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Ribbonet™ – Fiber To The Home

“The Real Broadband boosting the value for the landlord”



Marketing Plan Brazil

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1.0 – Executive Summary.....	03
2.0 – Current Market Situation.....	04
Macroenvironment Situation.....	04
Market Situation.....	06
Product Situation.....	07
Competitive Situation.....	09
Distribution Situation	10
3.0 – Opportunity and Issue Analysis.....	10
SWOT analysis.....	11
Issues analysis.....	12
4.0 – Objectives.....	12
Financial Objectives.....	12
Marketing Objectives.....	12
5.0 – Marketing Strategy.....	13
6.0 – Action Programs.....	16
Development of Stakeholders.....	16
Communication Plan.....	16
Customer Research.....	17
7.0 – Projected Profit and Loss Statement.....	17
8.0 – Controls.....	19
Financial Reports.....	19
Balanced Scorecard	19
External and Internal Research.....	20
Exhibit 1.....	21
Exhibit 2.....	22



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1.0 – Executive Summary

The move to commoditize bandwidth highlights the need for carriers and service providers to differentiate themselves. Some forces are driving the demand for quicker, more flexible services that can be used either in an enterprise basis or the high end home user. These forces are the customer itself that is requiring better services everyday and the new services and applications that are demanding new reliable networks that can have QoS(quality of service) in order to be possible to run videoconferencing, IP applications, VPN(Virtual Private Network), voice and data services.

End users are exactly in the center of this trends and the benefits will appear rapidly. You will have telemedicine, teleeducation, home office and lots of other services right through your TV set therefore landlords are starting to think about offering this infrastructure for tenants when the apartment is built or even install it to gain more attractiveness while renting.

Considering all of these factors a marketing plan to attack the segment of constructor and build project companies that are working with hotels, condominiums, hospitals networks, creating the idea that Ribbonet is the only product able to provide the real broadband, is presented.

This plan is supposed to be more focused on the positioning strength as fiber to the home supplier. Once that we would be perceived as the supplier for that, sales are expected to be boosted due to the great quantity of new buildings rising up and old ones also in big cities. In order to follow this trends we will need to increase the sales force, be more aggressive in the communication campaign and develop good partnerships that can make us present applications justifying and showing the real need for fiber networks. This movement would lead us one step ahead in the value chain as a complete optical solution provider.

The investment in some window projects will allow us to have more information related to customers and how to deal with the business.

Finally an estimated profit and loss statement is presented only as reference to explain how we would pay the initial investment in the execution of this marketing plan.



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2.0 – Current Market Situation

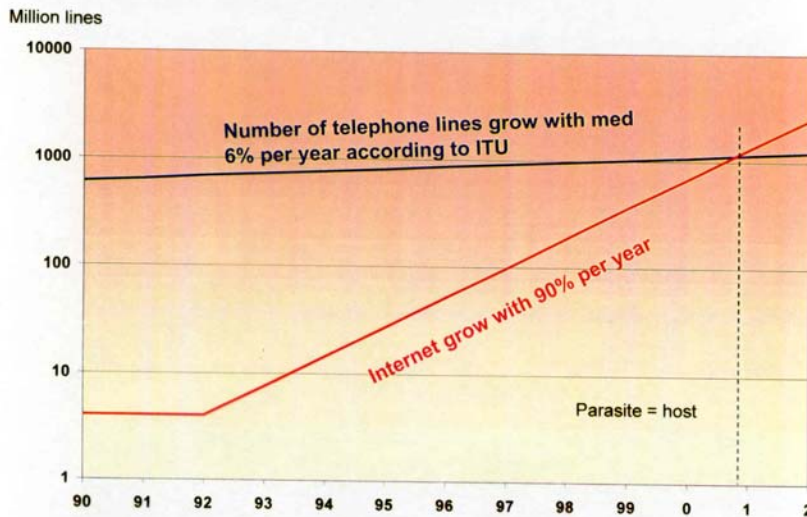
Macroenvironment

Optical networking will, in addition to folding your laundry, provide megabandwidth for future-proof scalability, enable almost any application you can think of, and easy management concerns by reducing the number of separate boxes required. It will also enable quick provisioning for faster time-to-market and decrease maintenance and truck-roll costs.

Of course, upgrading to optical is expensive, which makes return on investment critical. The biggest impact today is the active equipment part and this makes return on investment critical for the carriers and service providers.

The fiber to the home market is a brand new market because until now only enterprises have been working with the LAN(Local Area Network) concept but this is starting to be used in some private houses area, hotels and hospitals. Internet is playing a very important role on this because it's generating the need to be connected all time. Home users wanting faster connections, doctors wanting to see surgeries from their offices, business travelers getting connections to the net are increasing everyday. For a hotel a faster and reliable connection can be a very good differential to attract and maintain guests. The problem is that there is no numbers related to this trends showing them.

Telco's traffic is being transformed into data very fast due to the internet growth. Here we can see some numbers showing this trend.





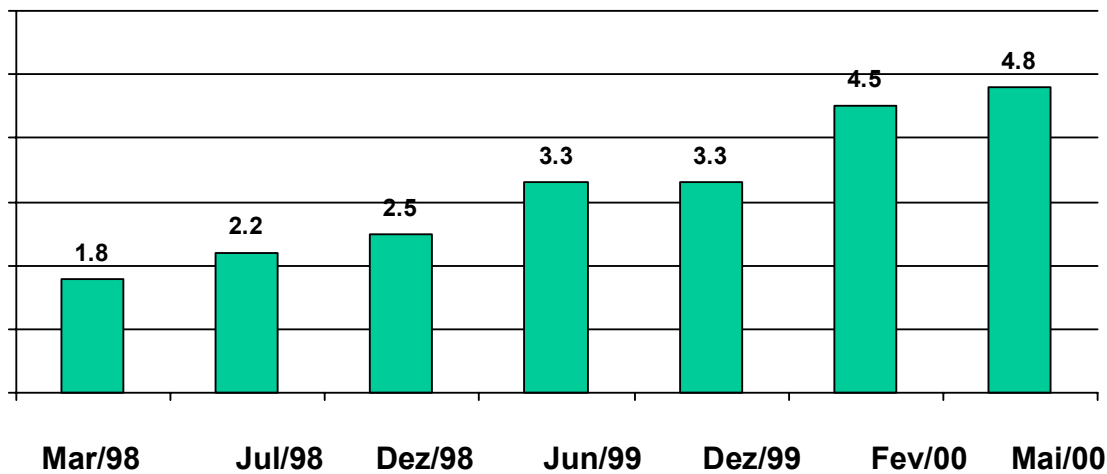
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We are facing the change from circuit switched basis to packet switching meaning that the infrastructure will need to be each day more powerful.

Internet users are increasing and today (September 2000) we have already 6.7 million users. In the rest of South America we have approx. 15-20% of this total.

Internet Users in Brazil



The number of computers has increased a lot showing that people are using more and more computers at the office and home.





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Market Situation

Since that this product is a brand new one as well as the segment we don't have any information regarding share or profit. Anyhow we can consider some basic market characteristics.

Sales => very low, few contracts starting up;

Costs => still very high due to some product development and low sales;

Profits => no profits at all when considering the whole process, but product is sold with a good margin;

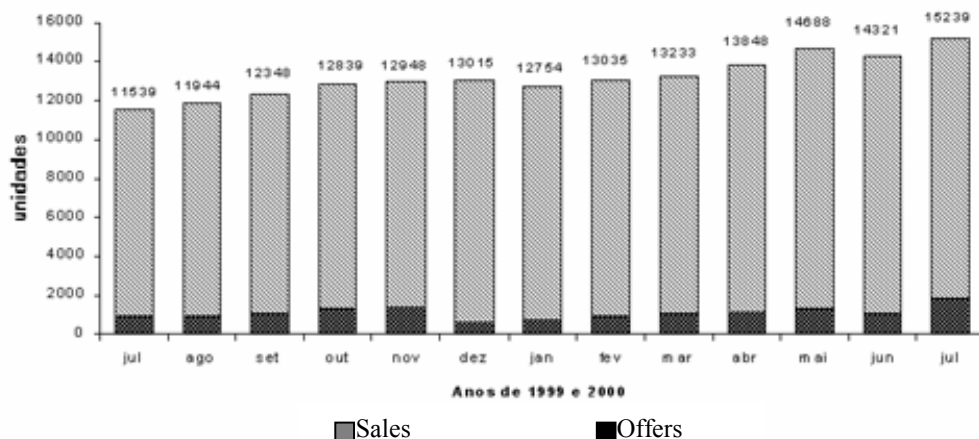
Customers => innovators, that ones who want to have state of the art communications infrastructure as a differential to leverage business;

Competitors => only two, see Competitor information item;

Today, companies that are installing LANs are not working with the fiber concept but with standard CAT 5 structured cabling and their focus is mainly enterprises. With the increase of internet users and new applications and services the fiber LAN will be needed even in houses so we need to create this mindset.

The construction market is increasing a lot as well, new condominiums and hotels are being built specially in São Paulo (Brazil's biggest city) area due to the increased business volume in the country. We discovered that apartments sales volume in July this year was 40% higher than last July. The main type of apartments sold are the ones with 2 and 3 bedrooms followed by 4 bedrooms. We can see a graph of the performance. We have also some data regarding the type of apartments and quantities as can be seen in the Exhibit II – pg 21.

Source: SECOVI – July 2000
Evolution on offers and apartments selling





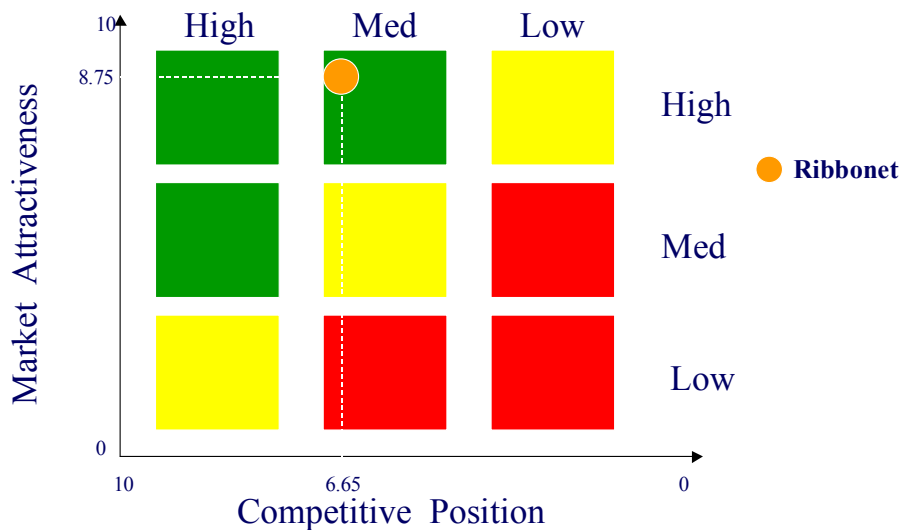
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So, a matrix is presented based on some parameters that can be found in Exhibit I – pg 20, in order to verify and ensure that this market is appropriate for investments in this product.

We are in the “Invest to Grow” position so we have to benefit from Ericsson’s strong presence in the telecom’s market which could make things easier when trying to sell the solution to carriers, but in the LAN market this presence is not so strong.

Market Attractiveness / Business Strength Matrix



Product Situation

The product is brand new and some successful installations have been performed in Sweden (1600 apartments) as well as a big contract has been closed (20000 apartments). The problem is that there are other last mile access techniques to compete with and not only with other potential competitors with similar technologies. Of course that this competition is happening in this moment while we don't find high end applications running over the net.

For example you have today copper access in your place and new transmission technologies are being invented in order to use the available infrastructure as much as possible instead of invest in a new fiber network.



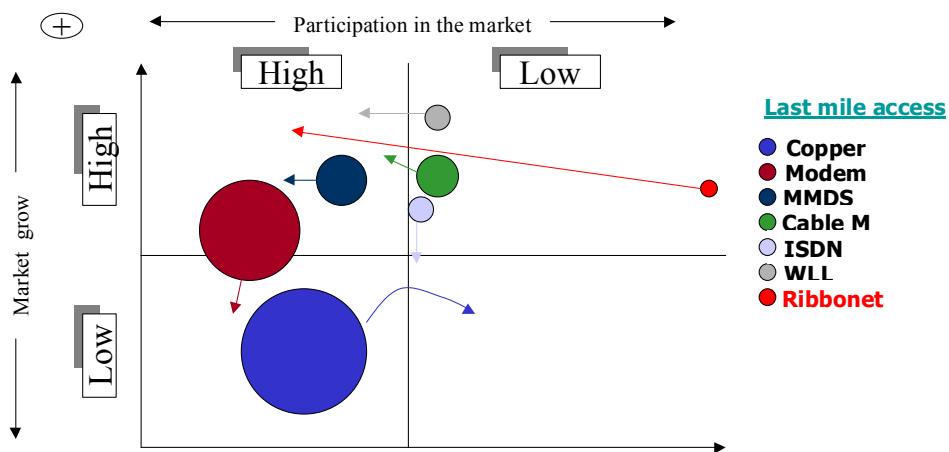
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Product Life Cycle - Introduction Phase

- Brand new product;
- New technical features (scalable, “future proof”, allows symmetric transmission, unlimited bandwidth);
- Market is starting up now due to Datacom/Internet needs;
- Broadband is required in a few cases, but fast internet access and multimedia services are increasing very much;

BCG Matrix



	Upstream	Downstream
Modem	33,6kbit/s	56kbit/s
RDSI / ISDN	128kbit/s (144kbit/s)	128kbit/s (144kbit/s)
ADSL	16-640kbit/s	1.5-9Mbit/s
MMDS	-	2Mbit/s
Cabo	10Mbit/s ????	10Mbit/s ????
HDSL	1.5Mbit/s or 2Mbit/s	1.5Mbit/s or 2Mbit/s
Frame Relay	64-512kbit/s	64-512kbit/s
ATM	≈622Mbit/s	≈622Mbit/s
Ribbonet	50Mbit/s ??	100Mbit/s Giga?

This matrix is mainly based on access speed to data and capability of symmetric transmission and receiving of data.



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Competitive Situation

3M

It's a company as big as Ericsson but it's not very known as a telecom supplier. They have a huge investment in R&D as a company policy and they are present in many segments like health care, industrial, graphics, consumer and office markets. This expertise could lead to an advantage when information and contacts about other segments is needed.

In terms of the solution, called Volition, seems that they are quite evolved but focusing more on substituting the traditional structured cabling rather than entering in fiber to the home business. They may be competitors when we go to the enterprise market, but now the market is too big meaning that there is enough space for both. The question is who is going to take the first opportunity, actually they already have some installations in Brazil?

Technically speaking both solutions have the same principle, but 3M has a more "proprietary" solution while we have a solution that fits everywhere. In some cases where customers don't want to be a "slave" of the supplier this may be a disadvantage on the other hand we will be more sensible to our suppliers unless we have very good supply agreements. They can compete also in the fiber to the home market, but their statement is about fiber to the desk!!

In terms of price we have a little bit higher price, but it can be managed during tender preparations and customer negotiation specially in the introduction phase.

Brand Rex (before BICC)

It's a big supplier on structured cabling business for data networks and they work with military, naval, aerospace, communication, automotive and mass transit industries. They have great experience in the LAN market.

They have formed a group of companies called Intelligent Building Systems(IBS) with focus on complete solution in structured cabling, cable management, circuit protection, fire detection, security and building control systems. This represents a big threat because they are already in the building automation business, but again more focused on enterprises substituting the traditional method by blow fibers.



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Their products called Blolite and BloTwist have the same installation principle as our product, but their equipment is much more expensive. BloTwist is a quite interesting product because they have copper cabling prepared with tubes for future fiber blowing.

Comments

Both competitors are quite traditional in the cabling market but they are not mentioning on their statements fiber to the home, but always considering LAN markets. Another point is that they are not making the network planning as a whole, we are able to do it, but rather focusing on enterprises' internal cabling distribution only.

Maybe we should consider to strength our position as fiber to the home supplier and find new ways to sell the product for corporations specially because of our tradition as a telecom supplier.

Distribution Situation

Since that the product is brand new we don't have any past data referring to distribution channels. Anyway direct channel was used on few contracts that have been closed.

3.0 – Opportunity and Issue Analysis

Strengths

Ericsson has a strong brand in the market and this installation technique is a patent. We have a strong image as a telecom supplier. The product has a simple installation method that's quite difficult to be copied. Since that we are dealing with fiber optics we can explore a lot Internet issues and high end applications. Good relationship with universities and associations.

Weaknesses

Ericsson is not very well known as an Internet infrastructure supplier. We don't have strong local support and defined overall strategy. The product is still completely imported so the price is very high compared with local traditional solutions. Sales team is very small for a huge market. There are no budget for a communication plan or investments in partnerships. Optical active equipment is still very expensive and we don't have our own.



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Opportunities

Internet trends are driving people behavior. The construction market is growing every year specially in luxury apartments and private areas that could afford such product. Project and construction companies are starting to create mindset focused on intelligent houses, hotels and hospitals where families have more than one computer at home so that we can built the fiber to the home mindset. Explore the unlimited bandwidth provided by fiber in the intranet and internet to enhance the product image adding value to it. The need for a faster web connection is increasing and can be a differential for service suppliers, ISPs, etc... The competitor is focusing on fiber to the desk.

Threats

Overall company strategy is focused on mobile internet. The main competitor is an american company that invests more on communication. The competitor has more parts manufactured by itself. Technically the competitor can use its product on fiber to the home as well. Sales team is very small therefore the number of opportunities is small also. Fiber without high end applications is not a differential. Fiber shortage period.

SWOT

<p style="text-align: center;">Strenghts</p> <p>Brand New Product</p> <p>Strong brand and image</p> <p>Possibility to explore Internet</p>	<p style="text-align: center;">Weakness</p> <p>No clear strategy defined</p> <p>Maybe too expensive for the moment market requirements</p>
<p style="text-align: center;">Opportunities</p> <p>Huge Market</p> <p>Corporate(banks, hospitals, etc)</p> <p>End Custmer (fast internet, VoD, etc..)</p> <p>Merge(Trend!!!)</p>	<p style="text-align: center;">Threats</p> <p>3M has a similar solution</p> <p>But with different positioning</p> <p>No solutions available to justify the use of fiber within Ericsson</p> <p>No strong support within EDB</p>



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Issue Analysis

How are we going to built an Internet or “broadband” image?

What are we going to do in order to spread the information and be recognized as the first to have this solution?

What are we going to do with the active equipment and local production of some itens?

How can we make better use of partnerships(universities and associations) and press interest in South America?

How are we going to convince local top management of the feasibility of the product?

Shall we keep only the fiber to the home positioning or shall we enter in fiber to the desk and face competitors?

How much of the market do we want?

Which available capacity do we have for Brazil?

4.0 – Objectives

Financial Objectives

At this point we are not looking for return on investment because we are focusing on the communication and the establishment of the concept and image on local market therefore there is not enough information to fill this item.

Marketing Objectives

Since that we have a new product on our hands the objectives will be more in terms of “get known” than focused on numbers. These objectives are setted for the next six months.

- Built the image of the product internally and externally. Strength our position as fiber to the home supplier. This will be important to show product feasibility.
- Define authorized partners for installations and sign confidentiality agreements focusing on big cities(more than 1 million habitants). In SP we should have 3 partners and for other cities only one. Until this point they will be only looking for opportunities that can generate business for them as well as for us as direct sale.
- Define a local supplier for manufacturing of some parts of the system and importation agreements in order to reduce cost in 30%.
- Launch an intranet site focused on support and product information for all Ericssons in South America.



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- Install Ribbonet in one condominium, one hotel and one hospital as well as one high end application laboratory to serve as demo cases. We may have to finance that or sell for a very low price to have a window project.

5.0 – Marketing Strategy

Ribbonet is a brand new product and brings a quite complex concept for the so called “info age” where people will be connected a lot of time and with the possibility to use high quality services based on a local environment allowing this to happen.

So our strategy for this moment is more focused on show that this is a possible solution by finding some sample buildings that can host services justifying the use of fiber optics. Companies that are working with landlords are starting to think in the new concept as something useful and moreover a good solution to differentiate their product, the apartment, among other offers.

It’s a good time for the product positioning in the minds of this people therefore we have to built our image and determine stakeholders previously before going into a proper aggressive sales campaign.

Strategy statement:

Target Market:

- 1- Construction and project companies that are working with residential apartments, flats, hotels, hospitals with an innovative approach.
- 2- Traditional carriers and incumbents that will be interested in the offer of this product as a differential for their services as well as ISPs.

Positioning:

Ribbonet will boost differentiation process with a future proof communication infrastructure on customer investment.

1. IMPORTANT: There is a lot of competition nowadays specially for apartment’s offer and providing such infrastructure can lead to a competitive advantage on sales moment.
2. DISTINCTIVE: Having fiber optics in your place could be a good way to distinct from the others.



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3. SUPERIOR: Today it's possible to have a LAN at home with copper cables, but for high bandwidth applications and future proof infrastructure fiber is needed and it's the best mean due to immunity for interferences, security, etc.

4. COMMUNICABLE: It's a market consensus that fiber has this transmission capacity, so it's easy to communicate that.

5. PREEMPTIVE: The installation method is patented and the product is a trade mark, but we have a competitor with similar product but different positioning!!!

6. AFFORDABLE: The cost to implement such infrastructure is very low compared with the investment to build the hospital, apartment, etc. Unless we show fiber advantage with numbers we will always be compared with CAT5 and the fiber advantage will be questioned.

7. PROFITABLE: It will be a profitable product as far as we get volume on sales.

Product

It must not be considered as a single product but rather a complete solution introduced during the planning phase. The solution will be sold including project, installation and testing of the system. The solution is going to supply a communication infrastructure that will avoid the need for upgrades on the passive side and will have a live span as long as the building has. The product is intended to provide a difference for the landlord when selling or renting the apartment.

Price

When the implementation of the solution is planned in the beginning of the project the price will reach a maximum of 2-3% of the total investment but this is a high price level expected to be paid by high level constructions like expensive apartments, etc...

When the solution is supposed to be installed in an existing construction the price will be studied case by case and could reach higher levels than in the first case due to some adaptations that may be done but it cannot surpass 5-6% of the building value.



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Placement

We are going to use a short channel performing direct selling. This method will be used in this first phase because it's important for us to better understand how the market behaves and due to the complexity of the solution offering.

An agent/broker is an option as well, but only in order to develop the initial relationship with the customer. Their benefit would be get the installation business that is the core of this type of agents under our responsibility and supervision. We can use carriers as agents also once that the incumbents and new ISP, data centers may see it as a competitive advantage.

Project companies also can become agents taking care of the dimensioning and installation paying the material and rights of use, but always with the Ericsson brand driving the solution. They would be a type of authorized project and installation company and their profit would come from the participation in the project.

Promotion

We need to increase our sales force in order to get more presence and get more opportunities together with the huge number of companies doing this type of services.

We need to have an internet site dealing with broadband subjects in order to generate demand for services in the end user therefore stimulating the derived demand.

Participation in fairs and seminars that are talking about e-business, internet infrastructure, construction seminars discussing new trends.

Participation in some high end project like, for instance virtual reality, that demands fiber optics and maybe also in the installation of a computer infrastructure in an area with poor people living enhancing the social benefits of teleeducation or telemedicine.

Development of an advertisement campaign to be spread in some key magazines.



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Enhance the contact with the press that are interested in new things in order to have free articles published on specialized and consumer magazines.

R&D activities

It has been performed in Sweden so far, but we have good and cheapest local resources that we could use to implement a solution and show the applications running over a fiber platform.

Marketing Research

A research is being planned in order to understand what are the end user needs and feeling about services like videoconferencing, video on demand, etc...

6.0 – Action Program

Development of Stakeholders

We need to start development of local suppliers and an importation policy to reduce the cost of the solution. If we develop partnerships with manufactures of system parts we could have 30% reduction in the prices due to local manufacture and assembly of this components. Contacts with some suppliers has already been started.

Partnership with associations and universities should be increased in order to get the “approval” from the local development community. The deployment of the solution in university areas will be done in order to allow system tests. Associations are a good way to reach large scale amount of companies and people.

Training of some companies to be authorized installation companies has took place, but we need to push them to find business in order to be prepared for demand growth.

Communication Plan

Contacts with the press has been started and we had some articles published, but we need to be more aggressive initiating an ad campaign and a site and this would cost around R\$ 200.000,00 to be more known in the market. This communication plan should have also influence in other South American countries like Argentina and Chile.



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Contact with corporate communications unit from other Ericssons must be increased as well, because they will push the solution inside their markets. Externally for the Sindicato das Construtoras and ISP providers. Internally for the Key Account Managers dealing with traditional carriers.

Budget for participation in fairs and seminars must be increased by 50%. We need to spread the concept showing that is not a future solution any longer, but can be used in present situations.

Internet and intranet sites must have better quality because we are talking about broadband so we need to transmit this image using the site. This would be a good tool for internal people to understand and feel the solution positioning the product even inside the huge organization. The site will multiply our capacity to spread information by several times and this would be very useful since that our sales force is small to cover a big territory.

Customer Research

A customer research is being planned in order to identify the perception of end users related to high tech services, internet use and others.

This research will take into consideration some aspects like neighborhood distribution in terms of building luxury, number of computers in each apartment and what would be the preferred services. The relationship with home office working, fast internet access impacting on the purchase decision must be taken into consideration as well.

7.0 – Projected Profit and Loss Statement

We have to start up Ribbonet activities in South America and this will require some investments in the promotional field. A demo will be needed to show the system working on real time and maybe we will have to finance some initial project selling it for lower prices than usually expected.



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	Year 2001	Year 2002	Year 2003
Sales Forecast	US\$ 1.500.000	US\$ 2.300.000	US\$ 3.000.000
Cost of goods sold	US\$ 1.200.000	US\$ 1.840.000	US\$ 2.550.000
Gross profit	US\$ 300.000	US\$ 460.00	US\$ 450.000
Advertisement	US\$ 100.000	US\$ 70.000	US\$ 80.000
Intranet/Internet	US\$ 20.000	US\$ 5.000	US\$ 5.000
Staffing	US\$ 80.000	US\$ 100.000	US\$ 100.000
Fairs and seminars	US\$ 20.000	US\$ 30.000	US\$ 30.000
Local financed projects*	US\$ 30.000	US\$ 10.000	US\$ 5.000
Expenses	US\$ 30.000	US\$ 40.000	US\$ 40.000
Total invested	US\$ 260.000	US\$ 255.000	US\$ 260.000
Expected profit before taxes	US\$ 40.000	US\$ 205.000	US\$ 190.000

* includes donations for testing in universities

We expect to breakeven the investment on 2001 end where a product image will be established therefore we will be taking more projects. This forecast is estimating 20% gross margin for 2001 and 2002 and a reduction to 15% for 2003 due to some decreases in the prices caused by competition.

An extra investment in advertising is also planned for 2003 because probably we will need to defend our positioning due to an increase in the number of competitors offering similar solutions.

The investment in internet/intranet sites will be useful not only for this product but for the entire line.

The staff is planned to have 3 extra persons working as marketing support, visiting customers and developing projects.

Expenses are considering travel, personal gifts, lunches, etc...

We can earn some money also from training to those companies wanting to be an authorized installer, but it should be only to cover costs with a very low margin.



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8.0 – Controls

Financial Reports

In order to follow up closely our expenses and our sales the traditional monthly report will be changed in order to show the results of this special account separately. This is a prior condition that will allow us to have the right control over the investment.

It's very good to remember that our ad policy will be very focused on the specific segment of construction and carriers, with particular emphasis on construction, and any changes in this policy will make results be different.

Balanced Scorecard

Specially in this phase of the strategic plan, we are not going to focus too much on financial results because we are looking for positioning of the product, therefore we cannot trust only in the financial results.

This instrument will be very useful to check if the actions performed are reaching the objectives planned to achieve the forecasted result. Since that we are few people we need to have a quite simplified version of the scorecard.

Suggested Balanced Scorecard – Ericsson/Ribbonet

		2000	2001	2002
Process				
Time to Market	Days	90	60	30
Response Time	Days	20	12	7
Delivey Precision	%	70%	85%	99%
Customer				
Market Share	%	5%	20%	30%
Customer Satisfaction	%	80%	90%	90%
Customer Feedback	%	90%	80%	70%
Competence/Learning				
Installation Skills	Rate	6	7,5	9
Network Planning Skills	Rate	4	7	8
Window projects	number	5	3	2

Figure 13 – Balanced Scorecard

**E****EDB/Business Unit Cables****Internal and External Surveys**

External market surveys will be conducted in order to obtain data about our competition, products acceptance, market share, pricing, and customer satisfaction.

Internal surveys will be conducted in order to obtain employee feedback on strategies, products, compensation plan, manufacturing processes, and R&D in order to identify what are the most important areas of the company that need attention from our management.



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Exhibit 1

Market Attractiveness

Market Attractiveness					
Grades	Grade 10	Grade 05	Grade 01	weight	Final grade
Market Size	Big	Medium	None	0.1	1
Broadband demand	high	Medium	low	0.1	0.5
Home multimedia	High	Medium	Low	0.1	0.5
Business automation	High	Medium	Low	0.05	1
Tech. Requirements	Low	Medium	High	0.1	0.5
Competitive Intensity	Low	Medium	High	0.1	1
Life Cycle	Introduction	Growth	Matur./Decline	0.1	1
Competitors	Few	Medium	Many	0.1	1
Internet Growth	Fast	Medium	Slow	0.05	0.5
"Fiber fashion"	High	Medium	Low	0.05	0.5
New constructions	High	Medium	None	0.05	0.25
e-business growth	High	Medium	None	0.1	1
				1	8.75

Competitive Position

Competitive Position					
Grades	Grade 10	Grade 05	Grade 01	weight	Final grade
Market Share	Leader	One of the leadear	no leadership	0.05	0.25
Product Quality	higher	same	lower	0.1	1
Brand Reputation	Leader	same	low	0.1	1
Promotional Effec.	Goog	Average	Bad	0.1	0.1
Productive Cap	High	Medium	Low	0.05	0.25
Unit Costs	Lower	same	Higher	0.1	1
Managerial Personal	Good	Same	Poor	0.1	0.5
Local presence	High	Medium	None	0.1	1
Installation	Faster	Medium	Slower	0.05	0.5
Project speed	High	Medium	Low	0.1	0.5
Local production	Yes	Assembly	None	0.05	0.05
Dedicated personal	High	Medium	None	0.1	0.5
				1	6.65



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Exhibit 2

UNITIES OFFERED AND SOLD IN JULY - DATA BASED ON TYPE OF APARTMENT							
TYPE	OFFER	SOLD	FINANCING SYSTEM				SALES SPEED
			NATIONAL FIN.	CONSTRUCT	COST PRICE	OTHERS	% SALES/OFFERS
1 bedroom	1.901	181	5	176	0	0	9.5
2 bedrooms	6.075	944	615	329	0	0	15.5
3 bedrooms	6.138	663	353	310	0	0	10.8
> 3 bedrooms	1.125	57	14	43	0	0	5.1
TOTAL	15.239	1.845	987	858	0	0	12.1

AVERAGE SIZE OF APARTMENTS OFFER IN JULY - USEFUL AREA				
Apartment	1 bedroom	2 bedrooms	3 bedrooms	> 3 bedrooms
Area	42m ²	57m ²	82m ²	187m ²

UNITIES OFFERED AND SOLD IN JULY - DATA BASED ON APARTMENT VALUE							
RANGE	OFFER	SOLD	FINANCING SYSTEM				SALES SPEED
			NATIONAL FIN.	CONSTRUCT	COST PRICE	OTHERS	% SALES/OFFERS
R\$ thousands							
up to 50	1.987	790	518	272	0	0	39.9
from 50 to 75	2.684	283	222	61	0	0	10.5
from 75 to 125	5.862	566	213	353	0	0	9.7
from 125 to 250	3.380	167	20	147	0	0	4.9
> 250	1.335	39	14	25	0	0	2.9
TOTAL	15.239	1.845	987	858	0	0	12.1

ACTUAL APARTMENT STAGE LEFT FOR SALES IN JULY - 2000		
APARTMENT STAGE OFFERED	Nº OF UNITIES IN SALES PHASE IN JULY	Nº OF UNITIES SOLD IN JULY
Plant phase	3.960	448
Construction Phase	8.946	4.042
Totally finished	2.333	355
TOTAL	15.239	1.845

Source: SECOVI – July 2000