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THE BRAZILIAN INSTITUTE OF CORPORATE GOVERNANCE

Code of Best Practice of Corporate Governance

The main objective of the Code of Best Corporate Governance Practices is to suggest courses of action to all types of companies – whether listed or privately held corporations, limited liability companies or partnerships – with a view to:

improving their performance

facilitating access to capital

The Code is made up of six parts:

Owners – shareholders, quotaholders or partners

Board of Directors – the body representing the owners

Management – the chief executive officer and top managers

Auditing – the independent auditors

Surveillance – the fiscal council

Ethics/Conflicts of interest

The Code may include issues already covered by legislation or subject to new laws or regulations, but their application should be voluntary. Business owners willing to improve performance or gain access to capital are advised to follow the Code. Access to capital is not restricted to public offerings of shares, it also involves private equity operations and funds from a company's own cash flow generated through improved performance.

The pillars of this Code of Best Practice of Corporate Governance are

Transparency

Accountability

Fairness

Transparency

The Code requires that the CEO and management meet different information and transparency needs of the owners, the board of directors, the independent auditors, the supervisory board, the stakeholders, and the public at large.

Accountability

The following agents of corporate governance

board of directors,
CEO and management,
independent auditors and
fiscal council

should account for their results and activities to those bodies that elected them.

Fairness

Relations between all agents of corporate governance and the different types of owners must be based on fair treatment of all the parties involved.

Ethics

Good corporate governance is to comply with the law. In addition every company should have a statement of values and a code of ethics. The key issue of ethics is the avoidance of conflict of interests.

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This code is written for the Brazilian situation but should be applicable, wholly or in parts, in most countries in Latin America.

In Brazil the participation in the capital of a company can be in the form of shares or quotas. In order not to complicate the text, the word “owners” is used instead of “shareholders and/or quotaholders” or shareowners and/or quotaowners”.

Code of Best Practice of Corporate Governance

1. Owners – shareholders, quotaholders and partners

Topic	**Code**
1.01. One share/one vote	Companies contemplating an initial public offering (IPO) should consider issuing common shares (voting stock) only. Publicly-listed corporations, with common and preferred (non-voting) shares, should consider converting the latter into common shares or, in case of insurmountable difficulties, extending voting rights to holders of preferred shares, restricted to matters of their specific interest.
1.02. Agreements between owners	Agreements between owners should be available to all the owners. Agreements between owners should avoid specifying management nominations. This is up to the CEO, who subsequently submits his recommendations to the Board of Directors for approval.
1.03. Registration of owners	The names and addresses of the owners should be available to all of them.
1.04. The General Assembly	The General Assembly is the supreme decision-making body of the company. It " ..... has the power to make all business decisions regarding the company's objective and take the action it deems appropriate for the protection and the development of the company" (Company Law)
- 1.04.01. Responsibilities	The main responsibilities are: - Changes of the by-laws; - Elect or remove, at any time, members of the board of directors and the fiscal council; - Review the performance of the management; - Review and approve the annual report and the financial statements; - Decide about mergers, acquisitions, spin-offs, and the liquidation of the company.
- 1.04.02. Notice	The notice of the date for the Annual General Assembly should be given not later than the last day of the preceding fiscal year. The date should be chosen so as to facilitate the presence of the maximum number of owners.

	The notice of any Extraordinary General Meeting should be made at least 15 days in advance. In the case that the company has American Depositary Receipts the notice should be 40 days in advance.
- 1.04.03. Venue	The venue for the General Assemblies should be chosen so as to facilitate the presence of the maximum number of owners. The present company law should be changed accordingly.
- 1.04.04. Agenda and documentation	All the owners should receive the agenda and adequate documentation well in advance to be able to prepare for the decisions that are to be made. The agenda should <u>not</u> include "other matters" in order to avoid owners being faced by surprises and not being prepared for the corresponding decisions.
- 1.04.05. Owner resolutions	The owners should have the opportunity of including resolutions in the agenda.
- 1.04.06. Questions by the owners	The owners should be given a chance to request information from the board of directors, the independent auditors, or the fiscal council. The questions should be in writing and addressed to the Chairman of the General Assembly.
- 1.04.07. Voting rules	Voting rules should be well defined and made available to all the owners. They must be made with the purpose of facilitating the vote, including by proxy and other means. Custodians must vote according to the expressed or perceived wishes of the owners.
1.05. Change in corporate control	Since the majority of Brazilian companies have controlling owners, the acquisition of control or going private are currently the two most critical corporate governance problems in Brazil.
- 1.05.01. Acquisition of control	The acquisition should have transparent price and conditions. Subsequent acquisitions from minority owners and/or holders of preferred stock should be based on "tag along". This should be included in the company's by-laws.
- 1.05.02. Going private	A controlling owner that wants to acquire 100% of the capital should notify the other owners of his/her intentions. Whenever possible instructions issued by CVM (the Securities and Exchange Commission) shall apply to privately held or limited liability companies. The controlling owner should not take advantage of the

	fact that he/she is the sole buyer to bring down the acquisition price. The price should reflect the economic value.
- 1.05.03. Measures to protect the Board of Directors and/or the Management (poison pills)	The Board of Directors and the Management should not make any commitments with the specific purpose of protecting themselves and creating obstacles for a possible acquisition.
1.06. Insider trading	The use of inside information to negotiate shares or quotas should be forbidden and closely watched.
1.07. Arbitrage	Disagreements between owners should be settled by arbitrage. This should be included in the by-laws.
1.08. Family council	Any family controlled business should establish a family council to settle family issues and keep them apart from the governance of the company.

2. The Board of Directors

2.01. The Board of Directors	Any company should have a forum for its governance. In most cases this would be a Board of Directors.
2.02. The Board's mission	The mission of the Board of Directors is to protect the equity and to add value to the company and to maximize the return on the investment of the owners. The Board of Directors should endeavor to uphold the company's values and the owners' principles and purposes in the company's activities. These matters should be discussed, reviewed and approved in meetings of the Board of Directors.
2.03. Responsibilities	The responsibilities of the Board of Director are established in the Company Law. These involve defining strategies, electing and removing the CEO, supervising management and naming and removing independent auditors. The activities of the Board of Directors should be further specified in an internal instruction clarifying its roles and responsibilities. The Board of Directors should approve the company's code of ethics.
2.04. Committees	Several activities of the Board of Directors need more thorough analyses, which may exceed the meeting time available. Different committees, each made up of a few members of the board, must be set up. For example: nomination committees, audit committees, remuneration committees, etc. The committees study issues in their specific areas and submit the proposals accordingly. Only a full Board can make decisions. Each company must set up at least an audit committee.
2.05. Size	Boards of Directors should be as small as possible and may vary in size between 5 and 9 members, according to the needs of the company.
2.06. Internal and external board members	There are three kinds of board members: - independent (see 2.16) - external (Board members who do not work at the company, but are not independent) - internal (Board members that are company Directors or employees)

	The Board of Directors should supervise management. Supervising yourself is a typical conflict of interest situation. Therefore, the owners should avoid electing the CEO and other management personnel to the Board of Directors.
2.07. Executive sessions	The Board of Directors evaluate continously the CEO and top management. In order to do this without constraints, the independent and external board members should meet regularly in the absence of these people. The Chairman of the Board of Directors should subsequently give a feedback to the CEO and the top management.
2.08. Invitations to attend meetings	Key people from the company or technical assistants may occasionally be invited to the Board meetings in order to give information and/or discuss their activities. The CEO should be invited to attend the whole meeting with the exception of the executive session.
2.09. Evaluation of the Board and the individual Directors	A formal evaluation of the Board and each of the board members should be made every year. The evaluation method should be adapted to the circumstances of each company.
2.10. Board member qualifications	Every board member should: - be trustworthy - be capable of reading and understanding financial statements - have no conflicts of interest - have time available - be motivated - be aligned with company values - have strategic vision The following experiences and knowledge should be present among the board members: - experience of good boards, i.e., known for their excellence - experience as Chief Executive Officer - experience of crises management - knowledge of finance - knowledge of accounting - knowledge of the company's business - knowledge of local and international markets - connections of interest to the company Most of the board members should be independent (see below). The Board, as a whole, should be characterized by

	diversity of knowledge, experience and background.
2.11. Term of office	The board member's term of office should be clearly established. It should be short, preferably just one year long. Reelection should be possible after a formal evaluation of performance. Reelection should not be automatic. All the board members should be elected at the same time.
2.12. Age limit	Some people are unproductive even before 60 years of age. Others are very productive at 75. If the term is short and the evaluation method efficient, no age limit is necessary.
2.13. Change in a board member's main occupation	A board member's main occupation is an important factor in choosing him/her. When his/her main occupation changes, the board member should tender his/her resignation. The nominating committee should analyze the convenience of proposing his/her reelection.
2.14. Remuneration	The fees of the independent and external board members should reflect the time each is expected to devote to the company. The level of fees, on an hourly basis, should be compatible with the remuneration of the CEO including his bonus and fringe benefits.
2.15. External consulting	Board members should be entitled to consult with external professionals (lawyers, auditors, tax specialists, etc.) paid by the company to get a second opinion. The Board should include this matter in its internal instruction.
2.16. Independent board member	The majority of the board members should be independent from the company. The definition of independence is: - not having any ties with the company, except possible shareholdings - not having been an employee of the company or any of its subsidiaries - not providing any service or product to the company - not being an employee of any company providing any service or product to the company - not being married or related down to the second degree to any company director or manager - not being paid anything by the company except normal board member fees and possibly dividends (if also an owner).

	A board member should work for the good of the company, and consequently for all owners. A board member should seek maximum independence from the owner or stakeholder that may have nominated him/her, knowing that, once elected his/her responsibility should be to all owners.
2.17. The Chairman of the Board of Directors	The Chairman is responsible for the performance of the Board of Directors, for establishing its objectives and programs and for chairing its meetings. He has to make sure that the Board of Directors complies with the Company Law, the by-laws and internal instructions.
2.18. Chairman of the Board and CEO	The Chairman of the Board and the Chief Executive Officer should be two separate people. The logic is the same as in avoiding the election of the CEO and other management personnel to the Board of Directors. It is a conflict of interest to supervise yourself.
2.19. Independent board leadership (Lead Director)	If the Chairman of the Board and the CEO are the same person, it is important that the Board have a particularly influential member, someone who is highly regarded by his/her fellow executives and the business community in general, capable of balancing the power of that executive who is both Chairman and CEO.
2.20. Company spokesman	The Board of Directors should name one person as the company's spokesman, eliminating the risk of disagreement between statements by the Chairman, the CEO and others. If the manager of Investor Relations is another person he/she should be delegated specific powers by the company spokesman.
2.21. Evaluation of the CEO	Once a year, the Board of Directors should make a formal evaluation of the CEO's performance.
2.22. Succession Planning	The Board of Directors should always have an updated succession plan for the CEO and all other key persons in the company.
2.23. New board member introduction	A new board member should be given an introduction program that should include a Board file with a description of the Board Member's responsibilities, the latest annual reports, minutes of ordinary and extraordinary general assemblies, minutes of board meetings and other company information. The new board member should be introduced to his/her fellow

	board members, the CEO, top management and other key personnel. The new board member should also visit manufacturing facilities and other places of business. Depending on the needs of the company additional programs should be included.
2.24. Documentation for the board meetings	Board meeting efficiency depends heavily on the quality of the documentation handed out beforehand to the Board Members. Decision proposals must be adequately explained and supported. All documentation must be in the Board Members' hands before the weekend prior to the meeting. Board Members must have read everything and be prepared for the meeting.
2.25. Agenda	The agenda of the board meeting should be prepared by the Chairman of the Board, based on suggestions from Board Members and discussions with the CEO.
2.26. Minutes of the board meetings	Minutes should be clearly worded and should record decision made. Any board member may request that a dissident opinion be recorded. The minutes should be submitted to formal approval by the Board of Directors. In case of conflict between Board Members, the minutes should be signed before the end of the meetings during which the disagreement occurred.
2.27. Relations with the owners	The Board of Directors is elected by the owners whom it represents and to whom it is accountable for the performance and the actions of the company.
2.28. Relations with the CEO and the top management	The Board of Directors elects and removes the Chief Executive Officer and establishes his/her remuneration. The Board of Directors decides on proposals submitted by the CEO in regard to election of top managers. The Board supervises the action and the performance of the CEO and the top management. The Board of Directors should pay a special attention to the manner the CEO and top managers are handling relations between the company and its stakeholders. The Board of Directors should not interfere with the management in operational matters.
2.29. Relations with the Independent Auditors	The Board of Directors, representing the owners, selects and removes the Independent Auditors. It should approve the audit plan and negotiate the fees.

2.30. Relations with the Fiscal Council	The owners elect the Fiscal Council. The role and the responsibilities of the Fiscal Council are set forth by the Company Law.

3. Management – the Chief Executive Officer (CEO)

3.01. Responsibilities	The CEO is in charge of carrying out the guidelines established by the Board of Directors.
3.02. Nomination of top management	The CEO should nominate top management for the approval of the Board of Directors.
3.03. Disclosure	The CEO should disclose all important information, whether mandatory or voluntary, to the owners, the board of Directors and the stakeholders.
- 3.03.01. the annual report	The annual report is the most important and comprehensive information on the company. It should include every aspect of its business activities throughout the fiscal year, as compared to previous years. It should target a diverse public, including owners, investors, financial institutions, media, opinion makers, suppliers, communities, government departments, clients, staff, etc. The annual report should include an opening address by the Chairman of the Board or the CEO, a management report, and a set of financial statements with notes and the opinions of the independent auditors and the fiscal council (if elected). It is the responsibility of the management to prepare the annual report, but the Board of Directors should approve it and recommend adoption or rejection by the General Assembly.
- 3.03.02. compliance with the Code of Best Practice of Corporate Governance	The annual report should contain a statement of compliance with the Code of Best Practice of Corporate Governance, indicating which practices that the company followed.
- 3.03.03. remuneration and stock ownership of the members of the Board of Directors	International codes of best practice of corporate governance recommend that the annual report specify the remuneration and the number of shares/quotas held by each of the board members and top executives.
- 3.03.04. periodic information	Periodic information on publicly listed companies is regulated by CVM. Privately held or limited liability companies should do the same, to the extent applicable.
- 3.03.05. relevant events	Important events of extraordinary nature should immediately be reported to the owners, and, in the case of listed companies, to the stock market, as per instructions by the CVM (Securities Exchange Commission).

- 3.03.06. transparency	Company information should be balanced and include both positive and negative aspects, so as to allow the reader to correctly evaluate the company.
- 3.03.07. international accounting standards	Financial reports should also be prepared according to IAS (International Accounting Standards) or US GAAP (Generally Accepted Accounting Principles)
- 3.03.08. simultaneous disclosure	All information that may in any way affect investment decisions should be disclosed immediately to all users. The Internet and other information technologies offer interesting opportunities.
3.04. Code of ethics	Management should develop a code of ethics valid for the entire company. This code should be approved by the Board of Directors.
3.05. Relations with the Board of Directors/Accountability	The CEO is accountable to the Board of Directors for the activities and performance of the company.
3.06. Relations with Stakeholders	The stakeholders are the employees, customers, suppliers, banks, the government, environmental and non-governmental organizations, among others. Both the CEO and the top management are accountable to the Board of Directors for good stakeholder relations.
3.07. Relations with the Independent Auditors	The relationships between the CEO/Top Management and the Independent Auditors should be strictly professional.
3.08. Relations with the Fiscal Council	The Company Law defines the responsibilities of the Fiscal Council. The CEO and Management should cooperate with the Fiscal Council, so that it may accomplish its mission.

4. Auditing – The Independent Auditors

4.01. The independent auditors	An independent audit is an important tool for owners of all types of companies, since the auditors' main role is to verify whether the financial statements adequately reflect the real situation of the company.
4.02. Responsibilities	The Independent Auditors should give an opinion on the financial statements to be submitted to the owners and/or the market, in accordance with professional standards and, for that purpose, assess the company's internal controls and procedures.
4.03. Audit plan and fees	The Board of Directors, assisted by its audit committee (if in place), should establish the audit plan together with the Independent Auditors and reach an agreement on the fees. During the first year, the auditors are getting familiar with the company and will naturally devote many more work hours than in subsequent years. This should be reflected in their remuneration.
4.04. Contract duration	The auditors should be contracted for a specific number of years in order to ensure the independence of their opinions. The contract may be renewed after na evaluation of independence and performance.
4.05. Consulting	Some independent auditors are offering both audit and consulting work. The Board of Directors, or the Audit Committee (if in place), should make sure that there is a clear separation between auditing and consulting. Otherwise, it should either contract different consultants, or different Independent Auditors.
4.06. Relations with the Owners, the Board of Directors and the Audit Committee Accountability	The Independent Auditors are selected by the Board of Directors as representative of the owners. The Independent Auditors are therefore accountable directly or indirectly to the owners.
4.07. Relations with the CEO and the Management	The Independent Auditors' relations with the CEO, the Management and other company employees should be at arm's length and strictly professional.
4.08. Relations with the Fiscal Council	The responsibilities of the Fiscal Council are established by Company Law. The Independent Auditors are obliged, on request, to give explanations and information to the Fiscal Council.

	In order to avoid conflicts of interest, the Independent Auditors should not be members of the Fiscal Council.
4.09. Annual statement of independence	The Independent Auditors should annually submit a letter to the Board of Directors/Audit Committee confirming their independence as per recommendations of the Independence Standards Board.

5. Surveillance – The Fiscal Council

5.01. The Fiscal Council	The Fiscal Council is a Brazilian institution, created with the purpose of bridging a gap in the activities of the Board of Directors. It was created because most companies have a controlling shareholder that normally dominates the Board of Directors. The minorities and the owners of non-voting stock have no influence and little information. The Fiscal Council is a partial remedy to this. It has access to information and can express its opinion in the General Assembly.
5.02. Responsibilities	The responsibilities of the Fiscal Council are established in the Company Law.
5.03. Relations with the owners	The Fiscal Council is elected by the owners. The Fiscal Council is accountable to the owners.
5.04. Relations with the Board of Directors, the CEO, and the Management	The Fiscal Council, or any of its members, is entitled to request copies of the minutes of the meetings of the Board of Directors, financial statements, clarifications, and information. Members of the Fiscal Council may sit in during the meetings of the Board of Directors or the Management, whenever these meetings include discussions of matters that require the opinion of the Fiscal Council.
5.05. Relations with the Independent Auditors	If the company has independent auditors, the Fiscal Council may ask them for clarifications and information. If the company does not have independent auditors, the Fiscal Council may, at the expense of the company, hire an accountant or auditing firm for that purpose.

6. Ethics/ Conflicts of interest

6.01. Code of Ethics	Every company should have a Code of Ethics that covers the owners, the Board of Directors, the Management the employees and representatives. The Code of Ethics should be developed by the Management and approved by the Board of Directors.
6.02. Scope	The code of ethics should cover: - true and complete accounting - correct invoice values - bribery and improper payments - loans to the controlling owner - use of assets by controlling owner - conflict of interest - security of proprietary information - receiving gifts - giving gifts - discrimination - environment - sexual harassment - workplace safety - political activities - community relations - employee privacy - substance abuse - nepotism - child labor
6.03. Conflicts of interest	There is a conflict of interest whenever a party is not independent in regard to a particular issue and the party in question might influence or make decisions in this regard. A few definitions of independence have been given for members of boards of directors (2.06, 2.16 and 2.18) and independent auditors (4.04, 4.05, 4.08 and 4.09). Similar criteria are valid for management or any other company employee or representative. The person in question should identify his/her conflict of interest. If he/she fails to do so, any other person should speak up.
6.04. Conflict of interest procedures	As soon as a conflict of interest has been identified the person in question should leave the meeting room and only return once the discussions have finished and the decisions have been taken. The temporary absence should be recorded in minutes.