CHINESE STATEGIC (OUTWARD) INVESTMENT IN LATIN AMERICA CASE STUDY – BRAZIL

By

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ABSTRACT

Chinese remarkable economic growth averaging at 10 per cent per annum since the late 70's has been facilitated by a strategy of promoting exports and attracting foreign capital. Multinational companies from the US, Japan, and Europe have led their way in using China as off-shoring platform for the labor-intensive stages of goods production. China currently has an account surplus of 6-7 per cent of their GDP and has accumulated more reserves than any country in the world at approximately US$ 300 trillion. Given its standing as one of the major suppliers of global capital, Chinese government in the recent years has been pursuing a policy of "outward FDI" under which some of the state-owned Chinese enterprises have been provided with soft capital to become global leaders on the lines of Japanese and Korean trading houses. The financial crisis of 2007/08 had enabled the Chinese government an opportunity to provide capital to companies in the developed and developing world who are currently starved for financing.

The analytical framework of internationalization theory suggests that one should look into the motivations for internationalization and the literatures identified the following drivers of internationalization process: (a) Market-seeking FDI, (b) Resource-seeking FDI, (c) Efficiency seeking FDI and (d) Strategic asset-seeking FDI. Using the case study of PETROBRAS and MMX Mining in Brazil, the study found that major driver of investment by Chinese companies is in acquisition of strategic assets for China's future development.

In the case of PETROBRAS, the mode of investment was supplier's credit rather than the traditional FDI or portfolio investment. In the case of MMX, it was the stake in the equity capital of the firm. Thus, the modern modes of outward FDI by Chinese firms are more roundabout forms rather than the traditional modes of Foreign Direct Investment and Foreign Portfolio Investments addressed by most researchers.

These investments have blurred the traditional distinction between investments (in share capital) and supply contracts (supplier's credit). The benefits it brings to Chinese companies are apparent – it ensures supply of raw materials (strategic assets) which are required for future development of the country. By supplying capital to overseas business enterprises including friendly countries like Brazil, the Chinese government is able to deploy its excess reserves and ensure its future economic security.

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ACKNOWLEDGEMENT

I would like to dedicate this report to my fiancée and my parents. Keila had been very supportive throughout the program and had provided joy, laughter, fun, great team work and spirit through sleepless nights during the program and the time we were in class and at home burning the midnight oil. A very special thanks to my parents for their continuous encouragement to the both of us in our education endeavors, my sisters who had been providing countless support and Dr. Ajit Dayanandan for his guidance during the preparation of this project.

CHAPTER 1.0 INTRODUCTION

The recent financial crisis has brought into focus the role of sovereign wealth funds as suppliers of capital worldwide. When countries ran current account surpluses, they accumulate more reserves than it require. Many countries created sovereign funds to manage these "extra resources". Sovereign wealth funds have existed since 1950 and refer to assets held by governments in another country's currency (IMF, 2007). Prominent among them are the Abu Dhabi Investment Authority of United Arab Emirates, Singapore Investment Corporation and China Investment Corporation (CIC). These funds have become the "new financial superpower" and provider of the current global capital.

The last decade saw the emergence of China as one of the fastest growing economies of the world. China recorded an average annual growth rate above 10 per cent per annum between 1980 - 2008. After embracing economic reforms in 1978, China has followed a policy of global economic integration with export-led growth and a policy of attracting foreign capital into the country, especially Foreign Direct Investment (FDI). China's export growth has led to current account surplus of about 6-7 per cent of GDP between 2000 - 2005. China's current account surplus now accounts for 70 per cent of the regional surplus of about $260 Billion in 2006 (IMF, 2007). Since 1978, Chinese companies pursued a policy of strategic asset acquisition through "inward internationalization" under the slogan "yin jin lai" (Welcome in) namely through the attraction of Federal Direct Investment (FDI):

China, on the average, attracted US$30 – 50 Billion per year of FDI; its foreign exchange reserves peaked to around US$300 trillion by end of 2000.

In the quest to continue the rapid growth momentum, China has recently embraced a policy of promoting "outward FDI" of Chinese firms by acquiring strategic assets throughout the world. In recent years, the amount of "outward FDI" from China exceeded US$50 Billion by 2005. As at the end of 2007, there were more than 10,000 Chinese companies operating overseas that were financed by Chinese capital (Icksoo, 2009).

The Chinese government's "Go Global" policy encourages Chinese companies to make foreign investments and is part of the government's aim to make 100 to 150 state-owned companies as global leaders modeled on the lines of Japanese and Korean trading houses. The future of China as a global manufacturing hub also depends on its ability to maintain its high rate of economic growth for which it requires raw materials which are in short supply domestically. This recognition has prompted the government of China to look for 'strategic partnerships' with industries throughout the world.

The outward orientation of FDI from Chinese Multi-national Enterprises (MNEs) is an area which has received relatively little attention in academic literature and research (Child and Rodrigues, 2005, Deng 2007). The absence of reliable published data and the relative secrecy of such strategic deals have made research into this area rather difficult, non-transparency, and challenging. The present study contributes to the literature on "outward FDI" and aims to fill data gaps in this area by undertaking two case studies of Chinese "outward-oriented FDI" in Brazil. The study examines the modes of outward FDI, the benefits derived from such strategic investments for the supplier of capital (Chinese companies/government) and beneficiaries of capital flows (the Brazilian companies).

The study is divided into six (6) chapters. Chapter 2 reviews the literature on the subject. Chapter 3 reviews the broad trends in Chinese strategic entry modes. Chapter 4 examines the trends in Chinese "outward investment" and financial flows into Brazil by examining the case studies on PETROBRAS and MNX mining in Chapter 5. Chapter 6 summarizes the conclusions and observations made during the study.

CHAPTER 2.0 LITERATURE REVIEW

This chapter provides a brief review of literature on theory of internationalization of firms especially from the point of view of "outward FDI". The literature review is organized into three sections. Section 2.1 reviews the theoretical framework and section 2.2 reviews the empirical studies on the subject and section 2.3 summarizes the theoretical and empirical literature.

SECTION 2.1 THEORETICAL FRAMEWORK

The literature in international business analyses the growth and foreign expansion phase of MNEs. The starting point of this theory of MNE is the proposition that an MNE goes abroad to further expand, on its firm-specific advantage (FSA). The FSA's are propriety to the firm and they can be technology or knowledge based or they can reflect managerial and/or marketing skills (Rugman and Verbeke, 2003).

The analytical framework of internationalization theory suggests that one should look into the motivations for internationalization and the mode of entry into international markets (Madhok, 1997). Wells (1983) argues that manufacturing firms pursue internationalization strategies mainly to protect their export market. Dunning (1993) as well as Eden and Monteils (2000) divide the major drivers of internationalization into four categories: (a) Market-seeking FDI, (b) Resource-seeking FDI, (c) Efficiency seeking FDI and (d) Strategic asset-seeking FDI.

In international business literature, there is also a new stream of literature on the motivations of FDI from the perspective of behavioral science of the firm – called organizational capability theory (Madhok, 1997). The basic thrust of the organizational capability theory is that firms tend to collaborate or invest across borders for the purpose of developing their capabilities. Zhang (2003) argues developing organizational capability through FDI is in line with the rationale of the motive for strategic assets-seeking FDI.

Apart from the theory of internationalization of firms, a number of institutional factors influence the conduct and behavior of firms internationally. One such influence is the role of the government. In countries like Japan, Korea and China, the government defines, diffuses or enforces prevailing norms and requirement of acceptable firm conduct (Oliver, 1991).

In China, as part of the economic reforms, the Chinese government has maintained political control and also maintained its ability to reward and discipline firms for their adherence to its directives. China has established clear direction about the types of outward FDI it would like to encourage and has been able to compel firms to follow its policies (Deng, 2004). In China, the corporate strategic decisions to a large extent are governed by a mix of political and economic motives (Deng, 2004).

SECTION 2.2 EMPIRICAL LITERATURE

The empirical literature on "outward FDI" is rather limited although in recent times there is increasing attention to this topic. One of the earlier attempts to study outward FDI found that they tend to concentrate in countries with relatively higher income or industrial countries because of their superior investment environment, high technology and advanced management methods (Kumar, 1988). This conclusion was reaffirmed by the study of Wang (2002) who found that Chinese overseas investment excluding Hong Kong and Macau was in industrial countries in the area of R & D and design centers.

One of the pioneering studies on outward FDI is that of Deng (2004, 2007). Deng (2007) using the case study approach of merger and acquisitions of foreign firms by Chinese companies during 2002 to 2004 concluded that Chinese MNEs outward FDI is primarily motivated by the quest for strategic resources and capabilities, like R & D. Deng (2009) again using some the case study of three leading Chinese firms – TCL, BOE and Lenovo, found that the primary motive for outward FDI is to acquire strategic assets.

SECTION 2.3 CONCLUSIONS

The literature on outward FDI is based on the theory of MNEs – why MNEs go abroad?. The analytical framework of internationalization theory suggests that firms pursue internationalization strategies mainly to protect their export market. The literature divides drivers of internationalization of firms into four categories: (a) Market-seeking FDI, (b) Resource-seeking FDI, (c) Efficiency seeking FDI and (d)

Strategic asset-seeking FDI. The limited empirical study based on China's outward FDI has found that primary motive is to acquire strategic assets. In Chapter 3, a review on the determinants of China's strategic FDI entry modes into foreign markets will be provided.

CHAPTER 3.0 CHINESE STRATEGIC ENTRY MODE INTO FOREIGN MARKETS

This chapter provides a brief literature review on the type of entry mode and strategic approach utilized by Chinese companies when they are going abroad.

SECTION 3.1 ENTRY MODES

The pioneering study made by Lin and Fuming in 2008 investigates Chinese strategic behavior perspective entry mode that "escapes from the transaction cost premises and highlights the special characteristics of Chinese firms' FDI" by incorporating "strategic fit and strategic intent aspect" in their frame work through surveying of 588 Chinese firms who engaged in outward FDI in 2005 (Lin and Fuming, 2008).

Previous literatures examine how market structure, market size, tariffs and transportation costs influence entry modes and also whether Multi-National Entities (MNE) engages in FDI or trade (Eicher and Kang, 2005).

The authors utilized binomial logistic regression approach on 138 data out of 500 data sets to confirm their hypothesis by determining probability of one event occurs rather than another: Wholly Owned Subsidiaries (WOS) vs. Joint venture (JV) entry mode.

The conclusion of the study along with finding from various researches in which strategic behavior entry mode Chinese firms choose are presented in table (Table 3-1).

Chinese firms' overseas investment is to expand their Country-Specific Advantages (CSA) and to explore sustainable global competitive advantages. The Chinese firms' choices of FDI entry modes are not only minimize costs of transferring firm-specific assets but to facilitate their cost advantage-based regional expansion, and their global competitiveness strategy. In order to expand cost advantages into other regional emerging economies, Chinese firms have strategically aligned their FDI entry mode to the host industry environment which will facilitates strategic fit between the firm's competitiveness advantage and the environment by considering the strategic behavioral variables indicated (Lin and Fuming 2008).

Table 3-2 shows that export is still the most important sector of the entry mode for Chinese companies at 167 and 69 companies for direct and indirect export out of the 297 Chinese companies having substantial international business activities analyzed by Deng (2009). There are only 36 and 25 enterprises who are abroad through building overseas factories, and Mergers and Acquisition (M&A) indicating that China is still at the initial stage of internationalization (Rugman and Jing, 2007; X. Deng, November, 2009).

However, Chinese enterprises are differentiating themselves and more adaptive to entry modes that the number of companies with of "Listing Abroad" is currently at 49 enterprises, which is higher than Joint Venture (JV) at 41 companies; M&A at 36 companies; Wholly-Owned Subsidiary (WOS) at 21 companies; and Research and Development (R&D) Institution Establishment at 26 enterprises.

The industry in which Chinese enterprises have substantial international business activities are in:

- Steel
- Telecommunication
- Building materials and construction

These are all generally large state-owned industry (Deng X, November, 2009).

Table 3-1 FDI Entry Mode Strategic Behaviour Variables

Entry Mode Choice	Strategic Behavior Variables	Other Conditions
Wholly-Owned Subsidiary (WOS)	• Host Industry Competition[1] • Global Strategic Motivation (Firm Size)[2] • Assets Seeking Motivation[3]	• Greenfield investment[6] • Emerging Economy Firms[7] • Market Seekers[9]
Joint Venture (JV)	• Host Industry Growth[4] • Global Strategic Motivation (Country Risk, Cultural Barrier)[5]	Host Country Uncertainty, Access to Complementary Assets, High Tech Sector, Small Firm, Less Experience Firms[8]

Reference:

1. Lin and Fuming 2008; Eicher and Kang 2005
2. Lin and Fuming 2008
3. Lin and Fuming 2008; Child and Rodrigues 2005; Rui and Yip 2008;
4. Lin and Fuming 2008; Frynas, Mellahi and Pigman 2006;
5. Lin and Fuming 2008; Kim and Hwang 1992; Yiu and Makino 2002
6. Lin and Fuming 2008
7. Lin and Fuming 2008
8. Mutinelli and Piscitello 1998
9. X. Deng 2009

Table 3-2 Distribution Frequency of Entry Mode

Entry Modes	Frequency	Entry Modes	Frequency
Direct Export	167	R & D Institution Establishment	26
Overseas Sales Subsidiaries Establishment	87	Overseas Factories Establishment	25
Indirect Export	69	Wholly-Owned Subsidiary (WOS)	21
Listing Abroad	49	License	16
Joint Venture Establishment	41	Transnational Export of Labour Services	15
Engineer Contract	41	Strategic Alliances	13
Merger and Acquisition	36	Franchising	12
Overseas Technical Cooperation	34	OEM	11
Source: (X. Deng, November, 2009)		Management Contracts	5

CHAPTER 4.0 TRENDS IN OUTWARD FDI BY CHINESE FIRMS

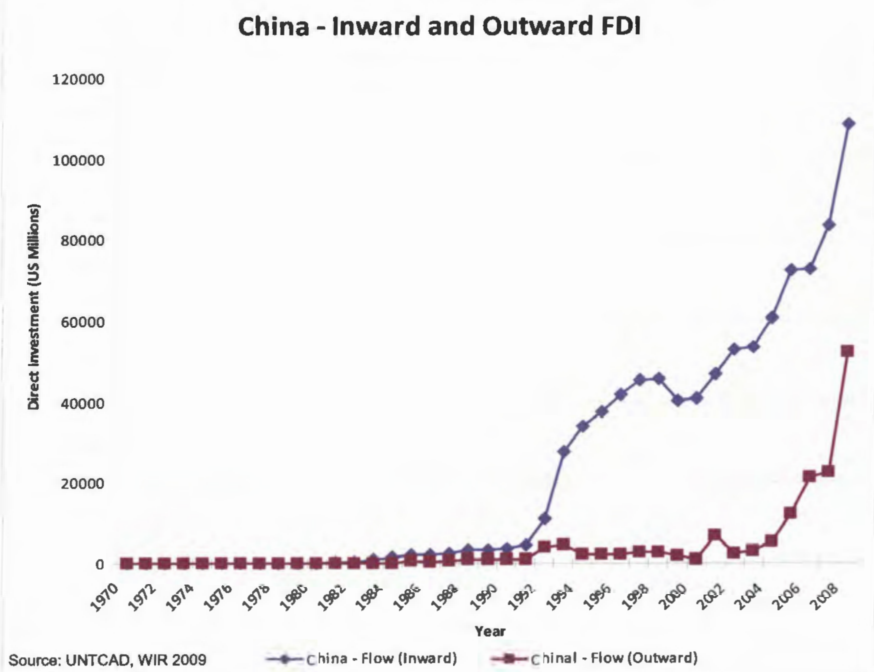
This chapter presents an overview of outward foreign direct investment by Chinese firms in recent years. The chapter is organized into three sections. Section 4.1 discusses the broad trends in Chinese outward. Section 4.2 discusses the broad trends in financial flows from China into Latin America and especially to Brazil.

SECTION 4.1 BROAD TRENDS IN CHINESE "OUTWARD FDI"

According to United Nations Conference on Trade and Development, UNCTAD, China's inward and outward FDI grew by 130 per cent and 232 per cent during 2007 and 2008 respectively (UNCTAD, 2009). During 2007/08, globally the FDI flows had recorded an absolute decline. China, taking advantage of the global shortage of capital, has been progressively scaling up its outward FDI with the magnitude increasing from US$ 21.2 Billion in 2007 to US$ 52.2 Billion in 2008 (UNCTAD, 2009). The Chinese economic growth has not only attracted inward FDI in the past decades but lately has encouraged outward FDI ().

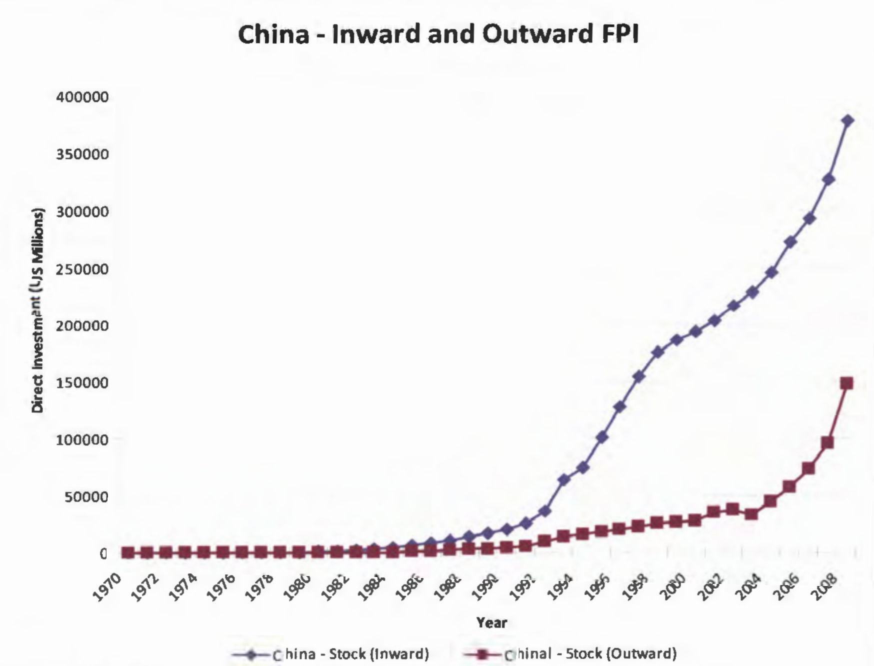
China's outward FDI has not been completely smooth, acceptable and often been critique by international communities and researchers. In 2005, Accenture lists the operational, human capital, economic and political, advantages and challenges faced by China's internationalization. Summary of this list is presented in Table 4-1.

Figure 4-1 China's Inward and Outward FDI – 1970 to 2009



Source: UNTCAD, WIR 2009

Figure 4-2 China's Inward and Outward FPI – 1970 to 2009



Source: UNTCAD, WIR 2009

Table 4-1 Challenges and Advantages of China

	Chinese companies face particular problems in going global	...but have many factors working in their favor
Operational	• Chinese companies going global have to get to grips with very different management styles, cultures, priorities and mindsets.	• With a higher labor-to-capital mix, Chinese companies are more flexible in adapting processes than their Western counterparts.
	• They also have to conform to international standards, systems and processes. Their corporate governance framework in particular remains underdeveloped.	• Chinese companies have the advantages of local knowledge and cultural overlap in Asia's fast-growing markets that are the main target of today's multinationals.
	• Chinese companies have so far struggled to establish international brands. No Chinese company features in the Business Week-Inter-brand 100 Top Global Brands.	• Chinese firms still enjoy a significant cost advantage over Western multinationals that tend to set up only selected operations in China.
	• Chinese companies often lack managerial expertise and experience. China will need 75,000 executives with international experience in the next five years, currently there are 5,000	• There is a strategic push to nurture new talent in science and technology in China. There will be about 3.3 million college graduates in 2005 of who 600,000 will be engineers.
Human Capital	• Chinese companies still face obstacles in the war for talent. Non-Chinese multinationals still enjoy advantages in terms of pay and prestige.	• The diasporas of Chinese talent – western-educated and familiar with Chinese culture and values – provide a valuable resource for Chinese companies going global.
Economic and Political	• The recent outcry surrounding Chinese purchases abroad, particularly in the United States and European Union, has highlighted protectionist obstacles to China's globalization.	• The prospect of further currency revaluations will reduce the cost of overseas acquisitions for Chinese companies. • China's "national champions" receive cheap land and finance, tax breaks and preferential access to listing their shares.
	• State influence on corporate planning may lead to the pursuit of goals beyond profit maximization.	• By operating in previously protected markets, large state-owned enterprises have accumulated cash hoards that they can use to buy assets abroad.
	• Large state firms in protected industries are likely to be less efficient due to the lack of competitive pressures.	

Source: (Accenture, 2005)

Table 4-2 China's Outward Investment by Sector (2004 and 2007)

Sector	Net Oversea Direct Investment (US$ 10 000) 2004	2007	Accumulated Net Oversea Direct Investment at Year-End of 2007	Percentage Change
Total	**549,799**	**2,650,609**	**11,791,050**	**382.1%**
Agriculture, Forestry, Animal Husbandry and Fishery	28,866	27,171	120,605	-5.9%
Mining	180,021	406,277	1,501,381	125.7%
Manufacturing	75,555	212,650	954,425	181.5%
Production and Supply of Electricity, Gas and Water	7,849	15,138	59,539	92.9%
Construction	4,795	32,943	163,434	587.0%
Transport, Storage and Post	82,866	406,548	1,205,904	390.6%
Information Transmission, Computer Services and Software	3,050	30,384	190,089	896.2%
Wholesale and Retail Trades	79,969	660,418	2,023,288	725.8%
Hotels and Catering Services	203	955	12,067	370.4%
Financial Intermediation		166,780	1,671,991	
Real Estate	851	90,852	451,386	10575.9%
Leasing and Business Services	74,931	560,734	3,051,503	648.3%
Scientific Research, Technical Service and	1,806	30,390	152,103	1582.7%
Geologic Prospecting				
Management of Water Conservancy, Environment and	120	271	92,121	125.8%
Public Facilities				
Services to Households and Other Services	8,814	7,621	129,885	-13.5%
Education		892	1,740	
Health, Social Security and Social Welfare	1	75	369	7400.0%
Culture, Sports and Entertainment	98	510	9,220	420.4%
Public Management and Social Organizations	5			
Source: China Statistical Yearbook (2004; 2007)				

Table 4-2 reports broad trends in China's outward investment by sector during 2004 and 2007. Broadly, there has been an increase of 382 per cent in outward investment from China from 2004 to 2007. Bulk of the increase in outward investment has occurred in real estate (10575%), scientific research and Technical series (1582%), information transmission, computer services and software (896 %) and construction (587%). What was interesting to note is that Financial Intermediation sector was not recorded by the Chinese government until 2007 which is currently at US$ 1.67 Billion.

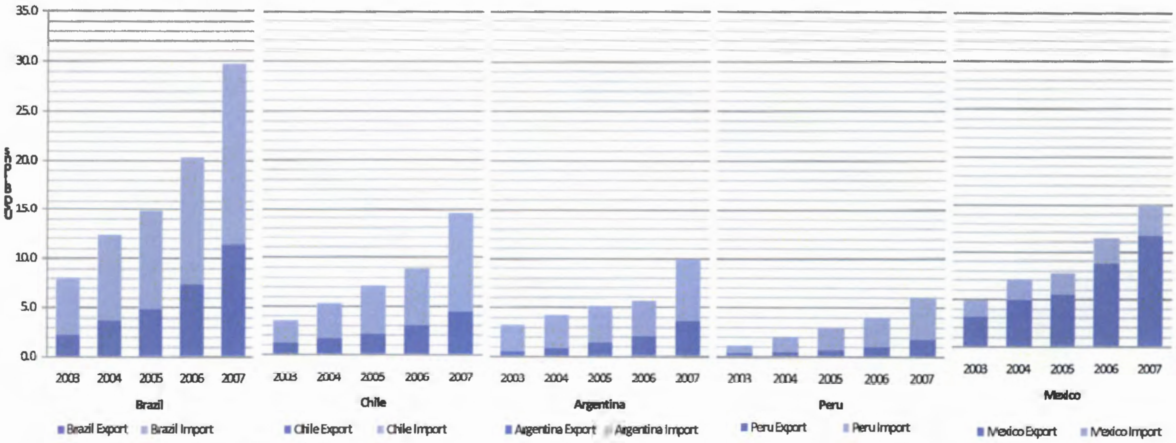
SECTION 4.2 TRENDS IN FINANCIAL FLOWS FROM CHINA INTO LATIN AMERICA

According to statistics published by Chinese national authority, Chinese imports from Latin America countries increased by 242 per cent during 2003-2007; with imports values increasing from US$14.9 Billion in 2004 to US$51.1 Billion in 2007 (Chinese Statistical Yearbook, 2007). The top five Latin American import markets for China in 2007 are: Brazil at US$18.3 Billion, Chile at US$10.3 Billion, Argentina at $6.3 Billion, Peru at $4.3 Billion and Mexico at $3.3 Billion (Figure 4-3). China's increasing trade interface in Latin American can be traced to increasing economic and political cooperation and solidarity with many of the left-leaning Latin American countries including Venezuela, Bolivia, Ecuador and Peru.

In 2007, the Chinese outward FDI to Latin American countries account for US$118 Billion which comprises 21% of Chinese total outward FDI (China Statistical Yearbook, 2007). Latin America is the second largest recipient of Chinese FDI since 2004 (Figure 4-4). The economic relations between China and

Latin America were further strengthened in November 2008 with the release of China's Policy paper towards Latin America clarifying China's diplomatic goals in the region (Embassy of the People's of China in the United States of America, 2008). However, China has not signed the bilateral trade agreement with MERCOSUR, the Latin American free trade bloc. An interesting aspect of outward FDI by China is the parking of capital in offshore tax havens in the Cayman Islands and Bermuda ready for deployment in the region (Telegraph.co.uk, 2009). Figure 4-5, presents the sectors in which Chinese outward FDI were deployed where Leasing and Business Services (29%), followed by Wholesale and Retail Trades (20%), Financial Intermediation (16%). These trends show signs of Chinese increasing influence in Latin America.

Figure 4-3 China's Top 5 Trade Partners in Latin America, 2003-2007 (US$ Billions)



Source: China Statistical Yearbook (2004, 2005, 2006, 2007)

Figure 4-4 China's Overseas Direct Investment by Region 2007

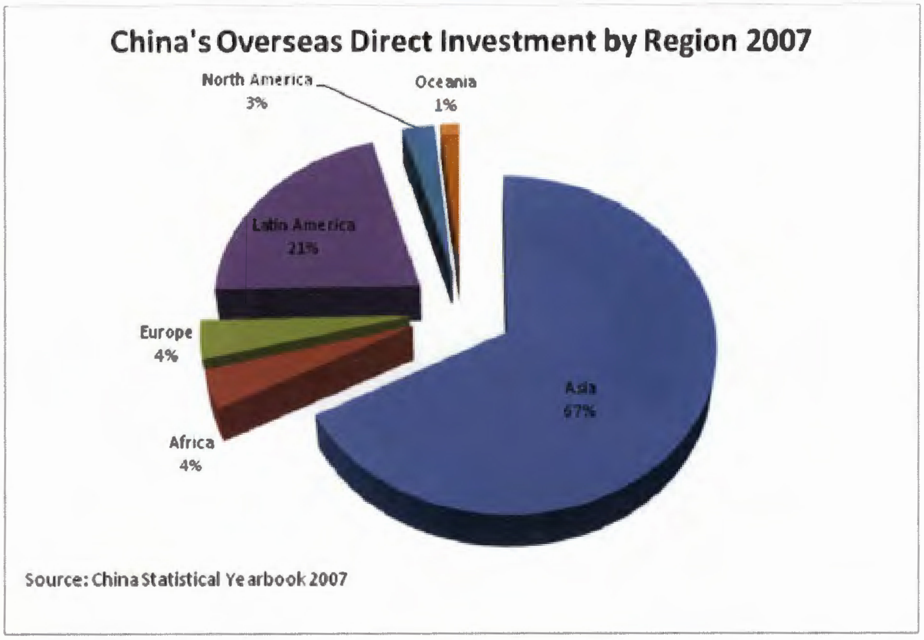
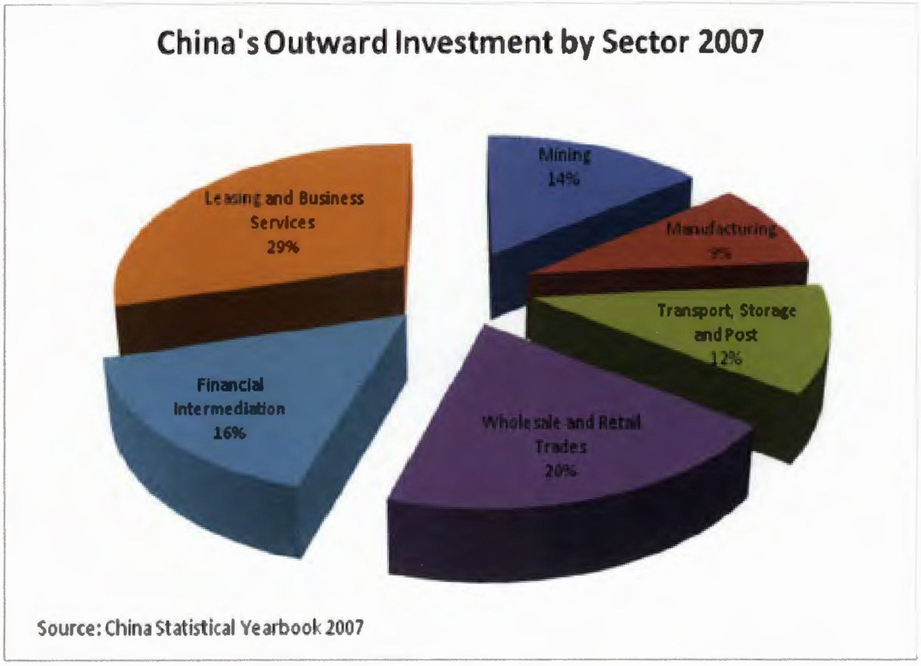


Figure 4-5 China's Outward Investment by Sector 2007



CHAPTER 5.0 CHINESE OUTWARD FDI IN BRAZIL - CASE STUDY

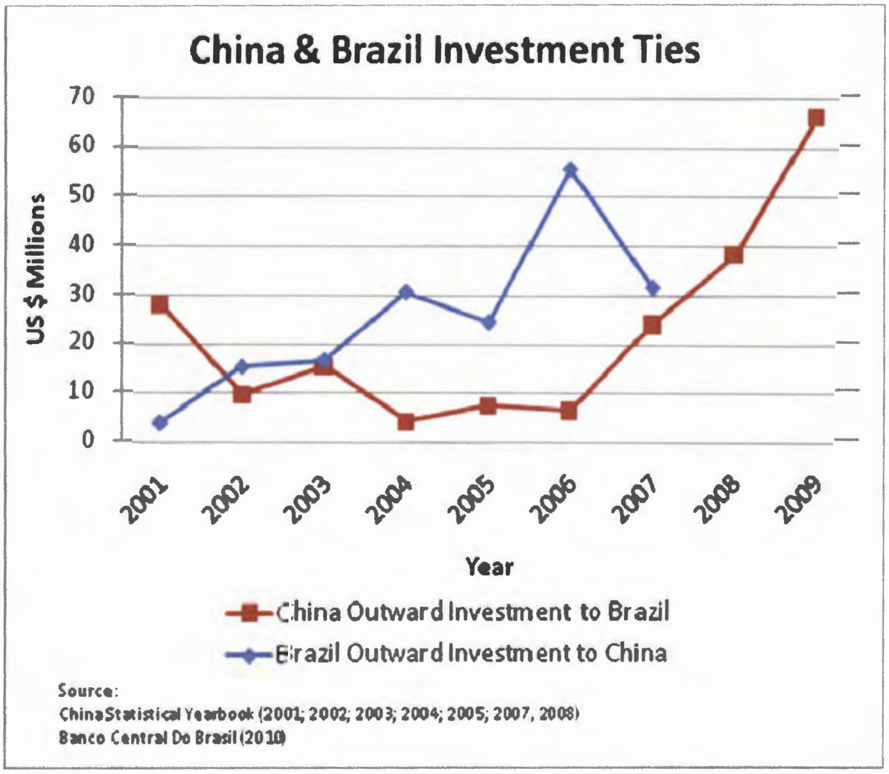
In this chapter broadly looks at the increasing China-Brazil economic co-operation. Two case study were preformed on Brazilian companies – PETROBRAS (the largest oil company in Brazil) and MMX Mining (a junior-private mining company in Brazil) to illustrate the Chinese outward FDI in Brazil. The chapter is organized as follows: Section 5.1 discusses the broad trends in economic co-operation between China and Brazil. Section 5.2 discusses the case study of PETROBRAS. Section 5.3 further illustrates the Chinese outward FDI in MMX Mining. Section 5.4 summaries the main conclusions of this chapter.

SECTION 5.1 BROAD TRENDS IN ECONOMIC CO-OPERATION BETWEEN CHINA AND BRAZIL.

The economic ties between China and Brazil has been enhanced over the years and the Brazilian trade minister, Mr. Welber Barral, indicated that China's trade relations with Brazil had surpassed US and "China is now a platinum partner for Brazil" (Telegraph.co.uk, 2009; China Daily, 2007). The US has been Brazil's principal trading partner for last 80 years, but in recent years China has surpassed US as the leading trade partner of Brazil. Brazil's typical exports to China include soya beans, iron ore, cellulose, and currently have been extended to include future contracts for oil and gas. Today, China is the fastest growing supplier of electronic goods in Latin American including Brazil.

According to figures released by the Chinese Ministry of Commerce, Chinese enterprises invested nearly US$100 Million in Brazil by the end of June 2007, mainly in the mining, telecommunications, trade, services, lumber processing and assembly line production of household electrical appliances industry (China, 2007). Meanwhile, Brazilian investment in China reached US$210 Million, mostly in manufacturing, real estate and construction industries. The overall Chinese and Brazilian outward investment ties are presented in Figure 5-1. Brazil occupies a leading position in renewable energy, civil aviation, agribusiness, paper pulp and minerals – where Chinese investors have increasing financial, economic co-operation and interest.

Figure 5-1 Chinese & Brazilian Outward Investment Ties

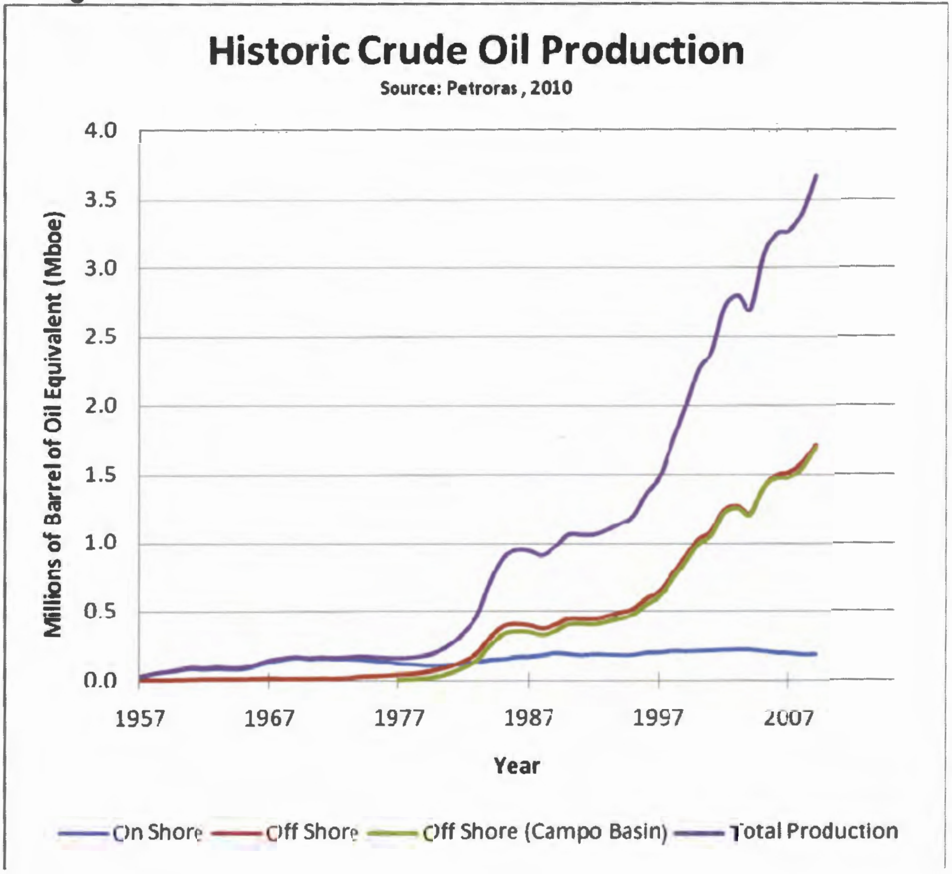


SECTION 5.2 PETROBRAS – CASE STUDY

The Petróleo Brasileiro S/A (PETROBRAS) was formed by the Brazilian Government in 1954, was responsible for all the activities related to the oil sector in Brazil. Today the company is currently the eight (8^{th}) largest oil companies in the world and leading the sector in the development of one of advanced deep-water and ultra-deep water technology for oil production in the Campos Basin.

By 1997, PETROBRAS made Brazil one of the 16 nations who produced more than 1 Million bpd and within the same year the Brazilian Federal government approved and opened the Brazilian oil industry to the private sector. A National Petroleum Agency (ANP) was established to regulate, contract and inspecting all the activities of the oil sector and the National Policy Council Energy was responsible for designing public energy policies. In less than six (6) years their oil and gas production exceed 2 Million bpd (Figure 5-2). Their business structures are subdivided into four (4) business areas: (1) Exploration and Production, (2) Downstream, (3) Gas & Energy, (4) International and two support functions: Finance and Services.

Figure 5-2 Brazil's Historic Crude Oil Production



The total crude oil production for PETROBRAS in 2008 was 3.4 Million barrels of oil equivalent (Mboe), a milestone achieved by only few companies globally and their gross operating profit increased from US$1.39 Billion in 2007 to US$5.44 Billion in 2008 (PETROBRAS, 2010). PETROBRAS has 112 production platforms out of which 78 are fixed and 34 floating, with 15 refineries at capacity to process 2.2 Million bpd. Throughout Brazil, they have 5,998 gas stations and 990 internationally. PETROBRAS is present in 27 countries on four continents: United States, United Kingdom, Mexico, Angola, Nigeria, Tanzania, Libya, Mozambique, Senegal, India, Iran, Pakistan, Turkey, Portugal, Bolivia, Colombia, Cuba, Ecuador, Peru, Venezuela, Uruguay, Paraguay, Argentina, China and Japan, and count on the support of their offices in Houston, New York, London, Tokyo, Singapore, China, and Chile (Figure 5-3).

Figure 5-3 PETROBRAS Global Presence

Source: PETROBRAS, 2010

PETROBRAS has the largest continental off-shore oil reserve platform is at approximately 143,000,000 km^2 which stretches from the State of Espírito Santo, close to the city of Vitória; to the Arraial do Cabo, off the northern coast of the State of Rio de Janeiro. The basin is comparative to the size of the Gulf of Mexico, and currently accounts for nearly 84% of Brazil's oil production and 80% of the oil reserves discovered (Figure 5-4). PETROBRAS reported that about 1.49 Million barrels of oil and 22 Million m^3 of gas are extracted daily and production is expected to reach 1.8 million bpd and 34.6 million m^3 by 2010. The exploration of the Campos Basin commenced in late 1976 with shallow wells and fixed type oil platforms. Out of the 55 fields, 36 are mature and consequently PETROBRAS has increased its exploration drilling activities in deeper water. Currently approximately 65% of PETROBRAS offshore explorations are in deep waters more than 400 meters (Figure 5-5).

Figure 5-4 Santo Basin of the Brazilian Coast

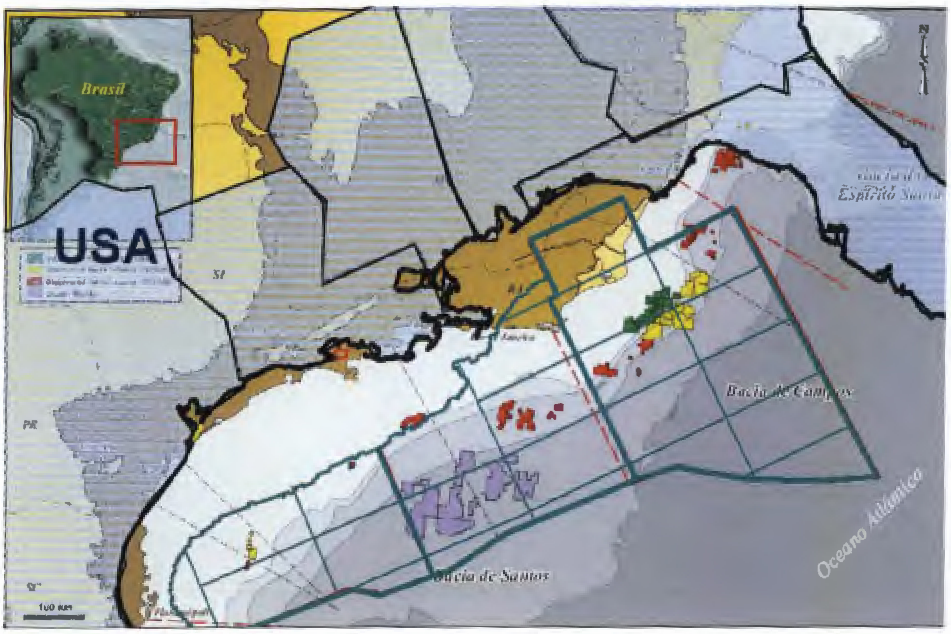
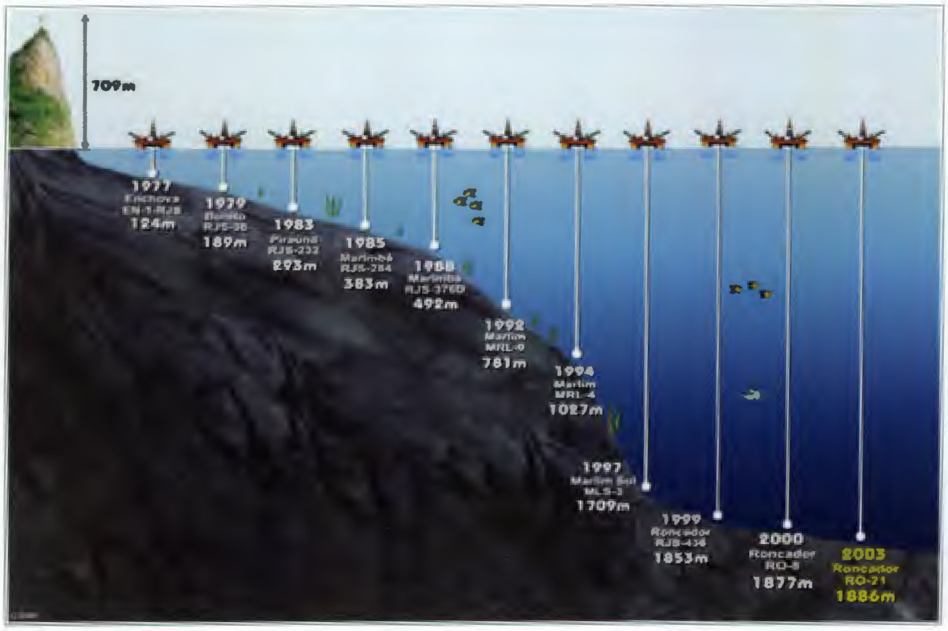


Figure 5-5 Deep Water Exploration



The discovery of oil reserve in the recent years at Tupi, Santos Basin and their current reserve at the Campo Basin have provided substantial business opportunities and growth. Santo Basin has the potential to become the largest world reserve with total proven reserve of 15.08 Billion barrels of oil equivalent and 142,300,000 km² of exploratory area with Reserve Replacement Index of 18.2 years.

In order to meet the growth opportunities, PETROBRAS was looking for fresh capital for exploration. It was in this context that the Chinese onward FDI became relevant for the company. On February 18 2009, The China Development Bank finalized a deal with PETROBRAS to extend a US$10 Billion line of credit in exchange for future oil supply. The financial deal entered by PETROBRAS with Chinese state-owned oil company Shanghai Petrochemical Company, SINOPEC, to provide supply of 100,000 bpd of oil in exchange for the supply of Chinese capitals (Reuters, UK, 2009). Prior to this, on December 27, 2007, the Chinese Development Bank had signed a long-term credit lines US$750,000, as an on-lending of foreign funds the Gasene Project (part of PETROBRAS division) in Brazil for the construction of natural gas pipeline for a total length of 14,000 km with a capacity of 20 Million m3 per day, connecting the Cabiunas Terminal in Rio de Janeiro to the City of Catu, Bahia (PETROBRAS, 2008).

Figure 5-6 presents the PETROBRAS cash from 1St quarter of 2004 to 3rd quarter of 2009, showing an increase in cash from 2nd to 3rd quarter of 2009. The Chinese suppler credit can be observed from the figure, where a spike of more than US$10 Billion from the 2nd to the 3rd quarter of 2009.

The financing is based on China's policy of attempting to secure future supplies in natural resources especially petroleum, agricultural goods and minerals for their voracious economy. Within the next day, China Development Bank, Russia's state oil Rosneft and Transneft Pipeline Company also signed a US$25 Billion financing deal in exchange for future oil from the huge new East Siberian oil fields that China hopes will power its economy for the next two decades.

PETROBRAS also announced that they are negotiation with four oil consumer countries to receive financing from them in exchange for future oil supply guarantees.

Figure 5-6 Cash Flows of PETROBRAS -2004 to 2009 (US$ Billion)

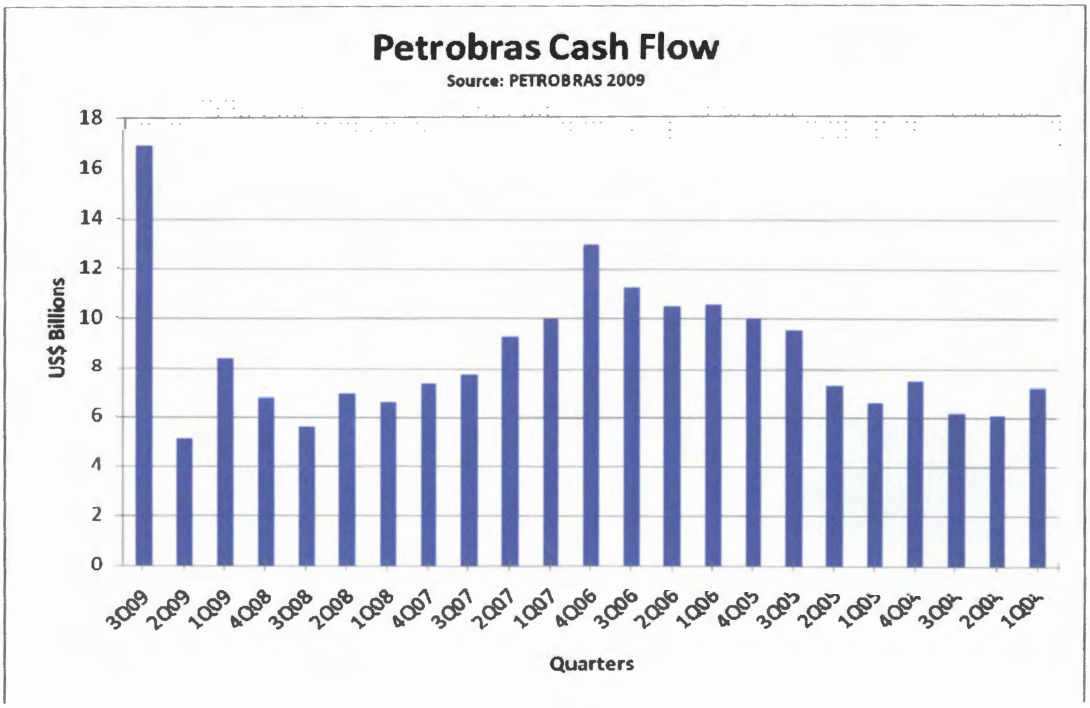


Table 5-1 PETROBRAS and Exxon Mobil - Financial Ratios – 2007 and 2008

FINANCIAL RATIOS	Exxon Mobil			PETROBRAS		
	% change (2008-07)	2008	2007	% change (2008-07)	2008	2007
Liquidity						
Cash & market Sec. To Total Assets	-1.80%	0.138	0.140	173.20%	0.090	0.033
Acid Test Ratio	-22.32%	1.143	1.472	89.18%	0.836	0.442
Current Ratio	-0.16%	1.472	1.474	-8.27%	1.220	1.330
Working Capital/Sales	-29.00%	0.049	0.068	-15.12%	5.950	7.010
Financial Leverage						
Debt to Total Assets	1.54%	0.505	0.497	0.00%	0.470	0.470
Debt to Common Equity	-22.02%	8.669	11.117	1.08%	0.940	0.930
Long-Term Debt to Common Equity	-9.21%	1.322	1.456	-7.51%	0.750	0.811
Total Debt to EBITDA	-15.80%	0.286	0.340	n/a	n/a	n/a
EBITDA/Interest	-31.05%	121.47 1	176.185	n/a	n/a	n/a
EBIT/Interest	-33.82%	67.192	101.525	n/a	n/a	n/a
Profitability						
Return on Common Equity	-3.26%	11.751	12.147	29.15%	15.496	11.999
Return on Assets	-15.40%	5.043	5.961	-28.95%	16.007	22.528
Net Profit Margin	5.74%	10.163	9.612	0.75%	8.139	8.079
Common Stock Ratio's						
Price to Earnings Ratio	n/a	n/a	n/a	-16.62%	21.580	25.880
Source: (PETROBRAS, 2008; Exxon Mobil, 2008)						

In the following sections, a brief financial analysis on PETROBRAS was performed. For comparative purposes, the financial statement for PETROBRAS is compared with a similar US oil company - Exxon Mobil (Table 5-1). PETROBRAS has a relatively lower cash and marketable securities to assets (in the range of 0.03 to 0.09 in the last two years). This is relatively low compared to its growth opportunities. For example, the corresponding ratio for Exxon Mobil is as high 0.14 in the last two years (2007 and 2008). With the financial deal from China, PETROBRAS will be able to boost this parameter substantially and channel the additional supply of capital for its ambitious oil and gas exploration plans at Campos Basin. PETROBRAS will also be able to boost its working capital/sales ratio (from the present 5.95 per cent) which will improve its liquidity. PETROBRAS has a relatively low leverage – debt to total assets is around 0.47 and the availability of supplier credit from the Chinese company would slightly boost its leverage, but this will still be lower compared to Exxon Mobil.

The injection of capital to fund its growth is what PETROBRAS is looking for and the sector in which PETROBRAS is seeking for funding is aligned with China's outward strategic FDI which is providing supplier's credit for strategic assets – in this case, Oil. The next section examines another major Chinese FDI in Brazil, in the mining sector with MMX Mining.

SECTION 5.3 MMX MINING – CASE STUDY

MMX is a junior mining company in Brazil incorporated in 2005 with three green field projects centered on iron ore and steel products organized into the following systems: MMX Corumbá System, MMX Amapá System, and MMX Minas-Rio System. In July 2006, MMX launched its Initial Public Offering (IPO) on the São Paulo Stock Exchange, to raise about US$509 Million for the development of its projects.

On June, 22 2009, a Notice to Investor was issued to inform their shareholders and the market in general that MMX and Wuhan Iron and Steel Group Company of China (WISCO) executed a Share Subscription Agreement to purchase newly issued common shares of MMX in a private share issuance at a total subscription of US$400 Million, allowing WISCO to achieve an equity participation in MMX's capital stock of 21.52 per cent. Based on MMX, WISCO has also entered into agreement for Iron Ore Purchase and Sale Contract to sell at least 50% of the iron ore at MMX's Serra Azul Mines with the possibility to extend this to at least 50% of the iron to be produced at their Sudeste's Bom Sucesso Mines which could ultimately result in combined export of at least 16 Millions tonnes of iron ore per year to WISCO.

The Iron Ore Purchase and Sale Contract shall be valid for a term of 20 years from April 1st, 2010. During the same period MMX also entered into Cooperation Agreement with WISCO which establishes the key terms of a potential joint venture between MMX and WISCO for the construction of an integrated 5 (five) million tonnes steel plant at Açu Super Port Industrial District where WISCO will use its best endeavors to seek financing for the steel plant from China Development Bank for this agreement where both companies are to jointly pursue capitalization opportunities for the steel plant via capital markets transactions.

This transaction will allow for WISCO to hold 70% of the joint venture's voting and MMX reported that "This is a historic transaction that marks the largest equity investment by a Chinese industrial company in Brazil ever". The President of WISCO also indicated that "The cooperation from both sides on the underlying project is of great significance and the cooperation on the project is beneficial to secure the supply of iron ore resources to WISCO, beneficial to capitalize the respective core competitive advantages from WISCO and MMX to further advance the economic and social developments of Brazil" (MMX, 2010).

After reviewing the financial statements for MMX for 2009, it is clear the injection of US$400 Million by Chinese company has not taken effect (Table 5-2). It is clear that the agreement between WISCO and MMX was to ensure supply of iron ore for Chinese steel plant in China in the future. This is another good example of China's outward FDI in securing strategic-assets.

Appendix A, details the financial statement for PETROBRAS, Exxon-Mobil and MMX Mining.

Table 5-2 MMX Financial Statement – 2009 (Quarterly)

Consolidated - Balance Sheet Assets			
Millions (US$)	2009Q1	2009Q2	2009Q3
Total Assets	1,969.0	2,081.3	1,799.8
Current Assets	409.7	652.4	354.3
Cash	81.9	247.1	62.8
Credits	194.5	168.5	188.2
Inventories	133.3	135.7	102.2
Others	0.0	101.1	1.1
Non-current assets	1,559.3	1,428.9	1,445.5
Long-term Assets	170.1	168.9	195.5
Sundry Credits	30.4	35.1	69.9
Credits with Related Parties	1.5	1.5	0.9
Others	138.1	132.3	124.7
Permanent Assets	1,389.3	1,260.0	1,250.1
Investments	0.0	0.0	0.0
PP&E	407.9	289.2	290.3
Intangible	954.2	944.3	937.0
Deferred Items	27.1	26.4	22.8
Consolidated - Balance Sheet Liabilities			
Millions (US$)	1Q09	2Q09	3Q09
Total Liabilities and Stockholders' Equity	1,969.0	2,081.3	1,799.8
Current Liabilities	1,211.6	1,328.0	1,061.4
Loans and Financing	489.1	642.4	677.7
Debentures	0.0	0.0	0.0
Suppliers	43.2	72.5	52.6
Taxes, Charges and Contributions	30.0	28.8	24.9
Dividends Payable	0.0	0.0	0.0
Provisions	345.3	304.9	29.0
Debt with Related Parties	1.2	2.1	0.6
Others	302.8	277.3	276.8
Current Liabilities	1,012.0	995.8	1,021.5
Long-term Liabilities	1,012.0	995.8	1,021.5
Loans and Financing	808.8	440.7	403.5
Debentures	0.0	357.2	453.6
Provisions	0.0	0.0	0.0
Debt with Related Parties	0.0	0.0	0.0
Others	203.1	198.0	164.4
Deferred Income	0.0	0.0	0.0

Minority Interests	(46.8)	(57.7)	(64.8)
Stockholders' Equity	(207.7)	(184.7)	(218.3)
Paid-up Capital	775.9	775.9	776.0
Capital Reserves	12.2	14.0	14.4
Revaluation Reserves	0.0	0.0	0.0
Revenue Reserves	0.0	0.0	0.0
Retained Earnings/Losses	(1,005.2)	(978.6)	(1,005.8)
Consolidated - Income Statement Accrued			
Millions (US$)	1Q09	2Q09	3Q09
Gross Sales Revenues	92.1	140.4	253.2
Deductions from Gross Revenue	(5.2)	(11.3)	(19.5)
Net Sales Revenues	86.9	129.1	233.7
Cost of Goods Sold and/or Services Rendered	(100.3)	(128.3)	(166.6)
Operating Expenses/Revenues	(13.4)	0.8	67.2
Operating Expenses/Revenues	(142.1)	(118.1)	(206.4)
Selling	(48.1)	(143.3)	(216.8)
General and Administrative	(26.7)	(57.7)	(116.7)
Financial	21.4	211.6	272.7
Other Operating Revenues	1.8	3.9	4.6
Other Operating Expenses	(90.6)	(132.6)	(150.2)
Equity Income	0.0	0.0	0.0
Gross Income	(155.6)	(117.4)	(139.2)
Operating Expenses/Revenues	0.0	0.0	0.0
Operating Result	(155.6)	(117.4)	(139.2)
Non-operating Result	(3.6)	(3.2)	(0.4)
Income before Taxes/Participations	0.0	(23.0)	(38.2)
Provision for Income Tax and Social Contribution	0.0	0.0	0.0
Deferred Income Tax	0.0	0.0	0.0
Profit Sharing/Contributions	10.8	21.8	28.9
Reversal of Interest on Equity	(148.3)	(121.7)	(148.9)
Source: MMX 2010, http://mmx.infoinvest.com.br/enu/PI_PLANILHA_DRE_C_AA-enu.html			

SECTION 5.4 CONCLUSIONS

The study has been cast in the background of increasing economic interface between China and Brazil. China has replaced US as the major trading partner in recent years. Chinese enterprise has invested around US$100 Million in Brazil up to end of 2007, mainly in the mining, telecommunication, real estate and other areas. Using the case study of PETROBRAS and MMX mining, it was evident the motives, entry modes and benefit Chinese outward investment in Brazil to China.

In the case of PETROBRAS agreement, the mode of outward FDI was in the form of supplier's credit to PETROBRAS in return for supply of oil and gas for Chinese companies. On the other hand, in the case of MMX financial arrangement, the Chinese firm took some ownership interest in the Brazilian company (MMX) in return for again supply of iron ore, a crucial raw material for Chinese steel plants. These investments have blurred the traditional distinction between investments (in share capital) and supply contracts (suppliers' credit). The benefits it brings to Chinese companies are apparent – it ensures supply of raw materials which is a strategic assets securing a future for development of their country. By supplying capital to overseas business enterprises including friendly countries like Brazil, the Chinese government is able to deploy its excess reserves and ensure economic security for the future. By using the strategic acquisition route, whether Chinese government will be able to convert the Chinese companies into global icons similar to Japanese and Korean trading houses will be a discussion for many economists, financial analysts, corporations and researchers in the near future.

CHAPTER 6.0 CONCLUSION AND OBSERVATIONS

The remarkable Chinese economic growth of around 10 per cent per annum since the late 70's has been facilitated by a strategy of promoting exports and attracting foreign capital. Multinational companies from the US, Japan, and Europe have led their way in using China as off shoring platform for the labor-intensive stages of goods production. With the current financial crisis, there has been a shortage of capital throughout the world. China with a current account surplus of 6-7 per cent of GDP has accumulated more reserves than any country in the world (to the tune of US$ 300 Trillion). Given its standing as one of the major suppliers of global capital, Chinese government in recent years has been pursuing a policy of "outward FDI" under which some of the state-owned Chinese enterprises have been provided with soft capital to become global leaders on the lines of Japanese and Korean trading houses. The current financial crisis has provided Chinese government with an opportunity to provide capital to capital-starved companies in the developed and developing world.

The analytical framework of internationalization theory suggests that one should look into the motivations for internationalization and the literature identifies the following drivers of internationalization process: (a) Market-seeking FDI, (b) Resource-seeking FDI, (c) Efficiency seeking FDI and (d) Strategic asset-seeking FDI. Using the case study of PETROBRAS and MMX Mining in Brazil, the study found that major driver of investment by Chinese companies is acquisition of strategic assets, for the future development of China. In the case of PETROBRAS, the mode of investment was suppliers' credit rather than the traditional FDI or portfolio investment. In the case of MMX, it was stake in the equity capital of the firm. Thus, the modern modes of outward FDI by Chinese firms are more roundabout forms rather than the traditional modes of Foreign Direct Investment and Foreign Portfolio Investments.

The new modes of financing like supplier credit route allows China, especially the Chinese Development Bank to provide funding in developed and developing countries like Brazil and remove constraints of capital. China is particularly interested in Latin America for its natural resource assets and currently the second largest trading and investment partner in Brazil, surpassing US. Two natural resources companies were evaluated in this study where PETROBRAS, Brazilian state owned Oil and Gas Company and MMX Mining, a private holding of Iron Ore Company were analyzed. China Development Bank and SINOPEC, state-owned, entered in an agreement to provide supplier credit PETROBRAS Brazil for future exchange of oil. At the same period SINOPEC is the beneficiaries of a year's supply of 100,000 bpd. In 2009, WISCO executed a share purchase agreement on MMX Mining in exchange for 50% of the iron ore produced by their Brazilian operations.

These investments have blurred the traditional distinction between investments (in share capital) and supply contracts (suppliers' credit). The benefits it brings to Chinese companies are apparent – it ensures supply of raw materials (strategic assets) which are required for future development of the country. By supplying capital to overseas business enterprises including friendly countries like Brazil, the Chinese government is able to deploy its excess reserves and ensure its future economic security.

Supplier's credit route of outward investment on strategic assets enable China, its government, wholly-owned subsidiaries and private companies to meets it "Go Global" policy to invest internationally without facing typical challenges and criticisms of international business for misalignment in business culture, partnering goals, strategy, management issues and the past perception of their communist governing structure.

Supplier's credit enables a lot of Chinese companies to go global, no wonder this is one of China's current internationalization approach compared to traditional outward FDI or FPI studies by most researchers.

At the current stage the absence of reliable published data and the relative secrecy of such strategic deals have made research into this area rather difficult, non-transparency, and challenging. This study contributes to the literature on "outward FDI" and aims to fill data gaps in this area by undertaking the Brazilian case studies. The area of supplier's credit requires further studies to fully understand the strategic behavioral variables, it distribution frequency amongst traditional entry modes, their trends, monetary values leaving China to host countries and sectors invested.

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APPENDIX A

PETROBRAS
FINANCIAL STATEMENT

PETROBRAS
FINANCIAL STATEMENT

Consolidated - Balance Sheet Assets
(US$ x 1000)

Account	3Q09	2Q09	1Q09	4Q08
Total Assets	187,807,079.820	156,482,133.009	131,535,737.370	125,059,430.761
Current Assets	42,603,419.227	29,537,388.616	27,754,187.338	27,213,114.473
Cash	16,929,210.599	5,163,093.243	8,439,493.760	6,801,042.722
Credits	7,676,425.476	7,461,179.225	6,153,400.994	6,379,476.075
Inventories	11,610,355.594	10,085,373.993	7,758,872.420	8,551,139.033
Others	6,387,427.558	6,827,742.155	5,402,420.165	5,481,456.642
Non-current assets	145,203,660.593	126,944,744.392	103,781,550.032	97,846,316.288
Long-term Assets	14,181,107.859	12,529,419.072	10,009,057.390	9,098,040.840
Sundry Credits	5,083,443.988	3,870,227.201	3,199,860.498	2,594,653.712
Credits with Related Parties	66,387.217	71,240.006	69,141.031	61,669.806
Others	9,031,276.655	8,587,951.865	6,740,055.861	6,441,717.322
Permanent Assets	131,022,552.734	114,415,325.320	93,772,492.642	88,748,275.448
Investments	3,144,631.182	2,818,974.863	2,196,672.180	2,185,812.432
PP&E	122,588,788.599	106,542,477.536	86,772,431.591	81,651,471.233
Intangible	3,870,455.184	3,721,668.144	3,390,026.851	3,425,739.664
Deferred Items	1,418,677.769	1,332,204.776	1,413,362.020	1,485,252.120

Consolidated - Balance Sheet Liabilities
(US$ x 1000)

Account	3Q09	2Q09	1Q09	4Q08
Total Liabilities and Stockholders' Equity	187,807,079.820	156,482,133.009	131,535,737.370	125,059,430.761
Current Liabilities	29,436,331.511	28,571,546.882	27,473,393.607	26,777,314.027
Loans and Financing	5,752,668.654	6,470,352.868	6,492,137.174	5,682,076.452
Debentures	0.000	0.000	0.000	0.000
Suppliers	8,334,920.947	7,432,243.403	6,862,130.699	7,288,579.320
Taxes, Charges and Contributions	5,693,597.029	6,551,551.866	5,294,856.215	5,453,891.793
Dividends Payable	2,346,868.283	3,086,800.891	4,161,413.833	4,243,946.154
Provisions	3,271,187.756	1,763,288.447	1,970,277.862	1,954,737.609
Debt with Related Parties	0.000	0.000	0.000	0.000
Others	4,037,088.842	3,267,309.406	2,692,577.823	2,154,082.699
Current Liabilities	68,335,757.040	49,100,918.519	40,588,584.393	37,919,837.789
Long-term Liabilities	68,335,757.040	49,100,918.519	40,588,584.393	37,919,837.789
Loans and Financing	44,582,690.593	28,324,993.665	23,314,299.165	21,423,440.213
Debentures	0.000	0.000	0.000	0.000
Provisions	18,041,693.016	15,373,993.691	12,638,922.198	11,911,530.697
Debt with Related Parties	28,733.472	25,988.826	21,715.780	21,097.937
Others	5,682,639.959	5,375,942.337	4,613,647.250	4,563,768.943
Deferred Income	0.000	0.000	0.000	0.000
Minority Interests	2,603,663.984	1,996,067.314	1,078,825.201	1,135,636.504
Stockholders' Equity	87,431,327.285	76,813,600.294	62,394,934.170	59,226,642.440
Paid-up Capital	44,430,704.435	40,479,133.354	34,119,725.391	33,801,340.227
Capital Reserves	289,684.915	263,920.963	222,458.093	220,382.245
Revaluation Reserves	5,467.844	5,085.093	4,377.809	4,402.020
Revenue Reserves	33,121,403.249	30,174,994.233	25,407,055.857	25,101,895.826
Retained Eamings/Losses	9,264,819.107	5,596,886.572	2,512,929.531	0.000

Consolidated - Income Statement Accrued
(US$ x 1000)

Account	3Q09	2Q09	1Q09	4Q08
Gross Sales Revenues	95,499,526.800	56,113,849.320	23,148,724.931	114,071,603.514
Deductions from Gross Revenue	-19,498,184.322	-11,414,459.535	-4,744,139.389	-21,991,072.693
Net Sales Revenues	76,001,342.478	44,699,389.785	18,404,585.542	92,080,530.822
Cost of Goods Sold and/or Services Rendered	-44,679,502.612	-25,832,206.530	-11,139,072.966	-60,621,247.782
Operating Expenses/Revenues	31,321,839.866	18,867,183.255	7,265,512.577	31,459,283.039
Operating Expenses/Revenues	-13,276,844.088	-8,200,846.051	-3,376,636.339	-10,825,434.043
Selling	-3,019,508.243	-1,850,518.817	-805,453.696	-3,065,775.192
General and Administrative	-3,124,191.189	-1,838,784.656	-757,439.955	-3,102,199.300
Financial	-935,382.321	-586,906.927	-187,428.279	-299,077.990
Other Operating Revenues	0.000	0.000	0.000	0.000
Other Operating Expenses	-6,373,030.439	-3,925,633.190	-1,466,025.779	-3,984,176.442
Equity Income	175,268.103	997.540	-160,288.631	-374,205.120
Gross Income	18,044,995.778	10,666,337.204	3,888,876.238	20,633,848.996
Operating Expenses/Revenues	0.000	0.000	0.000	0.000
Operating Result	18,044,995.778	10,666,337.204	3,888,876.238	20,633,848.996
Non-operating Result	-4,836,750.689	-3,199,846.825	-1,032,595.940	-4,790,696.860
Income before Taxes/Participations	295,116.750	616,957.164	-195,616.146	-2,041,756.272
Provision for Income Tax and Social Contribution	0.000	0.000	0.000	-575,518.363
Deferred Income Tax	0.000	0.000	0.000	0.000
Profit Sharing/Contributions	-1,770,488.381	-1,137,441.596	-147,800.297	894,399.881
Reversal of Interest on Equity	11,732,873.458	6,946,005.948	2,512,863.855	14,120,277.380

Source: PETROBRAS,
http://petrobrasri.infoinvest.com.br/modulos/balancos_interativos.asp?area=&codcvm=009512

PETROBRAS
FINANCIAL STATEMENT

Consolidated - Balance Sheet Assets
(US$ x 1000)

Account	3Q08	2Q08	1Q08	4Q07
Total Assets	142,118,924.438	157,290,139.237	137,205,476.173	130,600,286.486
Current Assets	33,908,699.059	37,712,764.030	31,305,454.080	30,146,155.136
Cash	5,631,633.799	6,942,522.881	6,611,914.596	7,382,575.209
Credits	8,844,777.335	9,805,078.386	7,404,661.284	6,398,738.974
Inventories	13,575,544.636	14,454,505.264	11,093,850.303	9,940,130.782
Others	5,856,743.290	6,510,657.499	6,195,027.896	6,424,710.170
Non-current assets	108,210,225.379	119,577,375.207	105,900,022.093	100,454,131.351
Long-term Assets	11,659,468.810	13,828,117.850	12,484,166.073	12,438,767.404
Sundry Credits	3,257,086.574	4,062,005.588	3,557,314.623	3,827,505.909
Credits with Related Parties	67,778.418	384,001.640	482,096.334	479,385.499
Others	8,334,603.818	9,382,110.622	8,444,755.116	8,131,875.995
Permanent Assets	96,550,756.570	105,749,257.357	93,415,856.020	88,015,363.947
Investments	4,056,347.634	4,808,585.952	4,484,880.281	4,418,002.962
PP&E	87,890,165.286	95,702,166.522	84,072,279.742	79,040,231.783
Intangible	3,364,467.292	3,614,643.380	3,281,786.389	3,124,571.123
Deferred Items	1,239,776.358	1,623,861.502	1,576,909.609	1,432,558.079

Consolidated - Balance Sheet Liabilities
(US$ x 1000)

Account	3Q08	2Q08	1Q08	4Q07
Total Liabilities and Stockholders' Equity	142,118,924.438	157,290,139.237	137,205,476.173	130,600,286.486
Current Liabilities	27,357,087.186	27,992,742.524	24,216,416.552	26,859,651.220
Loans and Financing	6,043,614.473	5,217,258.574	4,117,657.256	4,801,598.569
Debentures	0.000	0.000	0.000	0.000
Suppliers	9,104,007.548	10,473,391.513	8,356,006.615	7,789,437.126
Taxes, Charges and Contributions	7,135,869.531	7,183,747.195	5,838,358.551	5,651,664.678
Dividends Payable	0.000	0.000	1,196,020.164	3,716,778.992
Provisions	1,715,025.912	2,165,466.060	1,823,124.223	2,053,018.421
Debt with Related Parties	0.000	0.000	0.000	0.000
Others	3,358,569.722	2,952,879.182	2,885,249.743	2,847,153.435
Current Liabilities	38,118,201.648	43,640,857.257	40,303,592.496	35,872,672.682
Long-term Liabilities	37,193,299.613	42,229,083.622	39,312,038.962	35,872,672.682
Loans and Financing	18,541,647.715	20,395,732.172	19,839,079.601	16,835,125.632
Debentures	0.000	0.000	0.000	0.000
Provisions	14,382,192.161	17,077,363.701	15,169,106.940	14,021,492.107
Debt with Related Parties	71,299.192	90,453.147	54,451.183	53,467.384
Others	4,198,160.546	4,665,534.602	4,249,401.239	4,962,587.560
Deferred Income	924,902.036	1,411,773.636	991,553.534	0.000
Minority Interests	3,244,747.404	4,135,630.126	3,569,453.272	3,561,760.631
Stockholders' Equity	73,398,888.200	81,520,909.330	69,116,013.853	64,306,201.953
Paid-up Capital	41,268,195.980	49,630,250.843	30,111,800.787	29,734,234.196
Capital Reserves	269,065.593	323,585.574	888,766.824	877,622.733
Revaluation Reserves	7,353.541	9,584.564	29,269.005	34,747.248
Revenue Reserves	17,949,009.079	21,655,748.531	34,119,232.106	33,659,597.776
Retained Earnings/Losses	13,905,264.006	9,901,739.817	3,966,945.131	0.000

Consolidated - Income Statement Accrued
(US$ x 1000)

Account	3Q08	2Q08	1Q08	4Q07
Gross Sales Revenues	105,200,418.143	80,208,105.591	33,801,192.860	123,272,624.015
Deductions from Gross Revenue	-20,025,168.003	-15,599,171.863	-7,012,097.641	-26,928,240.886
Net Sales Revenues	85,175,250.140	64,608,933.728	26,789,095.218	96,344,383.129
Cost of Goods Sold and/or Services Rendered	-54,373,258.241	-40,212,012.385	-16,882,811.152	-58,965,290.179
Operating Expenses/Revenues	30,801,991.899	24,396,921.343	9,906,284.066	37,379,092.950
Operating Expenses/Revenues	-9,449,661.594	-7,928,195.700	-3,385,350.997	-17,306,069.448
Selling	-2,618,798.081	-2,111,911.286	-891,230.932	-3,422,611.799
General and Administrative	-2,656,498.630	-1,992,602.630	-888,260.618	-3,630,551.935
Financial	-462,607.799	-251,526.620	-34,149.174	-493,839.609
Other Operating Revenues	0.000	0.000	0.000	0.000
Other Operating Expenses	-3,833,118.990	-3,911,815.780	-1,583,366.167	-9,496,273.666
Equity Income	121,361.905	339,660.617	11,655.895	-262,792.440
Gross Income	21,352,330.305	16,468,725.643	6,520,933.069	20,073,023.502
Operating Expenses/Revenues	0.000	0.000	0.000	0.000
Operating Result	21,352,330.305	16,468,725.643	6,520,933.069	20,073,023.502
Non-operating Result	-6,912,996.779	-4,749,193.078	-1,846,730.012	-6,097,443.850
Income before Taxes/Participations	-508,352.247	-779,585.204	-401,766.869	-269,547.594
Provision for Income Tax and Social Contribution	0.000	0.000	0.000	-571,541.390
Deferred Income Tax	0.000	0.000	0.000	0.000
Profit Sharing/Contributions	73,922.657	-283,282.639	-131,718.244	-984,369.418
Reversal of Interest on Equity	14,004,903.936	10,656,664.722	4,140,717.944	12,150,121.249

Source: PETROBRAS, http://petrobrasri.infoinvest.com.br/modulos/balancos_interativos.asp?area=&codcvm=009

PETROBRAS
FINANCIAL STATEMENT

Consolidated - Balance Sheet Assets
(US$ x 1000)

Account	3Q07	2Q07	1Q07
Total Assets	118,108,357.073	109,528,121.405	101,274,047.888
Current Assets	29,433,305.740	29,911,522.510	29,110,501.230
Cash	7,734,305.172	9,272,848.149	9,983,751.043
Credits	6,385,678.297	6,117,767.158	7,012,529.176
Inventories	9,451,803.172	8,811,254.719	7,350,415.612
Others	5,861,519.098	5,709,652.484	4,763,805.398
Non-current assets	88,675,051.334	79,616,598.895	72,163,546.658
Long-term Assets	11,663,838.478	9,205,473.059	8,418,647.034
Sundry Credits	3,493,109.816	1,616,692.100	1,425,368.932
Credits with Related Parties	161,231.710	184,138.359	116,169.503
Others	8,009,496.952	7,404,642.600	6,877,108.599
Permanent Assets	77,011,212.855	70,411,125.836	63,744,899.625
Investments	2,574,596.655	2,500,898.490	2,181,357.947
PP&E	70,308,383.688	63,887,734.915	57,716,292.732
Intangible	2,900,913.512	2,850,982.625	2,746,047.674
Deferred Items	1,227,319.000	1,171,509.805	1,101,201.271

Consolidated - Balance Sheet Liabilities
(US$ x 1000)

Account	3Q07	2Q07	1Q07
Total Liabilities and Stockholders' Equity	118,108,357.073	109,528,121.405	101,274,047.888
Current Liabilities	22,806,702.569	21,090,656.802	19,779,749.344
Loans and Financing	5,450,972.329	5,325,806.534	5,545,298.903
Debentures	0.000	0.000	0.000
Suppliers	6,244,338.867	6,176,515.989	4,657,364.135
Taxes, Charges and Contributions	4,779,414.726	4,720,432.592	4,650,909.705
Dividends Payable	2,386,724.391	1,139,253.651	771,841.378
Provisions	1,317,912.006	1,099,751.210	883,818.355
Debt with Related Parties	0.000	0.000	0.000
Others	2,627,340.250	2,628,896.827	3,270,516.868
Current Liabilities	31,356,256.114	29,389,746.780	28,116,178.380
Long-term Liabilities	30,754,477.633	28,765,628.681	27,924,424.856
Loans and Financing	14,742,936.533	14,327,322.495	15,023,728.881
Debentures	0.000	0.000	0.000
Provisions	13,393,957.120	11,891,812.495	10,677,891.890
Debt with Related Parties	52,258.311	51,369.585	52,639.054
Others	2,565,325.669	2,495,124.106	2,170,165.031
Deferred Income	601,778.481	624,118.099	191,753.524
Minority Interests	3,654,402.458	3,329,992.696	3,735,525.188
Stockholders' Equity	60,290,995.932	55,717,725.126	49,642,594.976
Paid-up Capital	28,640,694.873	27,342,089.690	23,548,002.384
Capital Reserves	769,181.782	667,803.047	181,530.065
Revaluation Reserves	33,155.977	32,609.847	31,525.177
Revenue Reserves	24,280,194.797	21,997,923.854	23,866,159.115
Retained Earnings/Losses	6,567,768.503	5,677,298.688	2,015,378.235

Consolidated - Income Statement Accrued
(US$ x 1000)

Account	3Q07	2Q07	1Q07
Gross Sales Revenues	87,227,007.123	53,889,936.633	24,457,064.690
Deductions from Gross Revenue	-19,134,547.539	-11,980,660.006	-5,480,459.907
Net Sales Revenues	68,092,459.584	41,909,276.626	18,976,604.784
Cost of Goods Sold and/or Services Rendered	-41,044,790.156	-25,023,902.323	-11,559,321.486
Operating Expenses/Revenues	27,047,669.428	16,885,374.304	7,417,283.297
Operating Expenses/Revenues	-12,403,992.459	-7,576,142.027	-3,734,634.283
Selling	-2,444,248.467	-1,484,130.556	-690,340.105
General and Administrative	-2,501,438.501	-1,580,404.576	-753,972.036
Financial	-413,686.425	-295,103.872	-97,158.475
Other Operating Revenues	0.000	0.000	0.000
Other Operating Expenses	-6,832,525.051	-4,119,227.134	-2,152,116.630
Equity Income	-212,094.015	-97,275.890	-41,047.036
Gross Income	14,643,676.969	9,309,232.277	3,682,649.014
Operating Expenses/Revenues	-47,743.323	26,749.247	13,084.993
Operating Result	14,595,933.646	9,335,981.524	3,695,734.007
Non-operating Result	-4,576,835.971	-3,452,374.538	-1,396,394.008
Income before Taxes/Participations	-273,044.455	265,522.486	-51,661.791
Provision for Income Tax and Social Contribution	0.000	0.000	0.000
Deferred Income Tax	0.000	0.000	0.000
Profit Sharing/Contributions	-791,560.326	-471,830.784	-232,299.974
Reversal of Interest on Equity	8,954,492.895	5,677,298.688	2,015,378.235

Source: PETROBRAS, http://petrobrasri.infoinvest.com.br/modulos/balancos_interativos.asp?area=&codcvm=009512

EXXON MOBIL
FINANCIAL STATEMENT

SUMMARY STATEMENT OF INCOME

millions of dollars)	2008	2007	2006
Revenues and Other Income			
Sales and other operating revenue[1]	**459,579**	390,328	365,467
ncome from equity affiliates	**11,081**	8,901	6,985
Other income[2]	**6,699**	5,323	5,183
otal revenues and other income	**477,359**	404,552	377,635
Costs and Other Deductions			
Crude oil and product purchases	**249,454**	199,498	182,546
roduction and manufacturing expenses	**37,905**	31,885	29,528
elling, general and administrative expenses	**15,873**	14,890	14,273
epreciation and depletion	**12,379**	12,250	11,416
xploration expenses, including dry holes	**1,451**	1,469	1,181
terest expense	**673**	400	654
ales-based taxes[1]	**34,508**	31,728	30,381
ther taxes and duties	**41,719**	40,953	39,203
come applicable to minority interests	**1,647**	1,005	1,051
otal costs and other deductions	**395,609**	334,078	310,233
come before income taxes	**81,750**	70,474	67,402
come taxes	**36,530**	29,864	27,902
et income	**45,220**	40,610	39,500
et Income per Common Share *(dollars)*	**8.78**	7.36	6.68
et Income per Common Share – Assuming Dilution *(dollars)*	**8.69**	7.28	6.62

Sales and other operating revenue includes sales-based taxes of $34,508 million for 2008, $31,728 million for 2007, and $30,381 million for 2006.
Other income for 2008 includes a $62 million gain from the sale of a non-U.S. investment and a related $143 million foreign exchange loss.

e information in the Summary Statement of Income (for 2006 to 2008), the Summary Balance Sheet (for 2007 and 2008), and the Summary Statement of Cash Flows (for 2006 2008), shown on pages 38 through 40, corresponds to the information in the Consolidated Statement of Income, Consolidated Balance Sheet, and the Consolidated Statement Cash Flows in the financial statements of ExxonMobil's 2009 Proxy Statement. For complete consolidated financial statements, including notes, please refer to Appendix A of xonMobil's 2009 Proxy Statement. See also Management's Discussion and Analysis of Financial Condition and Results of Operations and other information Appendix A of the 2009 Proxy Statement.

SUMMARY BALANCE SHEET AT YEAR END

(millions of dollars)	2008	2007
Assets		
Current assets		
Cash and cash equivalents	**31,437**	33,981
Marketable securities	**570**	519
Notes and accounts receivable, less estimated doubtful amounts	**24,702**	36,450
Inventories		
Crude oil, products and merchandise	**9,331**	8,863
Materials and supplies	**2,315**	2,226
Other current assets	**3,911**	3,924
Total current assets	**72,266**	85,963
Investments, advances, and long-term receivables	**28,556**	28,194
Property, plant and equipment, at cost, less accumulated depreciation and depletion	**121,346**	120,869
Other assets, including intangibles, net	**5,884**	7,056
Total assets	**228,052**	242,082
Liabilities		
Current liabilities		
Notes and loans payable	**2,400**	2,383
Accounts payable and accrued liabilities	**36,643**	45,275
Income taxes payable	**10,057**	10,654
Total current liabilities	**49,100**	58,312
Long-term debt	**7,025**	7,183
Postretirement benefits reserves	**20,729**	13,278
Deferred income tax liabilities	**19,726**	22,899
Other long-term obligations	**13,949**	14,366
Equity of minority interests	**4,558**	4,282
Total liabilities	**115,087**	120,320
Commitments and contingencies(1)		
Shareholders' Equity		
Common stock without par value	**5,314**	4,933
Earnings reinvested	**265,680**	228,518
Accumulated other comprehensive income		
Cumulative foreign exchange translation adjustment	**1,146**	7,972
Postretirement benefits reserves adjustment	**(11,077)**	(5,983)
Common stock held in treasury	**(148,098)**	(113,678)
Total shareholders' equity	**112,965**	121,762
Total liabilities and shareholders' equity	**228,052**	242,082

(1) For more information, please refer to Appendix A, Note 15 of ExxonMobil's 2009 Proxy Statement.

The information in the Summary Statement of Income (for 2006 to 2008), the Summary Balance Sheet (for 2007 and 2008), and the Summary Statement of Cash Flows (for 2006 to 2008), shown on pages 38 through 40, corresponds to the information in the Consolidated Statement of Income, Consolidated Balance Sheet, and the Consolidated Statement of Cash Flows in the financial statements of ExxonMobil's 2009 Proxy Statement. For complete consolidated financial statements, including notes, please refer to Appendix A of ExxonMobil's 2009 Proxy Statement. See also Management's Discussion and Analysis of Financial Condition and Results of Operations and other information in Appendix A of the 2009 Proxy Statement.

SUMMARY STATEMENT OF CASH FLOWS

(millions of dollars)	2008	2007	2006
Cash Flows from Operating Activities			
Net income			
Accruing to ExxonMobil shareholders	**45,220**	40,610	39,500
Accruing to minority interests	**1,647**	1,005	1,051
Adjustments for noncash transactions			
Depreciation and depletion	**12,379**	12,250	11,416
Deferred income tax charges/(credits)	**1,399**	124	1,717
Postretirement benefits expense in excess of/(less than) payments	**57**	(1,314)	(1,787)
Other long-term obligation provisions in excess of/(less than) payments	**(63)**	1,065	(666)
Dividends received greater than/(less than) equity in current earnings of equity companies	**921**	(714)	(579)
Changes in operational working capital, excluding cash and debt			
Reduction/(increase) – Notes and accounts receivable	**8,641**	(5,441)	(181)
– Inventories	**(1,285)**	72	(1,057)
– Other current assets	**(509)**	280	(385)
Increase/(reduction) – Accounts and other payables	**(5,415)**	6,228	1,160
Net (gain) on asset sales	**(3,757)**	(2,217)	(1,531)
All other items – net	**490**	54	628
Net cash provided by operating activities	**59,725**	52,002	49,286
Cash Flows from Investing Activities			
Additions to property, plant and equipment	**(19,318)**	(15,387)	(15,462)
Sales of subsidiaries, investments, and property, plant and equipment	**5,985**	4,204	3,080
Decrease in restricted cash and cash equivalents	**-**	4,604	–
Additional investments and advances	**(2,495)**	(3,038)	(2,604)
Collection of advances	**574**	391	756
Additions to marketable securities	**(2,113)**	(646)	–
Sales of marketable securities	**1,868**	144	–
Net cash used in investing activities	**(15,499)**	(9,728)	(14,230)
Cash Flows from Financing Activities			
Additions to long-term debt	**79**	592	318
Reductions in long-term debt	**(192)**	(209)	(33)
Additions to short-term debt	**1,067**	1,211	334
Reductions in short-term debt	**(1,624)**	(809)	(451)
Additions/(reductions) in debt with three months or less maturity	**143**	(187)	(95)
Cash dividends to ExxonMobil shareholders	**(8,058)**	(7,621)	(7,628)
Cash dividends to minority interests	**(375)**	(289)	(239)
Changes in minority interests and sales/(purchases) of affiliate stock	**(419)**	(659)	(493)
Tax benefits related to stock-based awards	**333**	369	462
Common stock acquired	**(35,734)**	(31,822)	(29,558)
Common stock sold	**753**	1,079	1,173
Net cash used in financing activities	**(44,027)**	(38,345)	(36,210)
Effects of exchange rate changes on cash	**(2,743)**	1,808	727
Increase/(decrease) in cash and cash equivalents	**(2,544)**	5,737	(427)
Cash and cash equivalents at beginning of year	**33,981**	28,244	28,671
Cash and cash equivalents at end of year	**31,437**	33,981	28,244

The information in the Summary Statement of Income (for 2006 to 2008), the Summary Balance Sheet (for 2007 and 2008), and the Summary Statement of Cash Flows (for 2006 to 2008), shown on pages 38 through 40, corresponds to the information in the Consolidated Statement of Income, Consolidated Balance Sheet, and the Consolidated Statement of Cash Flows in the financial statements of ExxonMobil's 2009 Proxy Statement. For complete consolidated financial statements, including notes, please refer to Appendix A of ExxonMobil's 2009 Proxy Statement. See also Management's Discussion and Analysis of Financial Condition and Results of Operations and other information in Appendix A of the 2009 Proxy Statement.

DIVIDEND AND SHAREHOLDER RETURN INFORMATION

	2008	2007	2006	2005	2004
Net income per common share *(dollars)*	**8.78**	7.36	6.68	5.76	3.91
Net income per common share – assuming dilution *(dollars)*	**8.69**	7.28	6.62	5.71	3.89
Dividends per common share *(dollars)*					
First quarter	**0.35**	0.32	0.32	0.27	0.25
Second quarter	**0.40**	0.35	0.32	0.29	0.27
Third quarter	**0.40**	0.35	0.32	0.29	0.27
Fourth quarter	**0.40**	0.35	0.32	0.29	0.27
Total	**1.55**	1.37	1.28	1.14	1.06
Dividends per share growth *(annual percent)*	**13.1**	7.0	12.3	7.5	8.2
Number of common shares outstanding *(millions)*					
Average	**5,149**	5,517	5,913	6,266	6,482
Average – assuming dilution	**5,203**	5,577	5,970	6,322	6,519
Year end	**4,976**	5,382	5,729	6,133	6,401
Cash dividends paid on common stock *(millions of dollars)*	**8,058**	7,621	7,628	7,185	6,896
Cash dividends paid to net income *(percent)*	**18**	19	19	20	27
Cash dividends paid to cash flow[1] *(percent)*	**13**	15	15	15	17
Total return to shareholders *(annual percent)*	**(13.2)**	24.3	39.2	11.7	27.9
Market quotations for common stock *(dollars)*					
High	**96.12**	95.27	79.00	65.96	52.05
Low	**56.51**	69.02	56.42	49.25	39.91
Average daily close	**82.68**	83.23	65.35	58.24	45.29
Year-end close	**79.83**	93.69	76.63	56.17	51.26

(1) Net cash provided by operating activities.

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Consolidated - Balance Sheet Assets Millions (US$)	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08
Total Assets	1,791.5	2,011.2	3,006.2	3,989.5	4,713.3	1,894.6	2,177.9
Current Assets	989.0	976.1	1,784.6	1,749.7	1,789.4	809.7	603.0
Cash	728.1	747.8	1,515.0	1,424.9	1,430.3	528.6	239.6
Credits	209.7	105.9	138.2	169.4	225.4	140.3	205.5
Inventories	49.7	121.9	131.3	154.0	132.0	140.8	157.8
Others	1.5	0.5	0.2	1.4	1.8	0.0	0.0
Non-current assets	802.6	1,035.2	1,221.6	2,239.8	2,923.8	1,084.9	1,574.9
Long-term Assets	0.3	55.1	64.1	97.6	185.5	44.9	157.9
Sundry Credits	0.0	23.8	34.2	50.7	55.7	26.8	27.4
Credits with Related Parties	0.0	0.0	0.0	4.4	2.8	3.5	1.2
Others	0.3	31.3	29.9	42.5	127.1	14.6	129.3
Permanent Assets	802.3	980.0	1,157.5	2,142.2	2,738.3	1,040.0	1,417.0
Investments	2.2	2.2	2.4	3.4	3.4	1.2	1.2
PP&E	346.4	561.5	809.1	1,115.1	1,361.2	370.6	407.9
Intangible	298.1	185.4	126.1	744.7	871.5	619.0	956.5
Deferred Items	155.6	231.0	219.9	279.0	502.2	49.2	51.4
Consolidated - Balance Sheet Liabilities Millions (US$)	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08
Total Liabilities and Stockholders' Equity	1,791.5	2,011.2	3,006.2	3,989.5	4,713.3	1,894.6	2,177.9
Current Liabilities	558.9	736.6	970.2	1,220.8	1,793.2	638.9	1,023.4
Loans and Financing	405.8	547.1	712.5	701.9	1,263.6	333.3	436.6
Debentures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Suppliers	73.8	96.8	108.8	129.1	100.7	35.7	48.0
Taxes, Charges and Contributions	18.7	27.7	40.2	61.4	57.3	27.6	25.8
Dividends Payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	66.1	122.9	146.1	5.6	168.4
Debt with Related Parties	0.0	0.0	0.0	0.0	0.0	0.5	1.0
Others	60.6	65.0	42.5	205.4	225.5	236.2	343.6
Current Liabilities	179.8	167.4	104.0	911.5	791.1	483.3	722.3
Long-term Liabilities	179.8	167.4	45.1	911.5	523.6	483.3	722.3
Loans and Financing	125.5	117.4	19.2	388.2	14.8	108.1	340.4
Debentures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt with Related Parties	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	54.3	50.0	25.9	523.2	508.7	375.2	381.9
Deferred Income	0.0	0.0	59.0	0.0	267.5	0.0	0.0
Minority Interests	1.2	51.4	50.0	43.6	131.4	(6.0)	(2.8)
Stockholders' Equity	1,051.6	1,055.9	1,881.9	1,813.7	1,997.6	776.4	435.0
Paid-up Capital	1,142.5	1,142.5	1,142.8	1,142.8	1,142.8	775.8	775.6
Capital Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Reserves	0.0	0.0	0.0	670.9	670.9	0.0	0.0
Retained Earnings/Losses	(90.9)	(86.7)	739.1	0.0	184.0	2.6	(340.8)
Consolidated - Income Statement Accrued Millions (US$)	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08
Gross Sales Revenues	25.4	50.6	109.3	206.8	168.0	269.9	522.8
Deductions from Gross Revenue	(0.3)	(0.6)	(1.0)	(2.7)	(7.9)	(19.7)	(32.4)
Net Sales Revenues	25.1	50.0	108.3	204.1	160.1	250.2	490.2
Cost of Goods Sold and/or Services Rendered	(27.3)	(38.5)	(84.4)	(185.2)	(159.7)	(167.4)	(310.5)
Operating Expenses/Ravenues	(2.2)	11.5	23.9	18.9	0.4	82.8	179.7
Operating Expenses/Revenues	5.0	(5.0)	(22.6)	727.9	160.4	(73.0)	(544.0)
Selling	(3.5)	(35.7)	(50.8)	(66.9)	(33.5)	(69.0)	(132.9)
General and Administrative	(13.4)	(29.6)	(62.0)	(106.0)	(53.0)	(65.7)	(90.5)
Financial	24.9	57.5	86.1	78.3	7.4	63.4	(274.5)
Other Operating Revenues	0.0	2.6	4.1	834.2	254.7	0.0	0.3
Other Operating Expenses	(2.9)	0.0	0.0	(9.8)	(15.2)	(21.6)	(46.3)
Equity Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Income	2.8	6.5	1.4	746.7	160.8	9.7	(364.3)
Operating Expenses/Revenues	0.0	0.0	831.0	0.0	0.0	0.0	0.0
Operating Result	2.8	6.5	832.4	746.7	160.8	9.7	(364.3)
Non-operating Result	(4.2)	(7.7)	(8.7)	(3.7)	(1.2)	(10.6)	(0.9)
Income before Taxes/Participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provision for Income Tax and Social Contribution	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Income Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit Sharing/Contributions	5.2	9.3	10.2	22.6	24.6	3.5	24.4
Reversal of Interest on Equity	3.8	8.1	833.9	765.6	164.2	2.6	(340.8)

Source: MMX 2010, http://mmx.infoinvest.com.br/enu/P1_PLANILHA_DRE_C_AA-enu.html

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Consolidated - Balance Sheet Assets Millions (US$)	4Q08	1Q09	2Q09	3Q09
Total Assets	2,328.7	1,969.0	2,081.3	1,799.8
Current Assets	714.8	409.7	652.4	354.3
Cash	291.6	81.9	247.1	62.8
Credits	210.8	194.5	168.5	188.2
Inventories	210.9	133.3	135.7	102.2
Others	1.4	0.0	101.1	1.1
Non-current assets	1,613.8	1,559.3	1,428.9	1,445.5
Long-term Assets	169.8	170.1	168.9	195.5
Sundry Credits	30.0	30.4	35.1	69.9
Credits with Related Parties	1.5	1.5	1.5	0.9
Others	138.2	138.1	132.3	124.7
Permanent Assets	1,444.1	1,389.3	1,260.0	1,250.1
Investments	0.0	0.0	0.0	0.0
PP&E	438.9	407.9	289.2	290.3
Intangible	949.7	954.2	944.3	937.0
Deferred Items	55.4	27.1	26.4	22.8

Consolidated - Balance Sheet Liabilities Millions (US$)	4Q08	1Q09	2Q09	3Q09
Total Liabilities and Stockholders' Equity	2,328.7	1,969.0	2,081.3	1,799.8
Current Liabilities	1,285.5	1,211.6	1,328.0	1,061.4
Loans and Financing	542.5	489.1	642.4	677.7
Debentures	0.0	0.0	0.0	0.0
Suppliers	78.6	43.2	72.5	52.6
Taxes, Charges and Contributions	24.9	30.0	28.8	24.9
Dividends Payable	0.0	0.0	0.0	0.0
Provisions	427.3	345.3	304.9	29.0
Debt with Related Parties	4.4	1.2	2.1	0.6
Others	207.9	302.8	277.3	276.8
Current Liabilities	1,144.2	1,012.0	995.8	1,021.5
Long-term Liabilities	1,144.2	1,012.0	995.8	1,021.5
Loans and Financing	811.5	808.8	440.7	403.5
Debentures	0.0	0.0	357.2	453.6
Provisions	0.0	0.0	0.0	0.0
Debt with Related Parties	0.0	0.0	0.0	0.0
Others	332.7	203.1	198.0	164.4
Deferred Income	0.0	0.0	0.0	0.0
Minority Interests	(36.0)	(46.8)	(57.7)	(64.8)
Stockholders' Equity	(65.1)	(207.7)	(184.7)	(218.3)
Paid-up Capital	775.9	775.9	775.9	776.0
Capital Reserves	11.7	12.2	14.0	14.4
Revaluation Reserves	0.0	0.0	0.0	0.0
Revenue Reserves	0.0	0.0	0.0	0.0
Retained Earnings/Losses	(856.8)	(1,005.2)	(978.6)	(1,005.8)

Consolidated - Income Statement Accrued Millions (US$)	4Q08	1Q09	2Q09	3Q09
Gross Sales Revenues	697.0	92.1	140.4	253.2
Deductions from Gross Revenue	(44.5)	(5.2)	(11.3)	(19.5)
Net Sales Revenues	652.4	86.9	129.1	233.7
Cost of Goods Sold and/or Services Rendered	(395.1)	(100.3)	(128.3)	(166.6)
Operating Expenses/Revenues	257.4	(13.4)	0.8	67.2
Operating Expenses/Revenues	(1,161.5)	(142.1)	(118.1)	(206.4)
Selling	(180.0)	(48.1)	(143.3)	(216.8)
General and Administrative	(123.9)	(26.7)	(57.7)	(116.7)
Financial	(790.0)	21.4	211.6	272.7
Other Operating Revenues	8.8	1.8	3.9	4.6
Other Operating Expenses	(76.4)	(90.6)	(132.6)	(150.2)
Equity Income	0.0	0.0	0.0	0.0
Gross Income	(904.2)	(155.6)	(117.4)	(139.2)
Operating Expenses/Revenues	0.0	0.0	0.0	0.0
Operating Result	(904.2)	(155.6)	(117.4)	(139.2)
Non-operating Result	(1.5)	(3.6)	(3.2)	(0.4)
Income before Taxes/Participations	0.0	0.0	(23.0)	(38.2)
Provision for Income Tax and Social Contribution	0.0	0.0	0.0	0.0
Deferred Income Tax	0.0	0.0	0.0	0.0
Profit Sharing/Contributions	57.6	10.8	21.8	28.9
Reversal of Interest on Equity	(848.0)	(148.3)	(121.7)	(148.9)

Source: MMX 2010, http://mmx.infoinvest.com.br/enu/PI_PLANILHA_DRE_C_AA-enu.html

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Consolidated - Balance Sheet Assets Millions (US$)	4Q03	4Q04	4Q05	1Q06	2Q06	3Q06	4Q06
Total Assets	0.0	0.0	272.2	273.9	425.8	1,607.1	1,592.5
Current Assets	0.0	0.0	20.2	21.4	52.4	1,173.2	1,010.3
Cash	0.0	0.0	19.9	19.7	38.6	1,005.8	779.2
Credits	0.0	0.0	0.3	1.4	6.4	149.3	192.7
Inventories	0.0	0.0	0.0	0.0	5.9	16.6	37.3
Others	0.0	0.0	0.0	0.3	1.5	1.5	1.0
Non-current assets	0.0	0.0	252.0	252.5	373.4	434.0	582.2
Long-term Assets	0.0	0.0	0.7	0.1	0.0	0.8	1.0
Sundry Credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits with Related Parties	0.0	0.0	0.7	0.1	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.8	1.0
Permanent Assets	0.0	0.0	251.3	252.4	373.4	433.2	581.3
Investments	0.0	0.0	227.0	230.4	271.6	265.8	215.0
PP&E	0.0	0.0	7.1	7.9	32.6	59.4	206.7
Intangible		0.0	0.0				0.0
Deferred Items	0.0	0.0	17.2	14.1	69.2	108.0	159.6

Consolidated - Balance Sheet Liabilities Millions (US$)	4Q03	4Q04	4Q05	1Q06	2Q06	3Q06	4Q06
Total Liabilities and Stockholders' Equity	0.0	0.0	272.2	273.9	425.8	1,607.1	1,592.5
Current Liabilities	0.0	0.0	172.4	179.6	300.2	342.6	369.9
Loans and Financing	0.0	0.0	81.7	93.1	198.5	236.9	256.4
Debentures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Suppliers	0.0	0.0	0.5	1.8	7.9	33.7	60.5
Taxes, Charges and Contributions	0.0	0.0	0.4	1.1	3.6	6.2	15.6
Dividends Payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt with Related Parties	0.0	0.0	0.3	0.3	0.3	0.3	0.0
Others	0.0	0.0	89.5	83.3	89.9	65.4	37.4
Current Liabilities	0.0	0.0	85.7	81.6	101.6	221.3	173.1
Long-term Liabilities	0.0	0.0	85.7	81.6	101.6	221.3	173.1
Loans and Financing	0.0	0.0	0.0	0.0	29.5	129.4	131.5
Debentures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt with Related Parties	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	85.7	81.6	72.1	91.9	41.6
Deferred Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0	8.2	4.1	1.7
Stockholders' Equity	0.0	0.0	14.0	12.7	15.9	1,039.1	1,047.8
Paid-up Capital	0.0	0.0	16.7	16.7	23.6	1,142.5	1,142.5
Capital Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retained Earnings/Losses	0.0	0.0	(2.7)	(4.0)	(7.7)	(103.4)	(94.7)

Consolidated - Income Statement Accrued Millions (US$)	4Q03	4Q04	4Q05	1Q06	2Q06	3Q06	4Q06
Gross Sales Revenues	0.0	0.0	0.0	0.5	0.9	1.7	9.4
Deductions from Gross Revenue	0.0	0.0	0.0	(0.1)	(0.1)	(0.1)	(0.2)
Net Sales Revenues	0.0	0.0	0.0	0.4	0.8	1.6	9.2
Cost of Goods Sold and/or Services Rendered	0.0	0.0	0.0	(0.9)	(1.8)	(6.1)	(17.9)
Operating Expenses/Revenues	0.0	0.0	0.0	(0.5)	(1.0)	(4.5)	(8.7)
Operating Expenses/Revenues	0.0	0.0	(0.2)	(0.8)	(4.2)	(99.1)	(90.0)
Selling	0.0	0.0	0.0	0.0	0.0	0.0	(0.3)
General and Administrative	0.0	0.0	(0.2)	(1.0)	(4.2)	(37.9)	(60.0)
Financial	0.0	0.0	0.0	0.2	0.0	(52.6)	(20.9)
Other Operating Revenues	0.0	0.0	0.0	0.0	0.0	0.0	(7.4)
Other Operating Expenses	0.0	0.0	0.0	0.0	0.0	(8.7)	(1.4)
Equity Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Income	0.0	0.0	(0.2)	(1.3)	(5.2)	(103.6)	(98.7)
Operating Expenses/Revenues	0.0	0.0	(2.1)	0.0	0.0	(1.3)	0.0
Operating Result	0.0	0.0	(2.3)	(1.3)	(5.2)	(104.9)	(98.7)
Non-operating Result	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income before Taxes/Participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provision for Income Tax and Social Contribution	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Income Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit Sharing/Contributions	0.0	0.0	0.0	0.0	0.1	4.2	6.6
Reversal of Interest on Equity	0.0	0.0	(2.3)	(1.3)	(5.0)	(100.7)	(92.1)

Source: MMX 2010, http://mmx.infoinvest.com.br/enu/PI_PLANILHA_DRE_C_AA-enu.html

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FINANCIAL STATEMENT

Consolidated - Balance Sheet Assets Millions (US$)	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08
Total Assets	1,791.5	2,011.2	3,006.2	3,989.5	4,713.3	1,894.6	2,177.9
Current Assets	989.0	976.1	1,784.6	1,749.7	1,789.4	809.7	603.0
Cash	728.1	747.8	1,515.0	1,424.9	1,430.3	528.6	239.6
Credits	209.7	105.9	138.2	169.4	225.4	140.3	205.5
Inventories	49.7	121.9	131.3	154.0	132.0	140.8	157.8
Others	1.5	0.5	0.2	1.4	1.8	0.0	0.0
Non-current assets	802.6	1,035.2	1,221.6	2,239.8	2,923.8	1,084.9	1,574.9
Long-term Assets	0.3	55.1	64.1	97.6	185.5	44.9	157.9
Sundry Credits	0.0	23.8	34.2	50.7	55.7	26.8	27.4
Credits with Related Parties	0.0	0.0	0.0	4.4	2.8	3.5	1.2
Others	0.3	31.3	29.9	42.5	127.1	14.6	129.3
Permanent Assets	802.3	980.0	1,157.5	2,142.2	2,738.3	1,040.0	1,417.0
Investments	2.2	2.2	2.4	3.4	3.4	1.2	1.2
PP&E	346.4	561.5	809.1	1,115.1	1,361.2	370.6	407.9
Intangible	298.1	185.4	126.1	744.7	871.5	619.0	956.5
Deferred Items	155.6	231.0	219.9	279.0	502.2	49.2	51.4

Consolidated - Balance Sheet Liabilities Millions (US$)	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08
Total Liabilities and Stockholders' Equity	1,791.5	2,011.2	3,006.2	3,989.5	4,713.3	1,894.6	2,177.9
Current Liabilities	558.9	736.6	970.2	1,220.8	1,793.2	638.9	1,023.4
Loans and Financing	405.8	547.1	712.5	701.9	1,263.6	333.3	436.6
Debentures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Suppliers	73.8	96.8	108.8	129.1	100.7	35.7	48.0
Taxes, Charges and Contributions	18.7	27.7	40.2	61.4	57.3	27.6	25.8
Dividends Payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	66.1	122.9	146.1	5.6	168.4
Debt with Related Parties	0.0	0.0	0.0	0.0	0.0	0.5	1.0
Others	60.6	65.0	42.5	205.4	225.5	236.2	343.6
Current Liabilities	179.8	167.4	104.0	911.5	791.1	483.3	722.3
Long-term Liabilities	179.8	167.4	45.1	911.5	523.6	483.3	722.3
Loans and Financing	125.5	117.4	19.2	388.2	14.8	108.1	340.4
Debentures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt with Related Parties	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	54.3	50.0	25.9	523.2	508.7	375.2	381.9
Deferred Income	0.0	0.0	59.0	0.0	267.5	0.0	0.0
Minority Interests	1.2	51.4	50.0	43.6	131.4	(6.0)	(2.8)
Stockholders' Equity	1,051.6	1,055.9	1,881.9	1,813.7	1,997.6	778.4	435.0
Paid-up Capital	1,142.5	1,142.5	1,142.8	1,142.8	1,142.8	775.8	775.8
Capital Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Reserves	0.0	0.0	0.0	670.9	670.9	0.0	0.0
Retained Earnings/Losses	(90.9)	(86.7)	739.1	0.0	184.0	2.6	(340.8)

Consolidated - Income Statement Accrued Millions (US$)	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08
Gross Sales Revenues	25.4	50.6	109.3	206.8	168.0	269.9	522.6
Deductions from Gross Revenue	(0.3)	(0.6)	(1.0)	(2.7)	(7.9)	(19.7)	(32.4)
Net Sales Revenues	25.1	50.0	108.3	204.1	160.1	250.2	490.2
Cost of Goods Sold and/or Services Rendered	(27.3)	(38.5)	(84.4)	(185.2)	(159.7)	(167.4)	(310.5)
Operating Expenses/Revenues	(2.2)	11.5	23.9	18.9	0.4	82.8	179.7
Operating Expenses/Revenues	5.0	(5.0)	(22.6)	727.9	160.4	(73.0)	(544.0)
Selling	(3.5)	(35.7)	(50.8)	(68.9)	(33.5)	(69.0)	(132.9)
General and Administrative	(13.4)	(29.6)	(62.0)	(106.0)	(53.0)	(65.7)	(90.5)
Financial	24.9	57.5	86.1	78.3	7.4	83.4	(274.5)
Other Operating Revenues	0.0	2.8	4.1	834.2	254.7	0.0	0.3
Other Operating Expenses	(2.9)	0.0	0.0	(9.8)	(15.2)	(21.6)	(46.3)
Equity Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Income	2.8	6.5	1.4	746.7	160.8	9.7	(364.3)
Operating Expenses/Revenues	0.0	0.0	831.0	0.0	0.0	0.0	0.0
Operating Result	2.8	6.5	832.4	746.7	160.8	9.7	(364.3)
Non-operating Result	(4.2)	(7.7)	(8.7)	(3.7)	(1.2)	(10.6)	(0.9)
Income before Taxes/Participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provision for Income Tax and Social Contribution	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Income Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit Sharing/Contributions	5.2	9.3	10.2	22.6	24.6	3.5	24.4
Reversal of Interest on Equity	3.8	8.1	833.9	765.6	184.2	2.6	(340.8)

Source: MMX 2010, http://mmx.infoinvest.com.br/enu/PI_PLANILHA_DRE_C_AA-enu.html

MMX MINERAÇÃO E METÁLICOS S.A.
FINANCIAL STATEMENT

Consolidated - Balance Sheet Assets Millions (US$)	4Q08	1Q09	2Q09	3Q09
Total Assets	2,328.7	1,969.0	2,081.3	1,799.8
Current Assets	714.8	409.7	652.4	354.3
Cash	291.6	81.9	247.1	62.8
Credits	210.8	194.5	168.5	188.2
Inventories	210.9	133.3	135.7	102.2
Others	1.4	0.0	101.1	1.1
Non-current assets	1,613.8	1,559.3	1,428.9	1,445.5
Long-term Assets	169.8	170.1	168.9	195.5
Sundry Credits	30.0	30.4	35.1	69.9
Credits with Related Parties	1.5	1.5	1.5	0.9
Others	138.2	138.1	132.3	124.7
Permanent Assets	1,444.1	1,389.3	1,260.0	1,250.1
Investments	0.0	0.0	0.0	0.0
PP&E	438.9	407.9	289.2	290.3
Intangible	949.7	954.2	944.3	937.0
Deferred Items	55.4	27.1	26.4	22.8

Consolidated - Balance Sheet Liabilities Millions (US$)	4Q08	1Q09	2Q09	3Q09
Total Liabilities and Stockholders' Equity	2,328.7	1,969.0	2,081.3	1,799.8
Current Liabilities	1,285.5	1,211.6	1,328.0	1,061.4
Loans and Financing	542.5	489.1	642.4	677.7
Debentures	0.0	0.0	0.0	0.0
Suppliers	78.6	43.2	72.5	52.6
Taxes, Charges and Contributions	24.9	30.0	28.8	24.9
Dividends Payable	0.0	0.0	0.0	0.0
Provisions	427.3	345.3	304.9	29.0
Debt with Related Parties	4.4	1.2	2.1	0.6
Others	207.9	302.8	277.3	276.8
Current Liabilities	1,144.2	1,012.0	995.8	1,021.5
Long-term Liabilities	1,144.2	1,012.0	995.8	1,021.5
Loans and Financing	811.5	808.8	440.7	403.5
Debentures	0.0	0.0	357.2	453.6
Provisions	0.0	0.0	0.0	0.0
Debt with Related Parties	0.0	0.0	0.0	0.0
Others	332.7	203.1	198.0	164.4
Deferred Income	0.0	0.0	0.0	0.0
Minority Interests	(36.0)	(46.8)	(57.7)	(64.8)
Stockholders' Equity	(65.1)	(207.7)	(164.7)	(218.3)
Paid-up Capital	775.9	775.9	775.9	776.0
Capital Reserves	11.7	12.2	14.0	14.4
Revaluation Reserves	0.0	0.0	0.0	0.0
Revenue Reserves	0.0	0.0	0.0	0.0
Retained Earnings/Losses	(856.8)	(1,005.2)	(978.6)	(1,005.8)

Consolidated - Income Statement Accrued Millions (US$)	4Q08	1Q09	2Q09	3Q09
Gross Sales Revenues	697.0	92.1	140.4	253.2
Deductions from Gross Revenue	(44.5)	(5.2)	(11.3)	(19.5)
Net Sales Revenues	652.4	86.9	129.1	233.7
Cost of Goods Sold and/or Services Rendered	(395.1)	(100.3)	(128.3)	(166.6)
Operating Expenses/Revenues	257.4	(13.4)	0.8	67.2
Operating Expenses/Revenues	(1,161.5)	(142.1)	(118.1)	(206.4)
Selling	(180.0)	(48.1)	(143.3)	(216.8)
General and Administrative	(123.9)	(26.7)	(57.7)	(116.7)
Financial	(790.0)	21.4	211.6	272.7
Other Operating Revenues	8.8	1.8	3.9	4.6
Other Operating Expenses	(76.4)	(90.6)	(132.6)	(150.2)
Equity Income	0.0	0.0	0.0	0.0
Gross Income	(904.2)	(155.6)	(117.4)	(139.2)
Operating Expenses/Revenues	0.0	0.0	0.0	0.0
Operating Result	(904.2)	(155.6)	(117.4)	(139.2)
Non-operating Result	(1.5)	(3.6)	(3.2)	(0.4)
Income before Taxes/Participations	0.0	0.0	(23.0)	(38.2)
Provision for Income Tax and Social Contribution	0.0	0.0	0.0	0.0
Deferred Income Tax	0.0	0.0	0.0	0.0
Profit Sharing/Contributions	57.6	10.8	21.8	28.9
Reversal of Interest on Equity	(848.0)	(148.3)	(121.7)	(148.9)

Source: MMX 2010, http://mmx.infoinvest.com.br/enu/PI_PLANILHA_DRE_C_AA-enu.html