

BNDES PROGRAM TO ENCOURAGE ADOPTION OF CORPORATE GOVERNANCE PRACTICES

Announced December 2002

Corporate Governance. The Program to Encourage Adoption of Corporate Governance Practices [*Programa de Incentivo à Adoção de Práticas de Governança Corporativa*], membership in which is voluntary, was set up with the aim of putting into practice the concept that better governance reduces the cost of capital. The BNDES already pursues better governance in its equity investments and in certain programs, such as the Program to Support New Joint-Stock Companies [*Programa de Apoio às Novas S/A*] and the Private Equity and Emerging Companies Funds.

This new program, which is intended for enterprises with average annual net revenues in excess of R\$100 million in the last two years, will take effect in June of next year, thereby giving the participating enterprises time to make any necessary adjustments. Those which opt to join the program will be entitled to a Corporate Governance Bonus, which will represent a greater participation by the BNDES in the total value of the investment, lengthening of the repayment period and/or reduction of the financial cost, in accordance with the levels of the program's requirements (see table in annex).

In addition to the requirements of the program, participation in which will be voluntary, in June 2003 a number of mandatory corporate governance rules will also be introduced that will apply to all enterprises with average annual net revenues in excess of R\$100 million in the last two years. These rules are designed to establish a minimum level of corporate governance considered appropriate for the current level of development of the Brazilian capital market.

Enterprises with average annual net billings of less than R\$100 million in the last two years will be able to join the program provided they also comply with the mandatory rules.

The program is made up of four packages, with different degrees of requirements regarding corporate governance practices, compliance with which will entitle the enterprises to obtain benefits in financings from the BNDES. The packages will be designated Bronze, Silver, Gold and Platinum. Each package will be made up of standard items and additional items (see table in annex).

Flexibility will be permitted for the enterprises to choose in each package of requirements the set of practices they must adopt to be entitled to receive the Corporate Governance Bonus. For example, in the Bronze Package they will be allowed to select four of the seven standard items plus four of the additional items. To move up to a higher package, enterprises participating in the program will have to meet all the requirements specified in the package in which they were classified.

The program rules will be reviewed annually so that they can be adjusted as appropriate. Compliance with the requirements set will be monitored by the BNDES, which will create a

specific databank for tracking the participants' performance in terms of corporate governance practices.

**PROGRAM TO ENCOURAGE ADOPTION OF
CORPORATE GOVERNANCE PRACTICES**

Corporate Governance Bonus

The financing will incorporate the following benefits applied on the normal conditions defined by traditional analysis:

- $\text{Cost} = \text{Long-Term Interest Rate} + \text{Basic Spread} + \text{Risk Spread} - \text{Bonus}$
 - $\text{BNDES \% participation} = \text{Normal \% participation} + \text{Bonus \%}$
 - $\text{Term} = \text{Normal term} + \text{Bonus}$
-

- | | |
|-----------------------|--|
| Bronze Package | <ul style="list-style-type: none">• Lengthening of the total amortization period by 1 year.• Increasing of the level of BNDES participation in the project financing by 10 percentage points.• No reduction of cost. |
|-----------------------|--|
-

- | | |
|-----------------------|---|
| Silver Package | <ul style="list-style-type: none">• Lengthening of the total amortization period by 2 years.• Increasing of the level of BNDES participation in the project financing by 20 percentage points.• No reduction of cost. |
|-----------------------|---|
-

- | | |
|---------------------|---|
| Gold Package | <ul style="list-style-type: none">• Lengthening of the total amortization period by 3 years.• Increasing of the level of BNDES participation in the project financing by 25 percentage points.• 0.50% cost reduction. |
|---------------------|---|
-

- | | |
|-------------------------|---|
| Platinum Package | <ul style="list-style-type: none">• Lengthening of the total amortization period by 3 years.• Increasing of the level of BNDES participation in the project financing by 25 percentage points.• 0.70% cost reduction. |
|-------------------------|---|

Mandatory Rules of Corporate Governance

All of these rules must be complied with:

1. Prohibition of loans or guarantees from the controlled company to the controlling shareholder, when the companies have different partners.
2. Presentation of audited financial statements prepared by an audit firm accredited by the CVM.
3. Prohibition of the existence of partnership shares for closed companies, as already stipulated by law for open companies (Law 10,303, Art. 47, sole proviso).
4. Transactions with related parties must:
 - i) be described in the financial statements as specified in the CVM;
 - ii) be carried out at market conditions;
 - iii) form part of the company's business goals;
 - iv) be the object of an official declaration by the managers and board members certifying items ii) and iii).

For open companies, major contracts with related parties (total value in excess of 10% of the companies' net worth) must be voted on by all shareholders convened in a General Meeting.

Program to Encourage Adoption of Corporate Governance Practices

| BRONZE PACKAGE | At least four standard items plus four additional items must be selected. |
|-----------------------|---|
| Standard items | <ol style="list-style-type: none"> 1. Shareholder's agreements must be made public to the BNDES and to all shareholders in the company who so request. 2. Auditors may not provide other services to the company. 3. The audit firm used must be changed at least every four years. 4. There must be at least one independent director on the Board of Directors. 5. Standard term of office of one year for all board members, with possibility of re-election. 6. Access to the updated list of shareholders for any holder of shares in the company for purposes of representation in meetings. 7. Family-controlled companies must have a Succession Plan (mandatory for family-controlled companies). |

| | |
|--|--|
| | <ol style="list-style-type: none"> 8. Voting rights extended to all shareholders for approval of all matters pertaining to compensation programs in shares/options. 9. Election of one member of the Board of Directors by the preferred stockholders with immediate effect in accordance with the rules set forth in Art. 141, para. 4, subparagraph II of Law 10,303. 10. Supervisory Audit Board to be composed of: one representative of the minority shareholders holding ordinary shares, one representative of all shareholders holding preference shares, and one representative of the controlling shareholder, with the other members, if any, being elected by the votes of all the shareholders (ordinary and preferred). |
|--|--|

| | |
|-------------------------|---|
| GOLD PACKAGE | <p>All the Bronze Package items must be selected.</p> <p>All the Silver Package items must be selected.</p> <p>At least two standard items plus four additional items must be selected.</p> |
| Standard items | <ol style="list-style-type: none"> 1. Right to “tag-along” sale for minority shareholders in the event of sale of control of the company, offering 100% of the value paid to the controlling party for the holders of ordinary and preferred shares. 2. The company must have voting stock only. 3. Financial Reports must be published in the US-GAAP or IAS-GAPP format (<i>only for open companies</i>) |
| Additional items | <ol style="list-style-type: none"> 4. Availability by electronic means of shareholder’s agreements and the other data required by the CVM, for purposes of public information to any interested parties. 5. Prohibition of any one individual combining the positions of President of the Board of Directors and Chief Executive. 6. Minimum Float of shares representing 25% of the company’s capital. 7. Appointment of a company officer specifically for the verification and implementation of corporate governance rules laid down in this program. 8. Establishment of the Committee on Appointments and Compensation to advise the Board of Directors. |

| | |
|-------------------------|--|
| PLATINUM PACKAGE | All the Bronze Package items must be selected. All the Silver Package items must be selected. All the Gold Package items must be selected. At least three standard items must be selected. |
| Standard items | <ol style="list-style-type: none"> 1. The majority of the Board of Directors must be independent directors. 2. The Board of Directors must have the right to hire advisers (legal, accounting, tax, financial) in order to obtain a second opinion on matters submitted by the management. 3. Establishment of a Corporate Governance Committee to advise the Board of Directors with planning for the subject and written rules. 4. The “non-management” directors must meet regularly and formally without the company managers being present. |

**Free Translations Courtesy of International Finance Corporation
(contact Mike Lubrano 202-473-7891)**