CVM RECOMMENDATIONS ON CORPORATE GOVERNANCE

June 2002

This code contains recommendations by Comissão de Valores Mobiliários (CVM – the Securities and Exchange Commission of Brazil) on good corporate governance practices. The adoption of such practices usually implies higher behavior standards than those required by law, or by CVM itself. This is why non-compliance with this code is not subject to punishment by CVM.

Notwithstanding the above, CVM will soon require that public companies include their level of adherence to these practices in their annual filings, in the form "comply or explain". If a company does not adopt a recommendation, it should explain its reasons.

It should be noted that CVM views corporate governance as a dynamic process rather than a fixed set of measures. This code will be updated annually in line with changes in regulation and in the Brazilian and international markets.

INTRODUCTION

Corporate governance is a set of practices aiming to optimize a company's performance and protect stakeholders such as investors, employees, and creditors, thus facilitating access to capital. The analysis of corporate governance practices applied to the securities markets involves: transparency of ownership and control, equal treatment of shareholders, and disclosure.

For investors, the analysis of governance practices is an important aid to investment decisions. Such practices determine what kind of role investors may play in a company, enabling them to exercise influence on its performance. The goal is to increase a company's value, because good corporate governance practices reduce the cost of capital, increasing the viability of the securities market as a source of funding.

The act of investment carries an inherent risk; the investors share of the profits may be reduced by unscrupulous behavior on the part of the company's controlling shareholders or managers. The adoption of good corporate governance practices constitutes a set of mechanisms through which investors, including controlling shareholders, protect themselves against deviation of assets by individuals with the power to influence or take decisions in the name of the company.

Companies with a governance system that protects all investors tend to have higher valuations, because investors recognize that everyone will receive the due and respective return on their investment.

With the publication of this code, CVM seeks to foster development of the Brazilian securities markets by disseminating good corporate governance practices. Its goal is to give guidance on questions that can significantly influence relationships between management, board members, independent auditors, and controlling and minority shareholders. CVM emphasizes that this code does not purport to be the final word in corporate governance, and, therefore, understands that companies can and should go beyond these recommendations. This code is built on CVM's 25 years of experience plus the analysis of other countries' experiences and national and international corporate governance codes and research.

CVM sought to adapt some international corporate governance concepts to Brazil's reality, especially, to the prevalence of companies with a defined controlling group. It is worth emphasizing that some important corporate governance concepts are already part of Brazil's legal structure and for this reason they are not mentioned here.

I. TRANSPARENCY OF OWNERSHIP AND CONTROL, SHAREHOLDER MEETINGS

General Shareholder's Meeting Notice and Agenda

I.1 General shareholder's meetings are to be held at times and on dates that do not impair shareholder's attendance. Meetings' notices should contain precise descriptions of issues to be discussed. Regardless of the percentage required by law for calling shareholder meetings, the board should include in the agenda relevant and timely issues suggested by minority shareholders.

Regular general meetings should take place on the nearest possible date to the end of the relevant fiscal year. The above recommendations aim to facilitate participation in the conclave, ensure accurate and complete information about relevant resolutions to be discussed and allow the largest possible number of relevant issues to be submitted to the general meeting, avoiding the need to call further meetings..

General Shareholder's Meetings Deadlines

I.2 When there are complex issues on the agenda, the company should call for meetings at least 30 days in advance. Companies with programs of foreign depositary receipts programs, such as ADR-American Depositary Receipts and GDR-Global Depositary Receipts (both, "DR"), representing common shares (*ações ordinárias*) or preferred shares (*ações preferenciais*) holding voting rights for certain issues should call for meetings at least 40 days in advance.

The first recommendation aims to make it unnecessary for minority shareholders to ask the CVM for a delay in the date of the meeting, as permitted by law, thus sparing the company and its shareholders' time. The recommendation for companies with DR programs aims to allow a greater participation of DR holders in general meetings, taking into account the operational difficulties inherent to the exercise of voting rights by such shareholders.

Shareholder Agreements

I.3 The company should make available to all shareholders any shareholders agreements of which it is aware, including those to which the company is a party.

This recommendation aims to emphasize that knowledge of shareholder agreements, as well as company's by-laws, is essential for shareholders to evaluate their rights and the workings of the company.

Shareholder Lists

I.4 The company should adopt and release standard procedures that enable shareholders easily to obtain the list of shareholders . The quantity of shares held should be specified in the list. In the case of request by shareholders with at least 0.5% of share capital, a contact address should also be provided.

Legal mechanisms already exist whereby the shareholders may obtain shareholder lists and their number of shares, but experience has shown that many shareholders face practical difficulties in obtaining such lists. The standardization of procedures aims to simplify access to such information. In addition, in order to facilitate its use, the list should also be made available through widely adopted electronic means.

Easy access to the lists is important because the law establishes minimal percentages of the capital to put into effect some relevant corporate actions (establishment of a fiscal board, calling for shareholder meetings, rendering of information and others), and access to the lists facilitates shareholder organization.

Contact addresses for correspondence may be electronic addresses. Shareholders who request and are willing to bear the costs can ask the depositary agent to send correspondence to all shareholders in their name.

Voting Process

I.5 Company by-laws should clearly regulate requirements for shareholders' voting and representation at meetings, in order to facilitate participation and voting.

At the shareholder's meeting, the company should adopt the principle of good faith when supervising a shareholder's documentation and assume them to be truthful. No formal irregularity, such as presentation of copies, or the lack of notarized signatures or validated copies, for example, should be reasons to impede voting.

II. STRUCURE AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS'

Board of Directors' Function, Composition and Term of Office

II.1 The board of directors should seek to protect the company's assets, ensure that the objectives of the company are carried out, and guide management with the goal of maximizing return on investments, adding value to the company. The board of directors should have five to ten technically qualified members, with at least two members possessing experience in finance and primary focus on accounting practices. Such experience should enable them to take responsibility for scrutinizing the adopted accounting practices. As many board members as possible should be independent of company management. For companies under shared control, boards with more than nine members are justifiable. All board members should serve concurrent one year terms of office, with the possibility of re-election.

The recommendation about the number of members takes into consideration that the board of directors should be large enough as to ensure wide representation but not so large as to impair efficiency. Unified office terms facilitate the representation of minority shareholders on the board.

Functioning and Committees of The Board of Directors

II.2 The board should adopt its own by-laws about its duties and how often, at a minimum, it should meet . It should also set up specialized committees to analyze certain questions in depth, especially relationships with auditors and operations among related parties. The board of directors should make annual formal evaluations of the chief executive officer's performance. Board members should receive materials for their meetings in advance, with the timescale reflecting the degree of complexity of the issues to be covered.

The board's by-laws should establish procedures for meetings to be called, for board members to request information, board members' rights and duties, and their relationship with the management. The board should be allowed to request the hiring of external specialists to assist with decisions, when it deems necessary. The by-laws should give any board member the authority to call for a meeting in special cases, such as when the member in charge of calling meetings fails to carry out this function.

Specialized committees should be formed by members drawn from the board of directors. The committees should study their subjects and prepare proposals, which should then be submitted to the vote of the board of directors.

Preferred Shareholders' Membership of the Board of Directors

II.3 The company should immediately allow holders of preferred shares to elect a representative to the board of directors, to be nominated and chosen solely by the preferred shareholders.

The Corporate Law establishes that until 2006 preferred shareholders can choose a member of the board of directors from a list of three names appointed by the controlling shareholders . But such a measure is not justified in light of the best corporate governance practices, and therefore the company should include in its by-laws a rule that ensures right away that holders of preferred shares who are not part of the controlling group may freely nominate and elect a member and its surrogate to the board of directors.

Chairman of the Board and Chief Executive Officer

II.4 The chairman of the board and the chief executive officer shall not be the same person.

The board of directors supervises management. Therefore, in order to avoid conflicts of interests, the chairman of the board should not also be the chief executive officer.

III. MINORITY SHAREHOLDER PROTECTION

Relevant Decisions

III.1 The majority of share capital, regardless of type or sort, should have the right to deliberate on decisions of high relevance, with each share representing one vote. Among decisions of greater importance, the following stand out: (1) approval of evaluation reports of assets to be incorporated into the company's capital; (2) alteration of the company's activity; (3) reduction of compulsory dividends; (4) mergers, spin offs, or incorporations; and (5) relevant transactions with related parties.

For certain decisions, such as those cited above, no voting restrictions on preferred shares should apply. This is because such decisions have an impact on the rights of all shareholders. For relevant transactions with related parties, the interested parties should not be allowed to vote.

Tag-along for Companies Incorporated Before Law 10,303, of October 31, 2001, Went Into Effect

III.2 The sale or transfer of shares representing a company's control must be contracted under the condition that the buyer makes a tender offer for all remaining shares of the company for an equal price, regardless of type or sort.

According to the Corporate Law, the buyer is obliged to make a tender offer for all common shares not in the controlling group for at least 80% of the price paid for each control share. According to good corporate governance practices, the buyer shall give the same treatment to all types and sorts of shares. Therefore, the price offered to minority voting shareholders should be extended to all remaining shares of the company.

Tag-along for Companies Incorporated After Law 10,303/2001 Went Into Effect

III.3 For companies incorporated after Law 10,303/2001 went into effect the buyer shall offer the same price paid for the controlling group shares to all other shares.

The goal is that newly incorporated companies go beyond recommendation III.2, and, in case of a change in control, assure equal treatment to all shareholders, minority and controlling, regardless of their share type or sort.

Transactions Among Related Parties

III.4 The board of directors should ensure that transactions among related parties are clearly reflected in the financial statements and were carried out in writing and under market conditions. The company's by-laws should prohibit service contracts among related parties with

remuneration based on sales/revenues and, in principle, loan agreements with any shareholder in the controlling group or related parties.

Regardless of the usual caution adopted to certify that contracts are established the best possible manner, it is imperative to give transparency to contracts between related parties, in order to enable shareholders to supervise and follow the actions of the company. This does not preclude a company's duty to broadly publicize such contracts to the market, in declarations of fact and when publishing financial statements.

Contracts between related parties should be in writing, detailing the main characteristics (rights, responsibilities, quality, prices, commissions, deadlines, and others). During shareholder meetings to discuss such contracts, if minority shareholders deem it necessary, they can ask for a written opinion from an independent entity, to be paid for by the company.

In principle, loan agreements between the company and related parties should be prohibited. The company should not grant credit to related parties. Such operations are frequently not carried out under prevailing market conditions, (terms, rates and guarantees), and therefore are not in compliance with legal requirements. If the related party seeks credit, it should do so with third parties, and not through the company.

Service contracts among related parties between the company and any shareholder in the controlling group or related parties should be in line with the interest of all the company's shareholders. Specifically, such contracts should not be based on sales/revenues, since then part of the remuneration of the controlling shareholders or related parties will not depend on the company's operational performance.

Voting Rights of Preferred Shares When Dividends Are Not Paid

III.5 The company's by-laws should determine that, if the general meeting does not declare payment of dividends to shares with rights for fixed or guaranteed-minimum dividends, such shares immediately attain the right to vote. If the company does not pay dividends for three years, non-voting shares will acquire the right to vote.

Shares with fixed or guaranteed-minimum dividends shall immediately acquire voting rights if the owed dividends are not declared or paid. Any non-voting share that does not receive dividends for three years acquires voting rights.

Arbitration for Corporate Questions

III.6 The company's by-laws should establish that divergences between shareholders and the company or between controlling shareholders and minority shareholders will be solved by arbitration.

The adoption of arbitration aims to speed up the solution for stand offs, with no resultant loss of quality in the judgements. The efficacy of such a measure

depends on the choice of an arbitration panel composed of members with ample experience and expertise in corporate matters.

Proportion of Common and Preferred Shares

III.7 Public companies incorporated before Law 10,303/2001 went into effect should not raise the proportion of preferred shares above the limit of 50%, which was established by the referred law for new public companies. Companies with more than 50% of their capital represented by preferred shares should not issue new shares of this sort.

The goal is to encourage companies to have their capital composed of more shares with voting rights.

IV. ACCOUNTING AND AUDITING

Management's Discussion and Analysis

IV.1 Each quarter, along with the financial statements, the company should release reports prepared by management with a discussion and analysis of the factors that most influenced results, indicating the main internal and external risk factors to which the company is subject.

The management's discussion and analysis report should explain significant changes in the financial statements. Relevant events of the period shall be commented on, from the accounting/financing and strategic points of view. The company should also guide shareholders about perspectives on its business environment and detail policies adopted by management to create value for shareholders. Risk factors should cover those risks inherent to the company, risks provided by the competition, and those resulting from macroeconomic factors in its fields and regions of operation.

Composition and Performance of the Fiscal Board

IV.2 The fiscal board should have a minimum of three and a maximum of five members. Holders of preferred shares and holders of common shares, excluding shareholders in the controlling group, should have the right to elect an equal number of members as the controlling group. The controlling group should renounce the right to elect the last member (third or fifth member), who should be elected by the majority of share capital, in a shareholder's meeting at which each share represents one vote, regardless of its type or sort, including controlling group shares. The fiscal board should adopt by-laws covering its duties, with a focus on analyzing the relationship with the auditor. The by-laws should not restrict any member's individual initiatives.

According to principles of good corporate governance, the fiscal board's majority should not be elected by the controlling shareholder. In addition, with the aim of efficacy, by-laws should stipulate the frequency of board meetings , the method for calling such meetings, that meeting materials be provided in advance, rights and duties of board members, relationship with management and auditors and procedures to request information. The fiscal board should also meet when requested by representatives of the minority shareholders, if such a request is deemed to be well grounded. The board of directors should provide appropriate means for the good functioning of the fiscal board, such as notices and locations for meetings, agenda organization and assistance with information requested by members of the fiscal board.

Relationship with the Independent Auditor

IV.3 An audit committee, composed of members of the board of directors with experience in finance and including at least one board member representing minority shareholders, should supervise the relationship with the auditor. As part of the analysis of the company's

financial statements, the fiscal board and the audit committee should meet regularly and separately with the auditors, without the presence of executive officers.

This recommendation seeks to ensure that specialists capable of analyzing the company's financial statements examine and discuss them in detail, and propose to the board of directors any alterations needed to better reflect the company's financial, economical and assets situation. Naturally, if a company executive is a member of the board of directors, he or she should not participate in the audit committee. Any member of the audit committee may request an individual meeting with management or auditors when necessary.

Auditor

IV.4 The board of directors should prohibit or restrict hiring the company's auditor for other services that may present conflicts of interest. When the board of directors allows the hiring of the auditor for other services, they should , at least, establish for which other services the auditor may be hired, and what maximum annual proportion such services could represent in relation to the auditing costs.[1]

Good governance practices recommend the auditors' complete independence as a requisite for the quality of their service. The restriction to render other services aims to avoid the loss of this independence over time.

Access to Information

IV.5 The company should make information available at the request of any member of the fiscal board, with no limitations regarding prior terms, as long as such information is related to matters currently under analysis, and with no limitations on subsidiaries or related companies, as long as it does not violate the secrecy imposed by law.

The fiscal board's supervisory capacity shall be the broadest possible, due to responsibilities imposed by law in the case of misconduct. All documents and information which have any influence on the numbers under analysis should be made available, unless access is restricted by legal secrecy obligations.

[1] *CVM's Instruction 308 already covers certain issues mentioned in item IV.4-Auditor, but at the moment of publication of this code, this Instruction was partially suspended by a preliminary court order.*

Accounting Information

IV.6 The company should adopt, in addition to accounting standards in force in Brazil, either standards promulgated by the International Accounting Standards Board *(IASB)* or United States Generally Accepted Accounting Principles*(US GAAP)*, attested by an independent auditor.

The major markets are moving towards an international accounting standard that helps investors analyze a company's performance and compare it with its peers. European Union countries have to adopt IASB standards by 2005, and the International Organization of Securities Commissions (*IOSCO*), during its 2002 meeting, recommended that all of its members converge into FASB accounting standard

Small companies, for which costs to produce international standards statements are high, should at least include a cash flow statement. Relevant off-balance-sheet transactions should be detailed in the notes to the financial statements.

Auditors' Recommendations

IV.7 The auditor's recommendations note should be reviewed by all members of the board of directors and the fiscal board.

This recommendation takes into account that, frequently, in addition to publishing their opinion, auditors present company management with a recommendations note, including procedures aiming at improving the quality of financial statements or of the company's own practices. Such a document should be presented to the board of the directors and the fiscal board, in order that the proposed measures can be evaluated.

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