



Materia Do Brazil (MATEBRAZ)-D Corporate Executive Committee Meeting

After Ron Clifford presented his counter proposal, the matter was discussed at Corporate level during an Executive Committee in which the Chairman George WILLIAMS, Bill BOWER and Richard EVANS participated alongside with the other group VPs and key corporate staffs.

The two proposals with their supporting data were distributed in advance (see exhibits 1,2,3,4, 5,6).

Tom Viallet, the Chief Financial Officer made a short PowerPoint presentation summarizing the economics valuation. (See below). Beyond economics and finance the Committee was looking at the deeper strategic and organizational implications of a decision of this type. Particularly WILLIAMS was concerned about the kind of message a decision in one or the other direction would send to the other subsidiaries and divisions.

The ARAMZK-6 Project
A summary
By Tom Viallet
Presentation to the Executive Committee 14 July 2006.

	INVEST in BRAZIL	EXPORT from HOUSTON
Capital involved : Fixed plus working capital	130 MillionUS\$	56 Million US\$
Net Present value at 12%	96 million US\$	108 million US\$
Internal Rate of Return	20%	52%
Pay Back	5 years	3 years



Exhibit 1
Market Analysis and Forecast for Aramid ARAMZK-6

	7 Years Market Potential(Tons)	Actual Market (Tons 2006)	BMG Sales	BMG Market Share	Yearly Growth Rate
USA/CAN	5000	1000	500	50%	26%
EU	6000	1400	800	57%	23%
JAPAN	2000	400	100	25%	26%
CHINA	2000	150	20	13%	45%
BRAZIL	600	50	5	10%	43%
Rest of ASIA	300	40	0	0%	33%
Rest of MERCOSUR	200	30	2	7%	31%
Africa & Middleast	100	10	0	0%	39%
	16200	3080	1427	46%	27%

Sources: Internal Market Research (BMG, 2006)

Exhibit 2
Exchange rates and Inflation in Brazil and the USA

	EXCHANGE RATES Brazilian Real BRL/US\$			INDICES	
	Inflation US	Inflation BRAZIL	USA	BRAZIL	
2000	1.95	3.40%	7.0%	100	100
2001	2.33	2.80%	6.8%	102.83	106.84
2002	3.55	1.6%	8.4%	104.44	115.84
2003	2.9	2.3%	14.7%	106.83	132.96

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2004	2.65	2.7%	6.6%	109.7	141.73
2005	2.36	2.7%	6.5%	112.71	150.92
2006(est)	2.13	2.4%	4.6%	115.4	157.9



Exhibit 3
Manufacturing variable costs for production in Brazil
(BRL/kg, 2006)

FEEDSTOCK	1500	
LABOR	1300	
OTHERS	300	
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Total Variable Costs (BRL/Kg)	3100	
Average Cost increase due to labor costs inflation	2%	
Working Capital Requirement/Sales	30 days	8.0%

Exhibit 4
Estimated Cash Flow for Investing and Producing ARAMZK-6
in Brazil (000 BRL)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
SALES tons		150	200	200	250	250	300	300	
SALES price BRL /Kg		5400	5400	5400	5300	5300	5200	5200	
Variable cost BRL per kg		3100	3162	3225	3290	3356	3423	3491	
SALES (000 BRL)		810000	1080000	1080000	1325000	1325000	1560000	1560000	
Variables costs (000 BRL)		465000	632400	645048	822436	838885	1026795	1047331	
Contribution margin		345000	447600	434952	502564	486115	533205	512669	
Markt & admin		325000	350000	350000	375000	375000	400000	400000	
EBITDA		20000	97600	84952	127564	111115	133205	112669	
Deprec		28000	28000	28000	28000	28000	28000	28000	
EBT		-8000	69600	56952	99564	83115	105205	84669	
Taxes 50%		4000	-34800	-28476	-49782	-41558	-52602	-42334	
Working Capital Requirement		-64800	-21600	0	-19600	0	-18800	0	
Net Cash Flow from operations		-40800	41200	56476	53182	69558	61802	70334	
Capital Investment	-200000								
Terminal value									324800
FREE CASH FLOW (000 BRL)	-200000	-40800	41200	56476	53182	69558	61802	70334	324800
Cumulative Free Cash Flow	-200000	-240800	-199600	-143124	-84942	-15385	46418	116752	441552



Exhibit 4

Landed cost per Kilo of export to Brazil from Houston
(\$/kg, 2006)

FEEDSTOCK	500
LABOR	400
OTHERS	300
shipping	100
import duties 25%	325
Total Landed costs (\$/kg)	1625

Working Capital/ Sales = 55 days 55%

Exhibit 5

Estimated Cash Flow for exporting ARAMZK-6
To Brazil from Houston (000 US\$)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
EXCHANGE Rate BRL/\$	2.13	2.18	2.21	2.25	2.28	2.31	2.35	2.38	2.42
SALES tons		150	200	200	250	250	300	300	
SALES price/tons in BRL		5400	5400	5400	5300	5300	5200	5200	
SALES per ton in \$		2475	2439	2404	2325	2292	2216	2184	
SALES (000\$)		371227	487831	480795	581356	572971	664863	655274	
Variable costs in \$/kg		1610	1610	1610	1610	1610	1610	1610	
Variable Costs (000 \$)		241560	322080	322080	402600	402600	483120	483120	
Gross Margin (000 \$)		129667	165751	158715	178756	170371	181743	172154	
Markt & admin in BRL		325000	350000	350000	375000	375000	400000	400000	
Markt & admin in \$		148949	158093	155813	164535	162162	170478	168019	
Saving due to Economies of scale (\$)		20000	20000	20000	20000	20000	20000	20000	
Earning Before Taxes EBT (000 \$)		718	27658	22902	34222	28210	31265	24135	
Taxes 50%		359	13829	11451	17111	14105	15633	12057	
Working Capital Requirement		-61624	-19356	1168	-16693	1392	-15254	1592	
Terminal value									108775
FREE CASHFLOW(000 \$)		-60547	22130	35520	34639	43706	31644	37794	98291
Cumulative Free Cash Flow		-60547	-38416	-2896	31743	75450	107094	144888	243179



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