are distributed throughout the country. As a result, besides the privileged treatment given to Northeast and North regions, Brazil, as a whole, starts being mapped into microregions. That new focus tunes BNDES with the conception and policies adopted by the Ministry of Brazilian Integration.

Regarding the infrastructure, it was prioritized investments in railway transportation and renewable energies. The former, because it is fundamental for the production outflow and increase in international competitiveness of the Brazilian country. The latter, because it represents an opportunity window to Brazil, with growing international interest for oil alternatives and reduction in carbon emissions.

Finally, it is intended to continue with objective operations directed to the guidelines which aim at becoming BNDES the "Development Bank for All Brazilian Citizens", upon the democratization of access to BNDES resources ("For All Brazilian Citizens"), increase in operational agility ("Faster") and consolidation of financing cost reduction granted by the new Operational Policies ("Cheaper").

GLOSSARY

ABDE – Brazilian Association of Development Financial Institutions.

Aberje – Brazilian Association of Business Communication.

Abimaq – Brazilian Association of Machinery and Equipment Industry.

Abrasce – Brazilian Association of Shopping Centers.

Alide – Latin-American Association of Development Financial Institutions.

Andima – Brazilian Association of Open Market Institutions.

Anfavea – Brazilian Association of Automotive Vehicle Manufacturers.

ANP – Brazilian Agency of Petroleum, Natural Gas and Bioenergies.

AS – BNDES Social Inclusion Area.

Bacen – Brazilian Central Bank.

BEI – European Investment Bank.

BNDES Automático – [Automatic BNDES] Financings of up to R\$ 10 million for carrying out projects of implementation, expansion and modernization, including the acquisition of new machinery, equipment, made in Brazil, accredited by BNDES, and associated working capital, through accredited financial institutions.

BNDES-Exim – Financing Line to the exports of Brazilian goods and services.

BNDESPAR – BNDES Participações, BNDES wholly-owned subsidiary created with the objective of allowing the subscription of land holdings in the Brazilian capital market.

Bracelpa – Brazilian Association of Pulp and Paper.

Buyer credit – Modality by which BNDES finances the purchasing company of products made in Brazil.

CAF – Andean Development Corporation.

Capitalização bursátil – [Market Capitalization] Market value of the issuing companies of shares which are part of the index theoretical portfolio.

CBL – Brazilian Book Chamber.

CMN – Brazilian Monetary Council.

Cofins – Tax for Social Security Financing.

Co-geração – [Co-generation] Simultaneous production of steam and electrical power from biomass (sugar cane bagasse).

Conecti – State Council of Science, Technology and Innovation.

CSLL – Social Contribution on Net Income.

CSN – Brazilian Siderurgical Company.

CST – Steel Company of Tubarão.

DAC – Department of Civil Aviation.

EMBI + – Emerging Markets Bond Index.

Embratur – Brazilian Institute of Tourism.

FAT – Worker Assistance Fund.

FIDICS – Fund of Creditory Rights.

FINAME – Special Agency for Industrial Financing, BNDES wholly-owned subsidiary.

Finem – Financing to endeavors, BNDES modality of financing superior to R\$ 10 million.

Finep – Financier of studies and projects. Public enterprise bound to the Ministry of Science and Technology, responsible for promoting and financing the innovation and the scientific and technological research in enterprises, universities, technological institutes, research centers and other institutions whether public or private.

FMI – International Monetary Fund. It has the basic objective of taking care of by the international monetary system stability, notably through the promotion of cooperation and consultation in monetary affairs among its member countries.

FMM – Merchant Marine Fund.

FPS – Social Participation Fund.

FPSO – Floating Unit of oil production, storage and transfer.

Funcex – Federal Savings and Loans Bank Employee's Foundation.

Funcines – Financing Funds for the Brazilian Film Industry.

Gasbol – Brazil-Bolivia Gas duct.

GLP – Liquefied Petroleum Gas.

GNL – Liquefied Natural Gas.

GW – Gigawatt.

Hub ports – Port load centers.

IBGE – Brazilian Institute for Geography and Statistics.

IBrX50 – Price index that measures the return of a theoretical portfolio comprised of 50 selected shares among those most traded on Bovespa, in terms of liquidity and financial volume.

IBS – Brazilian Institute of Steel.

Infraero – Brazilian Airport Infrastructure Company.

IPCA – Extended Consumer Price Index.

JBIC – Japan Bank for International Cooperation.

KV – Kilovolt (One Thousand volts).

LNG – Liquefied Natural Gas.

Market-share – market share.

Modermaq – National Industrial Complex Modernization Program.

MPME – [MSME] Micro, Small and Medium-Sized enterprises.

MRE – Ministry of Foreign Affairs.

MW – Megawatt (1 MW = 106 W), electrical energy unit of measure.

NIB – Nordic Investment Bank.

Offshore – Located or operated on the sea.

OMC – World Trade Organization (WTO).

OMT – World Tourism Organization.

NOS – Brazilian Operator of Electric System.

Over-Selic – [Selic] Special System for Settlement and Custody calculates an average of interest rates which the government pays to banks which lend money to government. Such average, so-called Over-Selic, is the reference for all other Brazilian interest rates. For this reason, Over-Selic rate is also called basic interest rate.

P&D – Research and development [R&D].

Pais – Support Program for Companies' Social Investments.

Pasep – Public Service Employee Savings Program.

PCH – Small Hydroelectric Power Station (in general, with installed power of up to 30 MW).

PDR – Regional Dynamism Program.

PIB – Gross Domestic Product [GDP].

PIBB – Brazil Bovespa Index Paper.

PIS – Employee's Profit Participation Program.

PITCE – Industrial Technological and Foreign Trade Policy.

Pós-Embarque – [Post-Shipment] External financing line to the commercialization of Brazilian goods and services, upon the refinancing to the exporter or through buyer's credit modality.

Pré-Embarque – [Pre-Shipment] Financing line to the production of goods to be exported.

Profarma – Support Program for the Development of the Pharmaceutical Productive Chain.

Proinfra – Financial Support Program for Investments in Alternative Sources of Electric Energy.

Prolivro – [Probook] Support for the Productive Chain of Books.

Prominp – Oil Industry Mobilization Program.

Prosoft – Program for the Development of the Brazilian Software and Related Services Industry.

Sabin – Society of Brazilian Library Friends.

Sebrae – Brazilian Support Service for Micro and Small-Sized Enterprises.

Senac – Brazilian Service for Commercial Training.

Sugar and Alcohol Sector – Set of companies that produce sugar and alcohol.

SPE – Specific-Purpose Enterprise.

Spread – Amount to be added to an interest rate.

Supplier credit – Refinancing to the exporter.

T estáticas – Static Traction.

TI – Information Technology (IT).

TJLP – Long-Term Interest Rate.

TPB – Tons Gross Weight.

UHE – Hydroelectric Power Plant.

UTE – Thermoelectric Power Plant (it uses vegetable or mineral fuel).

VoIP – Voice on the IP protocol.