BRAZILIAN CORPORATION AND SECURITIES COMMISSION LAWS REFORM

Summary of the Bill Passed by the House of Representatives on March 28, 2001

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PREFERRED SHARES

- Non voting shares - capped at 50% of the capital stock for new companies and IPOs of non-listed companies.
- Companies already listed may keep the 2/3 non voting share ratio, including in future share issues.
- Possibility of overriding shareholders' preemptive rights in future capital increases to adopt the new 50/50 common/preferred share ratio.

PREFERRED SHARES

- **Minimum preferences for trading on the market:**

  (A) priority in receipt of dividends corresponding to at least <u>3% of the book value per share</u> (after this priority condition is met, equal conditions with common shares); <u>or</u>

- **(B) dividends 10% higher than those paid for common shares; <u>or</u>**

  (C) tag-along right at <u>80%</u> of the price paid to the controlling shareholder(s) in case of transfer of control.

PREFERRED SHARES

- A one-year term to adapt the company’s bylaws. Minimum preferences immediately applicable to issues of new preferred shares.
- Voting rights are vested if the company fails to distribute the 25% mandatory dividend.
- Golden Share - privatized companies - Government may keep veto rights over certain matters at the Shareholders’ Meetings.

REDEMPTION ("*Resgate*")

- **Approval from at least half of the affected class of shares, unless there is a provision to the contrary in the Company's bylaws.**

DEBENTURES

- Amortization/redemption in cash, assets or rights.
- Indenture registered with the Board of Trade instead of the Real Estate Registry.

ARBITRATION

- Bylaws may provide for resolution of disputes by arbitration - Arbitrator to be specified.
- Shareholders' agreement- arbitration award will produce all the effects of a vote that is not cast.

SHAREHOLDERS' AGREEMENT

- Aggrieved shareholder - right to vote with shares held by the absent, silent or abstent shareholder or Board member.
- Impossibility of termination if the agreement provides for a defined term or condition.
- Proxy - acceptability of a term exceeding one year.
- Appointment by the shareholders of a person to act as representative with the Company.

SHAREHOLDERS' MEETINGS CALL NOTICE

- **1st call - listed companies - 15 days in advance.**
- **2nd call - listed companies - 8 days in advance.**
- **CVM - may request a 30-day call in advance for complex transactions. Possibility of a 15-day stay in the time frame and of notification of any breaches in legal/regulatory provisions.**
- **Remittance of transaction documents to Stock Exchanges on the same day of the publication of the call notice.**

RIGHT TO WITHDRAW (“*Direito de Recesso*”)

- **Consolidation, merger and participation in a group of companies - the right to withdraw does not apply if there is liquidity and dispersal (“*dispersão*”) of the type or class of shares in question on the market.**
- **Liquidity - participation in a stock index, in Brazil or abroad.**
- **Dispersal - controlling shareholder(s) holds less than half of the type or class of shares in question.**

RIGHT TO WITHDRAW (“*Direito de Recesso*”)

- **Partial Spin-off - The right to withdraw applies in case of:**

  (a) change in the corporate purpose, unless the Company’s assets/liabilities are contributed to a company that is engaged in substantially the same activities;

  (b) reduction in the mandatory dividend; or

  (c) participation in a group of companies.

BOARD OF DIRECTORS

- **1/3 of the Board members may be foreign individuals resident outside of the country.**
- **Non-controlling shareholders - Election of (I) two Board members by separate cast by: (a) at least 15% of the voting shares; and (b) preferred non voting or restricted voting shares, representing 10% of the total capital stock; or (II) (c) election of one Board member by voting and non voting non-controlling shareholders representing at least 10% of the total capital stock.**
- **Stand-by period - Up to the 2005 Annual Shareholders' Meeting, Board members elected in accordance with letters (b) and (c) above must be chosen out of a list with three names prepared by the controlling shareholder(s).**

BOARD OF DIRECTORS

- **Bylaws - possibility of providing for election of one Board member by employees.**
- **CADE (*Brazilian Antitrust Agency*) may veto Board members that may represent a potential risk to "free competition" (the same individual participating in the Board of Directors of two competitors, for example).**
- **Resolution by majority vote. The Company's bylaws may set a supermajority vote for approval of certain matters.**

INDEPENDENT AUDITORS

- Veto right ensured to the Board members elected by the non-controlling shareholders.

- Working papers should be kept available for investigation for at least five years.

FISCAL BOARD
(*"Conselho Fiscal"*)

Rules applicable to listed companies:

- **One member elected by the majority of the (a) preferred non-voting and restricted voting shareholders together with (b) voting shareholders, excluding the controlling shareholder(s).**
- **One member elected by the controlling shareholder(s).**
- **Third member elected by the majority of the voting and non voting shareholders.**

INSIDE INFORMATION

- Specific provision against the use of privileged information by any insider.
- Managers (executive officers, board of directors and fiscal board members) and shareholders that elected such managers - Duty to promptly inform changes in their stock ownership positions to CVM and Stock Exchanges.

PREEMPTIVE RIGHTS

- **Waiver of or reduction in the 30-day period for exercise of preemptive rights for subscription of capital increases, in the following events: (a) placement/disposal of shares in Brazil or abroad, on Stock Exchanges or through public distribution, <u>provided that actual dispersal is ensured (as defined by CVM)</u>; or (b) exchange offer in takeover bids.**

TAG-ALONG RIGHT

- **Proposal to restore the mandatory tender offer to minority voting shareholders in case of change of control - Tender offer price should be 80% of the price per share paid to the controlling shareholder(s).**
- **Minority non voting shareholders may have the same right if established in the bylaws.**
- **Exclusion of companies under privatization programs, provided the bidding notice is published before the new law comes into force.**

DELISTING

- **Tender offer at fair value for cancellation of registration with CVM. Fair value to be computed based on one or more of: (a) book value; (b) "market value of the net worth"; (c) discounted cash flow; (d) market comparables; (e) stock price on the market; or (f) any other criteria accepted by CVM.**
- **Minority shareholders representing at least 10% of the free float will have the right to request for the call of a special shareholders' meeting to approve the preparation of another appraisal based on the same or a different criteria originally adopted to define the fair value.**

DELISTING

- Mandatory tender offer at fair value if the controlling shareholder(s) reaches a percentage that restrains liquidity of the free float (CVM criteria).

- Squeeze-out - Controlling shareholder(s) achieves more than 95% of the shares through the Delisting Tender Offer - Possibility of redemption of the remaining shares.

PROPOSED REFORM OF LAW 6385/76

- CVM - independent regulatory agency.
- Board - One Chairman and four Commissioners appointed by the President of the Republic.
- A five-year term of office, reelection being prohibited.
- Renewal of one-fifth of the CVM Board every year.
- Approval of candidates by the Federal Senate.
- "Stand out Period" - 1/10 of the term of office.

ADMINISTRATIVE PROCEEDINGS

- End of the possibility of appealing to CRSFN (*National Financial System Appeal Council*) in case of unanimous decision by CVM Board.
- Disclosure of administrative proceedings, when required in view of the public interest.

CRIMINAL OFFENSES

- **Manipulation - imprisonment from one to eight years and fine.**
- **Insider Trading - imprisonment from one to five years and fine.**
- **Irregular exercise of position, profession, activity or function - imprisonment from six months to two years and fine.**

ACCOUNTING STANDARDS COMMITTEE - CPC

- A nonprofit entity. Function: the studying, preparation and disclosure of accounting principles, procedures and standards.
- Nine members at the most: (a) CVM; (b) federal accounting control body; (c) national entities representing accountants; (d) universities and research institutes.

EFFECTIVENESS

- Existing companies - 120 days after publication.
- New companies - immediate effectiveness.
- Mandatory amendment to the bylaws of existing companies - one year as from the date the new law comes into force.
- Such amendment entails no right to withdraw.

NEXT STEPS IN CONGRESS

- The Draft Law shall be reviewed by the Senate.
  - Senators can propose amendments thereto.
    - If amendments pass, the Draft Law returns to the House of Representatives, for review.
    - If no amendments are proposed, the Draft shall be approved or rejected by the Plenary Sitting.
- Amendments can be proposed:
    - in the Senate Commissions
    - in the Plenary Sitting.

IN THE SENATE

- The Board of the Senate or its President will decide one of the following procedures to be followed:
  - (A) 2/3 of the Senators or political party leaders representing that quorum propose urgency.
    - If approved, the Draft Law is submitted to vote within two Senate sessions (two weeks); or
  - (B) The Board submits the Draft Law to review by the following House Commissions:
    - Economic Affairs Commission (15 days to review).
    - Constitution, Justice and Citizenship Commission (20 days to review).

VARIABLES

- Amendments in the Commissions, if any, shall be reviewed within an extra 15 days.
- Each Commissions Reporter can request extra time to review the amendments.
- The report shall be the basis for discussing and voting the Draft Law.
- Minority or dissidents can obstruct voting.
- THUS:
  - The actual timing of the procedure will be defined by unforeseeable political issues.
  - No forecast of the approval timing can be made.

FOLLOW-UP QUESTIONS

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