

Case Studies of Good Corporate Governance Practices

Companies Circle of the Latin American Corporate Governance Roundtable

Versión en Español incluida
Versão em Português incluída

2nd Edition



Global Corporate Governance Forum

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Co-founded by the World Bank Group and the Organisation for Economic Co-operation and Development, the Global Corporate Governance Forum (GCGF) is an advocate, a supporter, and a disseminator of high standards and practices of corporate governance in developing countries and transition economies. Through its activities, the Forum actively supports regional and local initiatives that address corporate governance by leveraging institutional support for reforms and initiatives that build local capacity and by making available technical and advisory assistance drawn from its wide network of international and private sector expertise. The Forum's donors include the International Finance Corporation, and the governments of Canada, France, Luxembourg, Norway, Sweden and Switzerland.

Contents

Introduction

Atlas Eléctrica 1

Buenaventura 8

Cementos Argos 14

Companhia de Concessões Rodoviárias (CCR) 18

CPFL Energia 24

Embraer 30

Ferreyros 38

Interconexión Eléctrica S.A. E.S.P. (ISA) 44

Marcopolo 50

Natura 58

NET 64

Suzano 70

Ultrapar 78

Introduction

This second fully revised edition of “Case Studies of Good Corporate Governance Practices” presents the experiences of a set of leading companies in Latin America in reforming and improving how their firms are governed, and the results these changes have achieved. The descriptions of the corporate governance improvements carried out at these companies were prepared with the direct support of the eight founding members of the *Companies Circle of the Latin American Corporate Governance Roundtable*, as well as five new members who joined the Circle in 2006. Each chapter’s contents reflect the views of one company’s management and directors of the motivations, challenges, solutions and rewards for devising and putting in place better governance rules and practices.

Informing all these accounts is a depth and diversity of experience not in the theory of corporate governance, but rather in the *practical application* of the goals of transparency and disclosure, accountability, respect for the rights of shareholders and equitable treatment of all stakeholders laid out in the *OECD Principles of Corporate Governance* and reflected in the recommendations of the Roundtable’s *White Paper on Corporate Governance in Latin America*.

The cases included herein are presented under the responsibility of the respective members of the Circle. They speak for themselves. The impetus to begin to undertake changes for some firms involved mainly internal considerations – to reconcile potentially divergent family or shareholder group interests, or to provide better incentives to managers, for example. Financial market considerations – the desire to attract new investors or access new sources of outside capital – provided the principal motivation for other firms. However, when the varied experiences of the companies are considered together it is hard for the reader not to draw at least a few general conclusions:

- While the principles of good governance may be fundamentally the same for all companies, there is great scope for creativity and innovation in applying such principles to the specific circumstances facing individual firms. — THE CHALLENGE OF IMPLEMENTATION IS FOR EACH COMPANY TO FIND THE PATH AND SOLUTIONS THAT FIT ITS CIRCUMSTANCES;
- The commitment of managers and controlling shareholders is a *sine qua non* of any sustained program of improvement in a company’s governance. — THE FIRM MUST HAVE STRONG INTERNAL CORPORATE GOVERNANCE CHAMPIONS;
- To be fully successful, a corporate governance program must effectively communicate to stakeholders the unshakeable commitment of the firm, its management and controllers to the goals of corporate governance. — MARKET CREDIBILITY IS ESSENTIAL;

- The rewards of initial, narrowly-focused efforts can generate sustainable momentum for more comprehensive efforts and a virtuous circle of adoption of better practices. — GOOD CORPORATE GOVERNANCE IS A JOURNEY, NOT A DESTINATION; and
- The experiences of Companies Circle members demonstrate the contribution good governance can make to operational performance and access to / cost of capital. — IMPROVING GOVERNANCE YIELDS POSITIVE REAL RETURNS.

The chapters relating to the experiences of the founding members of the Companies Circle (Buenaventura, Cementos Argos, CCR, CPFL Energia, Natura, NET, Suzano and Ultrapar) have been expanded and fully updated for this second edition. Earlier English language versions of the chapters covering the Circle's newest members (Atlas Eléctrica, Embraer, Ferreyros, ISA and Marcopolo) were prepared for and distributed at the Seventh Meeting of the Latin American Corporate Governance Roundtable, held in Buenos Aires in June 2006. All versions of the cases, and the other public documents of the Companies Circle, are available through the websites of the OECD Corporate Affairs Division (www.oecd.org/daf/corporate-affairs/roundtables) and the IFC/World Bank Corporate Governance Department (www.ifc.org/corporategovernance).

As in the case of the first edition, the objective of the Companies Circle in publishing this book is to share with the broader community of Latin American firms practical solutions to the corporate governance challenges facing companies in the region. We thank the members for their contribution to the Roundtable, and commend them for their work to demonstrate the business case for corporate governance to companies throughout Latin America and beyond.

On behalf of the Roundtable, we would like to express our gratitude to the executives and staff of each of the members of the Companies Circle who contributed in the preparation of the cases presented in this book. And, on behalf of the Companies Circle and ourselves, we would also like to express our collective thanks to Ms. Sandra Guerra, who has served with dedication and professionalism as coordinator of the Circle since its inception.

We look forward to continuing to work with the Companies Circle as it engages in further efforts to identify and promote good company practices for implementing better corporate governance in Latin America.

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Atlas Eléctrica

Atlas Eléctrica (Atlas) was founded in a small shack in 1961 and, by 1976, grew to be the first listed company to issue shares on Costa Rica's stock exchange, the Bolsa Nacional de Valores (BNV). The founders of the company knew that this new listing opportunity would allow them to fund and help sustain Atlas's growth potential. This still holds true today. Market capitalization of Atlas at the end of September 2005 was US\$ 17.2 million down 11.8% from US\$ 19.5 million as of 30 September 2004.

Atlas Eléctrica S.A. is the holding company of a manufacturing enterprise based in Costa Rica with sales subsidiaries in Central America and the Dominican Republic. Atlas currently produces household refrigerators and stoves under its own brand names of Atlas and Cetron. The company also manufactures on behalf of other private brands, such as Sunbeam and Nedoca, and previously manufactured under the brand names White Westinghouse, Kelvinator, Frigidaire and Blue Point.

Atlas's sales in Central America, Mexico, United States, Jamaica, Puerto Rico and other Caribbean islands will yield estimated combined total annual revenue for fiscal year 2006 of US\$ 100 million. Atlas is the main player in the Central American region with over 50% market share, competing head to head with products from Asia and the Americas. Recently, Atlas had several product models that were certified according to US and Canadian standards. This has opened up export market potential for Atlas, on which it hopes to capitalize in the next few years, especially in light of recently concluded free trade agreements in the region. Export market expansion is part of the company's strategic growth plan and already accounts for the bulk of the company's 28.5% sales increase in 2005, compared to the previous year.

The main attributes that have allowed the company to succeed have been:

- Years nurturing a brand image based on quality and excellent post-consumer service; and
- Creating value-products with tasteful designs accessible to the pocketbooks of the targeted clients.

Atlas's current ownership structure is presented in the table below.

Groups	Number of shares as of 31 January 2006	% shares
AB Electrolux	90,874,767	18.9%
Toka, S.A. & related	72,299,210	15.1%
Ganecogorta S.A. & related	57,138,090	11.9%
Mejoma, S.A. & related	46,927,928	9.8%
Subtotal	267,239,995	55.7%
Shareholders holding under 10% but above 2% of shares	128,566,101	26.8%
Shareholders holding under 2% of shares	84,018,162	17.5%
TOTAL	479,824,258	100.00%

Atlas has 1,432 employees as of August 2006.

Atlas's share price was Costa Rican Colones 18.28 on 30 September 2004 but fell to Costa Rican Colones 17.50 as of 30 September 2005. The company's shares are included in the BNV stock index.

It should be noted that the original founders currently do not have control of the company. Also, there are no institutional investor shareholders, and the free float of shares is 3.9%. No one group holds control of the company. Control is established by the concurrence of several groups at the Annual General Meetings, and decisions are made by the majority of votes present at the Meeting. Minority shareholders of the company are not provided with tag-along rights. However, local regulation does establish an obligation for a public offer, if a certain threshold percentage of shares are sought to be purchased. In such applicable cases, all shareholders will then have access to a uniform offer price per share.

Responsibilities of the Board and Management

Since the mid 1980s, the Board of Directors has seen the benefits of having independent directors, including their fresh ideas and new approaches to the company. Of the current seven Board members, four are independent. The Chairman of the Board does not have any CEO responsibilities. His only means of influencing management are through the Compensation and the Audit committees and at the monthly Board meetings where financial results, budgets and strategy are analyzed and approved. Key senior managers are chosen based on professional and merit criteria.

Remuneration of the Board members is approved by the Board itself with the aim to be within reasonable limits when compared to other companies' compensation practices. There is remuneration paid for attending each Board meeting, normally held once per month. The executive compensation is fixed taking into consideration comparative market information, reviewed and approved by the Compensation Committee of the Board. Approximately 20% of the senior managers' total compen-

sation is linked to performance. To date, no stock options are granted to senior managers or Board members. The up-coming annual report will disclose the total amount distributed to directors and managers on an aggregate basis.

Atlas has two Board committees:

- Audit Committee with 4 members—3 directors (one inside and two external directors—none being the Chairman of the Board) and a Fiscal Board member. A representative of the external auditors, a representative of the internal auditor and the CEO also are invited to attend Audit Committee meetings; and
- Compensation Committee composed of 2 directors (one inside and one external member—neither being the Chairman of the Board).

The Costa Rican Controversy over Company Board Regulation

In 2004, new rulings were issued by the Consejo Nacional de Supervisión del Sistema Financiero (CONASSIF), which is the supervisory body of financial institutions in Costa Rica. The rulings were designed to regulate the actions of audit firms and establish mandatory guidelines of corporate governance, in light of a securities scandal in the country and as an overflow of the grave financial scandals in the United States. One of the CONASSIF rulings called for the mandatory creation of Audit Committees on companies' Boards of Directors. Such an Audit Committee already existed in Atlas, but among its required tasks under the CONASSIF rulings was to review and approve the quarterly and annual financial results before subjecting them for review and final approval by the Board.

One of the first tasks by this newly structured Audit Committee was to approve the hiring of an independent firm to help management put in place a stronger internal control environment. Pursuant to this, a project with this objective was initiated and sponsored by the CEO. The project's management was delegated to an outside firm, Deloitte Touche Tohmatsu, and the company's CFO.¹ The end purpose of this project was to give additional assurances to the Chairman of the Board and the CEO that the financial information that goes out to the general public is free of material omissions and that a strong internal controls system is in place. Both of them want to be able to personally attest to that.

The CONASSIF rulings left many listed companies unhappy over the way this recent regulatory action was carried out. The process of developing and adopting these

¹ At this moment, Atlas is making significant efforts to draft and disseminate numerous control policies and procedures throughout the company. The methodology being used in this effort is the model used in the International Organization for Standardization (ISO) 9000 certifications. ISO sets standards for quality management and assurance, and the company has already been certified in the production, selling and distribution processes, and now the same methodology (though not the certification) is being used for the company's adoption of good corporate governance procedures.

regulatory rulings ensued without full consultation with the private sector. The result of this is that some articles promulgated under Costa Rican regulations are even harsher than the Sarbanes-Oxley Act in the United States. Naturally, the private sector reacted. Some companies immediately filed a suit, alleging jurisdictional and privacy violations. Others decided it was time to de-list. The Board members of Atlas believed that a fair settlement would come out of the court rulings, and the benefits of staying listed in the BNV outweigh any temporary inconveniences. Currently, some of the issued CONASSIF rulings are suspended by the Constitutional Court, and the case is still pending a final resolution. Some of those suspended rulings related to the Audit Committee. The Atlas Board of Directors deemed it desirable to comply with the new formal requirements for the Audit Committee anyway, and have it function as though the rulings were still in place, despite their suspension.

Transparency is of the highest value to Atlas, and its practices are consistent with this value. Every quarter the company must file its financial information, which is compiled according to International Financial Reporting Standards (IFRS). Once filed, Atlas's financial information is placed in the public domain via the web page of the Superintendencia General de Valores (SUGEVAL). The year-end audited financial information is also posted on the same network.

Financial statements of Atlas are audited by the external audit firm KPMG Peat Marwick. The external auditors are accountable to the Audit Committee of the Board. Also, once a year, with quarterly updates, an external company qualifies Atlas from a risk perspective. The company's chief of internal audit reports directly to the Audit Committee.

Another Atlas initiative to highlight transparency has been the Board's policy that all key personnel of the company as well as the members of the Board of Directors, on an annual basis, have to sign and certify that they have read and understood the Code of Ethics of the company. This Code addresses topics like legal compliance, conflicts of interest and use of confidential information. At the current moment, a new version of the Code of Ethics is being reviewed and scheduled for implementation later this year.

Overall, the responsibility to oversee corporate governance practices and undertake any improvements at Atlas lay with the CEO and CFO.

The “Golden Cage” Effect of the Marketplace

Because of the limited number of companies whose shares have been issued in the BNV, the market has not had adequate liquidity, and this has in some way affected the share price of the majority of companies in the Costa Rican market. The main shareholders of these companies do not on a regular basis make important transactions on the market. This hampers the stock exchange's ability to convey the “true” price of listed companies, negatively affecting the companies' market capitalization value.

The above creates a downward spiral. It starts by deterring institutional investors and the general public from investing in the local equity market, which creates a smaller number of BNV participants and decreases demand, thus lowering the price of the listed shares. Ultimately, this has created what has been called a “Golden Cage” effect. The large shareholders, who are not active in the market, are sitting on net worth that is, by financial analysts’ predictions, much higher than the “market price” of the small quantity of stocks being transacted through the local stock exchange. In the absence of other active buyers, however, the holders of smaller equity stakes will have to sell at whatever price they can get in an illiquid market. In short, these artificially lower prices hurt mainly the small investors. This is the case of Atlas’s shares, where the small quantities of shares are sold as much as 25% below book value.

An alternative to creating liquidity would exist if the companies could buy-back shares in the market, but they have not been able to do so because of rulings created by SUGEVAL severely limiting that possibility. Thus far, SUGEVAL has refused to repeal its controversial rulings, claiming that moving away from those rulings could subject the companies to investigations for trying to manipulate the equity market. Even though the Cámara de Emisores (the Chamber of Listed Companies) has tried to negotiate modifications to those rulings for the past four years, it has been an uphill battle to no avail.

Both the CONASSIF and SUGEVAL rulings and the way changes to these regulations were made without constructive negotiations with the listed companies, shed light on the local market credibility issues. These issues have damaged communications and relations among the two sectors, namely the regulatory sector and the private sector (listed companies). Because of this reality, the BNV with the help of some listed companies, among them Atlas, has started three initiatives. The first is to develop and adhere to voluntary corporate governance guidelines (comply-or-explain), similar to the ones in use in the United Kingdom and Hong Kong. If successful, this voluntary compliance approach could eventually replace the CONASSIF rulings under challenge in the Constitutional Court. Second, an initiative to develop voluntary guidelines for investor relations programs is being undertaken to increase transparency of the market.

The third initiative, also a first in Costa Rica, is a “market makers” mechanism using Atlas’s shares. To be able to do this, three brokerage houses were brought on board for a three-month pilot plan, and were granted “safe harbor” provisions by SUGEVAL. The idea is to allow investors an alternative to be able to sell or buy Atlas’s shares anytime with these brokerage houses. Each brokerage house in the pilot plan has committed and guaranteed to the market that they will always have a certain number of shares in their inventory that they would be willing to sell or otherwise buy. This eliminates the risk factor to the investors that is brought on by the uncertainty of not knowing if there will be a prospective buyer (seller) of Atlas’s shares. The results in the first two months have been a less volatile market price for the small amount of Atlas’s shares traded, though still below book value.

Recent Results and Challenges Ahead

In the last two years, the financial results of Atlas improved year-on-year. In particular, in 2005 the company had net income of Costa Rican Colones 1,218,337 thousands (US\$ 2.8 million) which is an increase of 27.9% over the net income of Costa Rican Colones 952,402 thousands (US\$ 2.1 million) in 2004. Other financial results are as follows:

- Net operating revenues:
 - 2004 - Costa Rican Colones 33,552,395 thousands / US\$ 78.4 million;
 - 2005 - Costa Rican Colones 43,116,143 thousands / US\$ 92.2 million;
- Net costs and expenses:
 - 2004 - Costa Rican Colones 32,034,853 thousands / US\$ 74.7 million;
 - 2005 - Costa Rican Colones 41,435,894 thousands / US\$ 88.7 million;
- Net cash:
 - 2004 - Costa Rican Colones 2,336,915 thousands / US\$ 5.2 million; and
 - 2005 - Costa Rican Colones 2,563,317 thousands / US\$ 5.6 million.

Since the year 2000, because of a US\$ 10 million bond issue used to finance the purchase of a competing manufacturer in El Salvador, the company has been analyzed quarterly by a local independent risk analysis firm that has always given Atlas a triple AAA qualification, their highest. Atlas has earned these high marks by consistently demonstrating to its bondholders and others its superior capacity for paying capital and interest on the agreed terms.

Atlas understands that in order to grow further, it will need to tap into other financial markets. Transparency has come naturally to the company, and doing this task even better is in line with the company's strategic plan. The new audit-related regulations are part of the current global experience, which the company embraces. Consistent with this global outlook, Atlas is also increasingly taking on the export market, since more than 80% of its sales are already being done successfully abroad. In taking on exports, Atlas is also embracing corporate social responsibility both at home and in new foreign markets, already garnering superior ratings from local and regional indices on its sustainable and socially-responsible practices.

Atlas aims to persuade current and future shareholders of the value of the company. Atlas also aims to demonstrate that it is a company that is here to stay for many, many more years, competing in a globalized market, like it has done in the past, but with better intangible assets, creditworthiness, transparency and good corporate governance practices in its future. In terms of governance improvements, Atlas seeks to further

improve its internal control procedures to address the requirements of the regulatory agencies and the Board of Directors that the financial information being published is free of material omissions, but also as a means to assure itself and the shareholders that the actions of the management are done according to approved policies. The guidelines for this project are those defined by COSO for internal control procedures and practices.



Buenaventura

Growth is more than merely one part of the mission and vision of Buenaventura—the leading mining company in Peru and one of the largest gold and silver producers in the world. It is the company's daily mantra.

Today, Buenaventura operates four important mines in Peru (Orcopampa, Uchucchacua, Antapite and Colquijirca) and has an aggressive explorations program. The company owns 43.65% of Minera Yanacocha S.R.L., one of the most important gold producers in the world, and an 18.5% ownership in Sociedad Minera Cerro Verde, an important Peruvian copper company. The company has 2,127 employees.

Operating in a capital- and labor-intensive industry, and in a geographic environment not as welcoming to investments as it should be, the company recognizes that it must be persistent to maintain the degree of success it has achieved over the years.

Joint ventures, offerings through the Lima Stock Exchange, and an American Depository Receipts (ADR) issuance on the New York Stock Exchange (NYSE) were all means to achieve the company's goal of continued growth. But when it came to creating long-term sustainable shareholder value, there was only one way to do it: by enhancing corporate governance practices.

The Roots of the Need for Governance

Buenaventura has focused on exploration and acquisitions, both on its own and through joint ventures, since its founding in 1953. For Buenaventura, conducting business responsibly and effectively is part of its strategy to increase shareholder value.

Buenaventura suffered several years of losses that, ultimately, led to a high level of debt amid Peru's weak economic environment during the 1980s. In the early 1990s, however, Peru emerged into a period of greater stability, allowing Buenaventura to plan for a more promising future.

When the company decided to invest in Yanacocha, now a world-class gold deposit, Buenaventura faced high-cost exploration and development investments. Convinced that the market pays for good corporate governance practices, Buenaventura chose to cancel its debt with the proceeds of an initial public offering (IPO) of ADRs on the NYSE in 1996. This IPO permitted the company to raise approximately US\$ 150 million.

The decision reflected Buenaventura's Board of Directors' and management's commitment to comply with United States Securities & Exchange Commission's (SEC) regulations. Prior to the IPO, the company took several critical steps toward improving its governance:

- Revamped its Board of Directors, introducing independent members and establishing Board committees;
- Implemented an Ethics Code;
- Created a Disclosure Committee; and
- Eliminated its dual class share structure and converted all its shares into a single class with equal voting rights.

Before the IPO of ADRs on the NYSE in 1996, the founders, the Benavides family, owned 42% of the company. Today, the family owns 27%. Apart from the Benavides family, there are several institutional shareholders, pension funds, industrial companies and banks invested in Buenaventura. The current ownership structure is presented below.

Today, the company's free float of equity is 65%. Fifty-five percent of the total

Name	Interest Participation (%)	Nationality
Alberto Benavides Q.	14.022	Peruvian
Compañía Minera Condesa S.A.	7.687	Peruvian
Merrill Lynch Investment Managers Ltd. (UK)	6.262	British
Fidelity Management & Research Co.	5.453	North American
Total	33.424	

outstanding shares are held in the ADR program. Buenaventura's shares are listed and traded on the Lima Stock Exchange, and the company's ADRs trade on the NYSE. Buenaventura's shares are not included in any stock index.

Corporate Governance Steps

Buenaventura has implemented a comprehensive set of rules to ensure good governance. The reforms were inspired by the recommendations of major international organizations, such as the OECD, the Global Corporate Governance Forum and the World Bank/IFC.

For example, the decision to convert all shares into a single class of common shares served to keep the controlling group together, but was also considered the best way to continue to maximize the value of the company. The liquidity of shares was bolstered as a result, as evidenced by investors' positive responses to the single class of voting shares.

Similarly, although minority shareholders are not offered formal tag-along rights, there are other safeguards in place in the event of a tender offer. Specifically, the Board must review the terms of the tender offer, communicate and make its recommendations to all shareholders on the specific terms of the offer. In turn, the shareholders are then asked to make their own decisions on whether or not to accept the offer. In practice, this means the Board does afford all shareholders the same opportunity to participate in the tender offer on equal terms. This is one example of how Buenaventura takes its shareholder voting rights issues seriously.

To facilitate the participation of all shareholders in its Annual General Meetings, the company announces its Meeting date and provides the shareholders with the Meeting agenda 25 days in advance. ADR holders also receive proxies through the depositary bank, and special procedures have been put in place to ensure that: (i) ADR holders have sufficient time to consider how to vote; and (ii) that their votes are duly represented at the company's Meetings.

Buenaventura's executive officers oversee the business and are responsible for the execution of the policy decisions of the Board of Directors. The President and Chief Executive Officer is elected by the Board. The VP Chief Financial Officer, the VP Business Development, the VP Operations and the VP Explorations are selected by the Nominations Committee. Family members in top management represent 2 out of 5 members.

Buenaventura has a 10 year long-term stock appreciation program that allows certain executives to receive cash remuneration equivalent to any excess of the market value at a fixed future date over a stated price of a stated number of ADRs. This information about management compensation is disclosed to shareholders and to the market, in the annual report and in the company's SEC 20-F filing. Board members receive a percentage of the annual net income of the company up to a maximum limit established by the Annual General Meeting. This information is also disclosed in the company's annual report and its publicly available 20-F filing.

The company considers that it is in its best interest to maintain high standards of social responsibility, in order to ensure the long-term success of its business. In particular, Buenaventura's social responsibility program expenditures totaled US\$ 2.8 million during 2005. This included support for:

- Infrastructure (roads, energy and communications);
- Water and forestation;
- Agro-industry and tourism; and
- Health, nutrition and education.

The Board of Directors

Buenaventura's Board of Directors has seven members, five of whom are independent. As the company is committed to the highest level of disclosure to its shareholders, a nominee of the Peruvian pension funds sits on the Board and participates in Board committee activities. The Board is seen by company management as a value-added resource, providing guidance and advice.

Four committees support the Board's work: Audit; Compensation; Nominations; and Corporate Governance. Each committee includes a majority of independent directors, with the Audit Committee composed solely of independent Board members. The Corporate Governance Committee of the Board bears responsibility for all governance-related initiatives at Buenaventura.

Buenaventura's Board Chairman and CEO are separate. This ensures the Board's impartiality in evaluating and overseeing management.

Finally, Buenaventura conducts periodic Board evaluations. There is a lead director who, jointly with independent directors, evaluates the Board.

Providing timely and accurate information to the market is very important to Buenaventura. A Disclosure Committee was created to coordinate the timely release of all relevant information to the market as soon as Board meetings conclude, thus avoiding the possibility of time gaps creating prospective opportunities for improper use of company information by insiders.

To address issues of integrity and conduct, the Board approved an Ethics Code that is available to all stakeholders and is required reading for all company employees and Board members. The Code mainly addresses conflicts of interest and related party transactions. An ethics officer reporting to the Audit Committee is appointed and charged with overseeing Code compliance by company employees, managers and the Board of Directors. Both the ethics officer and Audit Committee Chairman can be contacted under a "whistle-blower system" set up to enable company stakeholders to report anonymously when they suspect, or have information about, possible Ethics Code violations.

Transparency: Quality and Integrity of Financial Reporting

The Disclosure Committee and the Board are responsible for publishing financial statements and the annual report with the active participation of management. Buenaventura follows international reporting standards, and its financial statements generally adhere to US GAAP.

The financial reports are audited by an independent external auditor that is accountable to the Board. The company discloses ownership and control information every month and does not enter into any shareholder agreements that may negatively affect its corporate governance system or its equitable treatment of shareholders. In addition, the company discloses all business relationships and material provisions of contracts to shareholders. The company's chief of internal audit reports to the Board of Directors.

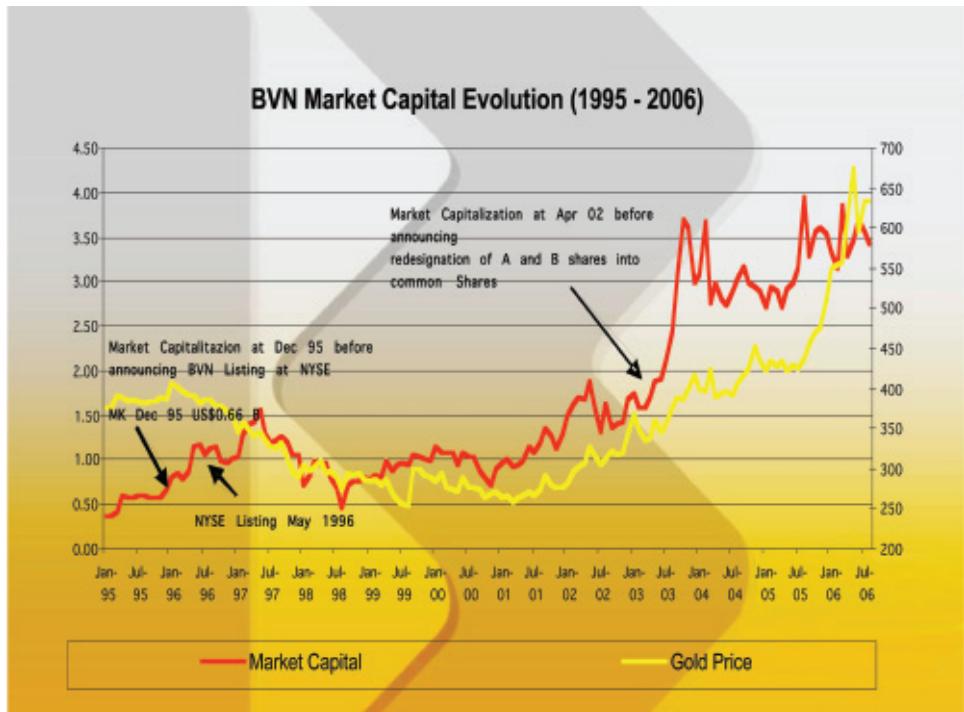
Results

Buenaventura recognizes that it must continue to improve its governance framework as it strives to maximize shareholder value. Its governance improvements are clearly recognized by the market, as demonstrated by its overall company performance. Most notably, the company has had a three-fold increase in market capitalization, from around US\$ 400 million in 1995 to US\$ 3.6 billion at the end of 2005. The company's share price increased 23.6% from US\$ 22.9 on 31 December 2004 to US\$ 28.3 as of 31 December 2005.

The company also reported increased total revenues in the amount of US\$ 337 million in 2005, representing a 1% increase from 2004 (US\$ 334 million). Likewise, net income in 2005 was up 31% to a total of US\$ 274 million, compared to US\$ 209 million in 2004. Other financial figures include:

- Net costs and expenses:
 - 2004 – US\$ 125 million;
 - 2005 – US\$ 63 million;
- Net cash:
 - 2004 – US\$ 172 million;
 - 2005 – US\$ 97 million;
- Projected cash for 2006 – US\$ 280 million.

Today, Buenaventura is working on completing its compliance with the Sarbanes-Oxley Act. The company expects to be certified by the external auditors as Sarbanes-Oxley compliant by the end of 2006.





Cementos Argos

When Compañía de Cemento Argos, S.A. was founded in Medellin, Colombia, 70 years ago, its founders could scarcely have imagined that their small entrepreneurial venture would one day become the biggest cement company in Colombia, the fifth-largest producer in Latin America and one of the pioneers of good governance in the region.

In the beginning, the founders realized that they would need co-investors to move ahead with plans to build their first cement factory. The City of Medellin and the Antioquia Railroad were the business' first partners. Two years later, the factory was operating and the company began a history of fruitful creation of new plants and several subsidiary companies.

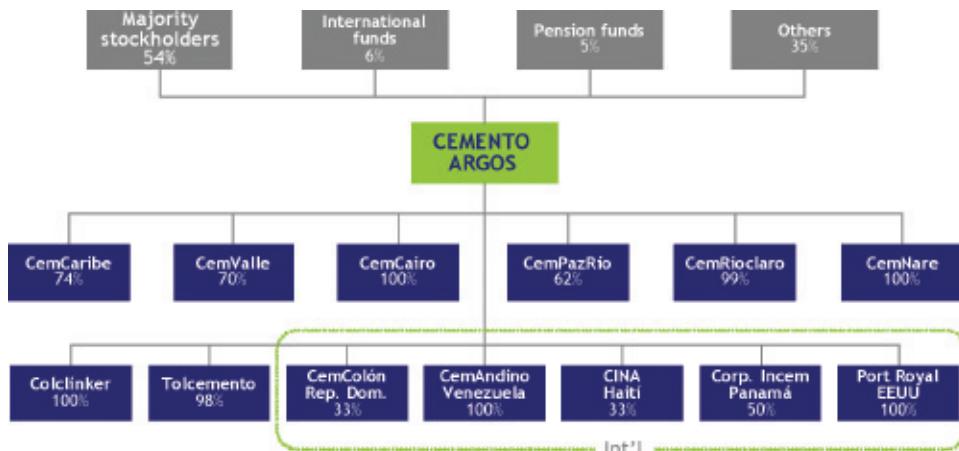
At the end of 2005, the old Compañía de Cemento Argos was transformed into a holding company and renamed Inversiones Argos, S.A. (Inversiones Argos). Its eight Colombian cement subsidiaries were merged to form a single new operating company, Cementos Argos, S.A. (Cementos Argos).

Today, Inversiones Argos is the owner of 70% of the shares of Cementos Argos. The remaining 30% of shares of Cementos Argos are in the hands of smaller shareholders. Minority shareholders have no guarantee of tag-along right in case of transfer of control.

Seventy-seven percent of the portfolio of Inversiones Argos is represented by its investment in Cementos Argos, with the remainder largely invested in finance and insurance companies. The largest and controlling shareholder of Inversiones Argos is the Grupo Empresarial Antioqueño (Colombia's largest conglomerate), while the remaining 46% of Inversiones Argos's shares are in free float and held by assorted investors. Specifically, international investors and local pensions and severance payments administration companies hold approximately 11% of the shares of Inversiones Argos, with another 35% of shares in the hands of smaller minority shareholders.

Both Inversiones Argos and Cementos Argos are publicly-held corporations listed on the Bolsa de Valores de Colombia. The companies do not rule out the possibility of issu-

ing shares on the NYSE in the future. Shares of Inversiones Argos and Cementos Argos are included in IGBC Index of the Bolsa and perform similar to the performance of the whole Index. Cementos Argos and its subsidiaries have more than 10,500 employees.



Corporate Governance Adding Value

When Cementos Argos first decided to adopt good governance practices, it faced an almost complete lack of knowledge on the subject in the Colombian market. Yet, in taking the decision to move towards good governance practices, it was essential to convey to the market what corporate governance meant for the company, and that the principles of good governance were not just a fad—they were here to stay.

The company initially adopted a basic Code of Corporate Governance, which was subsequently amended in line with international benchmarks. The revised Code, emphasizing aspects of disclosure and free flow of information, was discussed with a variety of stakeholders, from employees to the Board of Directors. Cementos Argos, following recommendations by its shareholders, the Board of Directors and other stakeholders, challenged itself to comply with the highest corporate governance standards advocated by international organizations. In 2004, the company finalized and published its Good Governance Code, which complies with the majority of NYSE, OECD, International Finance Corporation (World Bank Group), Brazilian Institute of Corporate Governance (IBGC) and other local institutions' recommendations for companies.

The management of Cementos Argos now understands that implementing better disclosure practices helps generate wealth for shareholders and facilitates access to investors. The management is also convinced that adopting good governance practices differentiates Cementos Argos from its competitors in the product and capital markets.

Cementos Argos's structure of corporate governance focuses on five main pillars: fair treatment of shareholders; strengthening the structure and performance of the Board of Directors; developing procedures to provide accurate, complete and timely information; establishing an Ethics Code for employees; and regulating relations with different interest groups.

Finally and notably, it was decided that both internal and external auditors should review and inform the market of Cementos Argos's compliance with its Good Governance Code. The company's chief legal officer is charged with overseeing issues related to corporate governance.

In addition to good corporate governance practices, Cementos Argos attaches great importance to corporate social responsibility and value-added initiatives that enhance the localities in which they operate. In particular, the company spent US\$ 2.6 million during 2005 on different community programs benefiting education, charity, health, nutrition and cultural arts.

The Board of Directors

The Board of Cementos Argos is composed of five non-executive directors, two of whom are independent. The Board is supported by three Board committees: Audit & Finance; Nominations and Remuneration; and Board Issues.

The Audit & Finance Committee, composed of 4 directors (2 independent), the CEO, CFO and internal auditor, focuses on supervising internal control processes, assuring transparency and accurate disclosure of financial information, overseeing internal auditing activities and supporting Board decision-making on controls.

The Nominations and Remuneration Committee, composed of 3 directors, establishes policies on hiring, compensation and the development of key personnel. It proposes a compensation plan that is linked to both personal and company performance. The Committee is in charge of revising the company's senior management succession plan. The Board's compensation is approved by the Annual General Meeting, which may also dismiss and re-elect directors even before the end of their tenures.

The Board Issues Committee, composed of 3 directors and the CEO, concerns itself with the role and responsibilities of directors, recruitment of new members and defining the policies for ensuring proper Board composition. The Committee has also implemented an evaluation system for directors, and there is a continuous program of training and development for directors.

The positions of CEO and Chairman of the Board are held by separate persons at Cementos Argos. The company's senior executives hold the title of Vice-President and are appointed in accordance with policies developed by the Nominations and Remuneration Committee.

Results

Cementos Argos, on 31 January 2006, had a market capitalization of US\$ 5.8 billion. This number is up as compared with 31 December 2004 (US\$ 930 million) and the previous year-end (31 December 2005), when market capitalization reached US\$ 4.8 billion—creating a sizeable 420% increase in that one year period alone.

Cementos Argos prepares its financial statement in accordance with Colombian GAAP. In 2005, the company had net income of US\$ 722 million, reflecting an increase of 63% compared to 2004 (US\$ 442 million). Other financial performance results are as follows:

- Net operating revenues:
 - 2004 - US\$ 441.8 million (consolidated);
 - 2005 - US\$ 721.7 million (consolidated);
- Net costs and expenses:
 - 2004 - US\$ 41.3 million (consolidated);
 - 2005 - US\$ 115.0 million (consolidated);
- Net cash:
 - 2004 - US\$ 85.2 million (consolidated);
 - 2005 - US\$ 17.7 million (consolidated).

It is difficult to precisely measure the direct benefits of adopting good governance practices, but Cementos Argos can point to substantive results. Its shares have steadily increased in value by climbing 177% during 2005. After publishing the Good Governance Code, the company also more than quadrupled its number of shareholders.

In addition, with the adoption of the Code, Cementos Argos surged ahead of its market competition, as capital investors rewarded the company by more than three times (3.4 times) oversubscribing to its last bond issuance.

Being the fifth-largest cement producer in Latin America, Cementos Argos today supplies 51% of the local cement market and 32% of the local concrete market. In addition, Cementos Argos exports its products to 18 different countries and holds several investments in the United States, Panama, Venezuela, Haiti and Dominican Republic.

Future Goals and Challenges

Cementos Argos is still perfecting its governance system. Its main challenges are strengthening its Board of Directors and the Board committees. Better systems for overseeing compliance with its Code of Ethics (in effect since 2004) and enhancement of its disclosure practices are among the company's future corporate governance goals.



Companhia de Concessões Rodoviárias (CCR)

In 1998, the shareholders of Companhia de Concessões Rodoviárias (CCR), a consolidation of toll road operations, knew that they would have to build market credibility to attract investors to their capital-intensive business. They also knew that this would not be an easy task.

CCR was created to dilute political and geographic risks, add financial flexibility and provide a permanent vehicle for investment in Brazil's toll road businesses. Shareholders in CCR were huge Brazilian groups that also operated in the construction business, and who therefore were the main suppliers for Brazil's highway authorities. With obvious potential for conflicts of interest clouding the possibilities for returns to non-controlling shareholders, CCR had an uphill battle to fight to establish credibility.

Origins of CCR's Challenge

In the 1970s, companies in Brazil's construction sector formed consortiums (incorporated or unincorporated) to execute gigantic infrastructure, energy generation and transportation projects. Thus, it was natural that consortiums were also created when the public sector proved ineffective in maintaining the huge Brazilian highway network. Toll road operations were offered to the private sector through a concession program announced in 1993, which was effectively implemented in 1994.

Although CCR, an incorporated holding company, brought together important economic groups, they knew that their own investment capability would not be enough to reform and expand the highway system. But how could investors be confident that managers and controllers would be driven to create value for all shareholders and distribute profits fairly?

With this question in mind, the founding shareholders hired management consulting firm McKinsey, in 1998. The consultants helped CCR design an ownership structure geared to attracting capital along with an organizational structure to support business plans. As described below, the result of this work included an invitation to an international toll road operator from outside Brazil to become part of the controlling group and to act as a transparency champion.

Ownership Structure to Assure Good Governance

The new structure ensured that management and shareholders would act as investors, working toward creating business value and challenging the market's previous perception that contractors might operate a highway concession business solely to secure themselves advantageous contracts. To achieve further credibility, CCR went on to create mechanisms to evaluate related party contracts to ensure that decisions would be made in the interests of all CCR shareholders. With this established, the stage would be set for CCR to go public.

Although its founding shareholders could pledge to the market that they would operate the business according to the best standards, market credibility could be achieved only if there was a partner with a clear interest in ensuring the pledge was kept. They found such a strategic partner in Portugal—Brisa Auto Estradas de Portugal S.A., which holds concessions of 11 roads in Portugal. Brisa acquired 20% of CCR's shares, a stake equal to those held by the founding shareholders.

Facing the Specter of Conflicts of Interest

One main issue remained in order to win the market's confidence: how to solve the conflict between constructor and concessionary roles. The company developed built-in protection mechanisms to execute any service with related parties. All contracts over R\$ 1 million (approximately US\$ 470,000) with related parties and any other with a third party over R\$ 2.7 million (approximately US\$ 1.26 million) had to be approved by the Board of Directors. In addition, any contract over R\$ 1 million with a related party could be preceded by an independent evaluation, if requested by any company director. If, in spite of a positive conclusion by independent analysts, doubts remained, a provision was set where 25% of the Board of Directors could veto the contract.

Before going public, CCR built a governance model that would support the new venture. The responsibilities of the Board of Directors, its committees and management were reviewed and restructured. A corporate governance manual was written, outlining the dynamics of the relationship between the organizational bodies. The Board is composed of 10 members where two are independent members with no connection to any of the shareholders or management. The positions of the Chairman and the CEO are not combined. All directors have mandates of one year, with the possibility to be re-elected.

The Board of Directors is supported by six committees: Audit; Strategy; Finance; Governance; New Business; and Human Resources. CCR was the first company in the country to establish a Corporate Governance Committee. This Committee proposes the Board's operating model, agenda, information flow with shareholders, exec-

utives and other stakeholders, and the Board's evaluation system. The Committee also periodically reviews the governance system itself.

CCR's senior executive officers (directors and managers) are hired in the market or promoted from within the lower ranks of the company. Their compensation typically consists of a mix of fixed salaries and a variable component. Sixty to seventy percent of the variable component is calculated based on the company's economic value added (EVA), with the rest dependent on the accomplishment of qualitative goals set for the year. The company's executive compensation program does not include stock options. However, CCR does have a long-term incentive program designed to align the interests of managers and shareholders, create value, attract and retain talented managers, encourage sustainability and reinforce the long-term vision for the business. The result of CCR's human resources policies is a cadre of executives that share CCR's vision and values. The full amount of the compensation (on collective basis) is disclosed at Annual General Meetings.

CCR's CEO is the executive ultimately charged with responsibility for the implementation of the company's governance-related initiatives.

The internal audit function at CCR is outsourced to a leading accounting and audit firm.

Novo Mercado: the Final Touch

To complete the design of its capital structure, CCR took the decision to go public. The permission for CCR to become a public company was registered by CVM, the Brazilian Securities and Exchange Commission, on 19 December 2000. On 20 November 2001, CCR became the first company to join the Novo Mercado, the highest corporate governance-based tier of BOVESPA (São Paulo Stock Exchange), and raised R\$ 305.3 million (US\$ 141.6 million) from the market. On 14 May 2004, CCR concluded its second offering of shares, raising an additional R\$ 375.0 million (US\$ 173.9 million) and increasing the company's free float to 30%. On the Novo Mercado, companies agree to adopt governance practices beyond those established in Brazilian regulation, providing greater transparency and strengthening the rights and protections of non-controlling shareholders.

The main pillar of the Novo Mercado requirements is that the capital stock must be solely represented by common shares. Novo Mercado companies must also undertake the following additional obligations:

- Holding of public share offerings through mechanisms which favor capital dispersion and broader retail shareholder access;
- Maintaining of a minimum free float equivalent to 25% of the capital;
- Extending to all shareholders the same conditions provided to majority shareholders in the transfer of the controlling stake ("tag-along" rights);

- Having a Board of Directors with a minimum of five members and a unified mandate of up to two years, re-election allowed. A minimum of 20% of the members must be independent directors;
- Making the annual financial statements available in accordance with international accounting standards (US GAAP or IFRS);
- Introducing improvements in the quarterly information report and in other documents sent to CVM and BOVESPA, including consolidated financial statements, cash flow statements and special audit revision;
- Holding a tender offer on economic value criteria as a minimum in the event of a decision to de-list from the Novo Mercado;
- Adhering to disclosure rules on the negotiation of assets issued by the company in the name of the controlling shareholders or the company management; and
- Disclosing contracts signed between the company and related parties;
- Disclosing on a monthly basis trades involving securities and derivatives issued by the company in the name of controlling shareholders;
- Releasing an annual corporate agenda, including Annual General Meeting, release of information and others;
- Holding public meetings with analysts and investors, at least once a year;
- Adhering to Market Arbitration Chamber to solve shareholder disputes.

After CCR joined the Novo Mercado, two groups from the original shareholders exited—one group was motivated by the liquidity opportunity created by the CCR's offering, and the other left the toll collections business altogether. Today, four large national and international construction companies have equal stakes of 17.39% in CCR while 28.98% of shares are free float. CCR's ownership thus has the following structure:

Shareholder	Ordinary Shares	%
Andrade Gutierrez	70,102,496	17.39%
Camargo Corrêa	72,060,296	17.88%
Brisa	72,060,300	17.88%
Serveng	72,060,304	17.88%
Novo Mercado	116,818,404	28.98%
Total	403,101,800	100.00%

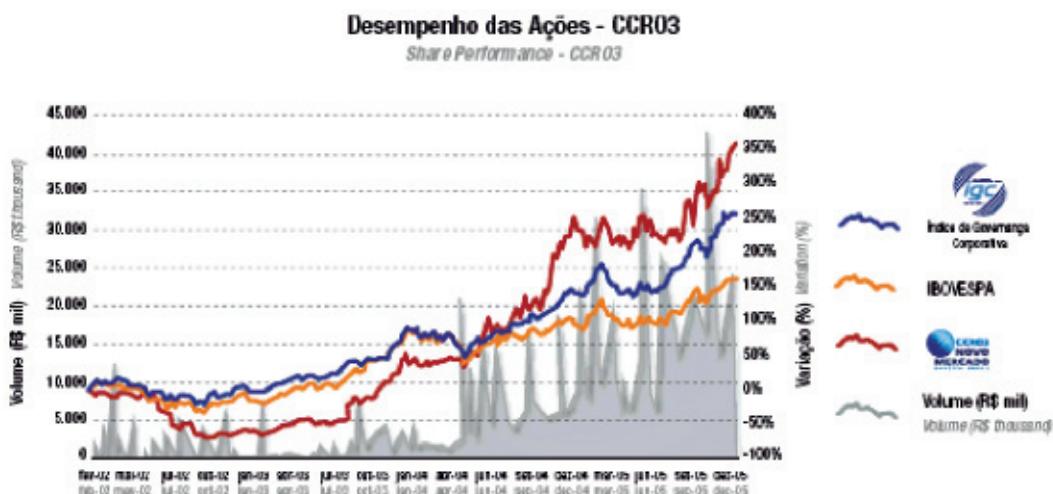
Results

CCR's shares were priced in the February 2002 IPO at R\$ 18.00 (US\$ 7.45) giving the company an initial market capitalization of R\$ 1.5 billion (US\$ 620 million). In

December 2004, the share price reached R\$ 58.10 (US\$ 21.88), with market capitalization of R\$ 5.8 billion (US\$ 2.2 billion). During the 2004–2005 period, CCR's shares appreciated 27.37% from R\$ 58.1 to R\$ 74.0 (US\$ 31.61) along with its market capitalization—from R\$ 5,855.0 million (US\$ 2,205.7 million) to R\$ 7,457.4 million (US\$ 3,185.9 million).

The market rewarded CCR with a premium for its policies of transparency and equal rights for all shareholders. As the table and graph below indicate, CCR's shares appreciated 351.8% from February 2002 to December 2005, while the Ibovespa Stock Index recorded cumulative returns of 193.6% for the same period. CCR even outperformed the IGC, the Brazilian Corporate Governance Index, which reported a return of 313.9%.

	IPO	21/8/2006	%	
CCRO3*	4.44	20.06	351,8%	
IGC	999	4,135	313,9%	
Ibovespa	12,658	37,160	193,6%	
* adjusted for the share splits				



Today, CCR continues to improve its governance model and create value for all shareholders. This good governance initiative is an unquestionable success case: CCR is Brazil's largest toll road concession operator. Operating six roads, its business represents 15% of Brazil's highway network, with approximately 1,452 kilometers of highways, and more than 41% of total toll revenue in the country's sector. Today, the company has nearly 4,200 employees.

As CCR's financial statements prepared in accordance with Brazilian GAAP (with the reconciliation of differences between Brazilian GAAP and US GAAP) indicate, CCR registered net revenue in 2004 of R\$ 1.463 billion (US\$ 551 million), generating operating cash of R\$ 759 million (US\$ 286 million). Net revenues increased 33.56% by 31 December 2005 with R\$ 1.954 billion (US\$ 906 million), generating operating cash of R\$ 1.102 billion (US\$ 511 million). Net income for the same period rose more than 90% from R\$ 263 million (US\$ 99 million) in 2004 to R\$ 500 million (US\$ 213 million) in 2005. Other financial information is presented below:

	2004 - R\$ (,000) / US\$ (,000)	2005 - R\$ (,000) / US\$ (,000)
Net income	262,991 / 99,077	500,493 / 213,822
Net revenues	1,463,150 / 551,217	1,954,354 / 834,944
Costs and expenses	(931,965) / (351,102)	(1,155,155) / (493,508)
EBIDTA	759,322 / 286,061	1,102,331 / 470,941

CCR's achievements in corporate governance are recognized by the market, as indicated by awards presented by the Brazilian Institute of Corporate Governance (IBGC) in 2005 and Núcleo de Governança Corporativa da Fundação Dom Cabral in 2004-2007.

In the future, CCR will support in-depth study of the practice and rewards of corporate governance at the Corporate Governance Nucleus/Center of Fundação Dom Cabral. The objectives of this collaboration include further enhancing CCR's governance practices through the exchange of experiences with other companies that participate in this Center.



CPFL Energia

CPFL Energia's (CPFL) origin goes back to 1912, with the founding of Companhia Paulista de Força e Luz (CPFL Paulista) following the merger of four domestically-owned electricity distributors located in the upcountry area of the state of São Paulo. The company's controlling group has since changed several times. Beginning in 1927, it was acquired by US-based American Foreign Power Co., and, subsequently, the federally-owned Eletrobrás (1964) then followed by the state-owned Companhia Energética do Estado de São Paulo—CESP (1975) until the company was finally privatized in 1997. At privatization, VBC Energia, 521 Participações and Bonaire Participações took a controlling interest and, from that date forward, the company began an accelerated process of expansion, culminating in August of 2002 in CPFL Energia's creation as a holding company for the generation, distribution and trading of electricity.

VBC Energia is a private company controlled by VBC Participações, the capital of which is held by three major conglomerates representing Brazilian business interests: Votorantim Energia Ltda., Bradesplan Participações S.A. and Camargo Corrêa S.A.

521 Participações S.A. represents the pension fund of the Banco do Brasil (Caixa de Previdência dos Funcionários—Previ), the largest Brazilian pension fund with more than 161 thousand beneficiaries.

Bonaire Participações S.A. is an investment fund made up of Brazilian pension funds—Fundação Cesp—Funcessp, Fundação Petrobrás de Seguridade Social—Petros, Fundação Sistel de Seguridade Social and Fundação Sabesp de Seguridade Social—Sabesperv.

In addition to these, BNDESPar, the holding company of the BNDES (National Economic and Social Development Bank of Brazil) and the International Finance Corporation (IFC) also currently feature among CPFL's most important shareholders.

The company issued common shares (its only class of corporate share) and American Depository Receipt (ADRs) on the Novo Mercado, the highest corporate governance-based tier of BOVESPA (São Paulo Stock Exchange), and New York Stock Exchange (NYSE) (Level III) on 29 September 2004. CPFL made a primary offering of R\$ 685 million (US\$ 239 million) and a secondary offering of R\$ 136 million (US\$ 47 million), for a combined total of R\$ 821 million (US\$ 286 million) at R\$ 17.22 per share (US\$ 6.00 per share), with each ADR representing three shares.

The company's initial free float was 13.64%. This has since risen to the current level of 17.75%, thanks to the underwriters' exercise of their overallotment option, resulting in equity stake exchanges between the BNDESPar (minority shareholder) and VBC

Energia (controlling shareholder) and conversion by the IFC of its loan into shares. In addition, minority shareholders of the subsidiaries CPFL Paulista, CPFL Piratininga and CPFL Geração exchanged their respective equity stakes in subsidiaries for shares of parent company, CPFL Energia. CPFL's resulting ownership structure after the above changes (as of 31 December 2005) is presented below. All shareholders are granted 100% tag-along rights. The company had 5,838 employees as of 31 December 2005.



CPFL adopted good corporate governance practices rapidly and thoroughly for several reasons. First and foremost, the company considers corporate governance as a means of creating value and, secondly, it is a strategic way for the company to achieve its goal of turning CPFL into a benchmark for the electricity sector in Brazil. Finally, corporate governance serves to help establish CPFL Energia as a holding company that equitably treats each of its shareholders, including the controlling shareholders—each one with their own distinct and respectively differing objectives and characteristics.

This governance transformation process was begun internally following the privatization of CPFL Paulista on 5 November 1997, and was intensified in 2000 with the structuring of an integrated management system. During this period, the energy distribution activities underwent major expansion, with CPFL Paulista acquiring a significant stake in Bandeirante de Energia in 1998 (later spun off, giving rise to CPFL Piratininga) and Rio Grande Energia in 2000.

Subsequently, in 2002, the group's decision-making process was formally structured and determined when the controlling shareholders signed a shareholders' agreement, allowing for the creation of CPFL Energia as a holding company in August of that year.

Fast Track to Good Governance

Subsequent to the creation of CPFL Energia in August 2002, and in the following years, the company took a series of initiatives to implement its system of corporate governance. Many of these initiatives were structured before the listing of the company's shares on Novo Mercado and the NYSE. Additional initiatives were taken after these listings. These later initiatives are highlighted below:

- The alignment of the corporate by-laws of the subsidiaries, i.e., CPFL Paulista, CPFL Piratininga, CPFL Geração and Rio Grande Energia with CPFL Energia's corporate by-laws;

- The structuring of Board's Advisory Committees;
- The implementation by the Board of Directors of a self-evaluation system;
- Change in the structure of the company's annual report, prepared in the Global Reporting Initiative (GRI) format;
- The implementation of the Board of Directors' website;
- The introduction of an anonymous and confidential channel for employees, to enable them to raise questionable accounting and/or financial conduct issues to the Fiscal Board (a Brazilian analog of the Audit Committee), in a move towards closer Sarbanes-Oxley Act compliance;
- The migration of minority shareholders of the subsidiaries CPFL Paulista, CPFL Piratininga and CPFL Geração to CPFL Energia following a share swap arrangement worth R\$ 553 million (US\$ 242 million) and involving 56,800 shareholders;
- The implementation of a compliance division responsible for meeting regulatory requirements in all markets in which the company's shares are traded. Among these regulations is section 404 of the Sarbanes-Oxley Act;
- The structuring of the succession plan down to the managerial level;
- The structuring of several company education plans;
- The structuring of a process of performance evaluation;
- The preparation of an insider trading policy; and
- The systematizing of the comparison of corporate governance practices with national and international benchmarks.

The Board of Directors currently has 7 members, three of whom are appointed by VBC Participações, two by 521 Participações and one by Bonaire Participações. The last member is an independent director also representing the minority shareholders. Each Board member's term of office is one year with the possibility for re-election.

At present, the Board of Directors has three advisory committees:

- **Personnel Committee**, responsible for analyzing matters related to the company's personnel management, the evaluation of the performance of the principal executives and the mechanism for choosing the CEO;
- **Processes Committee**, responsible for monitoring main processes and controls;
- **Related Parties Committee**, responsible for evaluating related party transactions.

Since the company's privatization, different individuals have held the positions of Chairman of the Board and CEO.

The CEO is chosen and elected by the Board of Directors, but is not a member of the Board itself.

In addition to the CEO, who is a statutory director, the remaining statutory directors (five Executive Vice-Presidents) are similarly not Board members. All enjoy two-year terms of office and are eligible for re-election.

There are two important aspects to be noted:

- While the remaining statutory directors are formally elected by the Board of Directors, in practice they are appointed by the CEO; and
- There exists a clear distinction between decisions that can be taken by the statutory directors and those of the Board of Directors, this distinction being spelled out in the corporate by-laws and the shareholders' agreement.

With respect to compensation, the following points are important:

- The Board members receive fixed monthly compensation, irrespective of the number of Board meetings held, the compensation being fixed in accordance with market parameters. The Board of Directors is not compensated in any other manner;
- The statutory directors and the remaining officers of the company receive fixed and variable (a bonus for meeting performance targets) compensation based on market parameters. Since 2006, the statutory directors have also enjoyed a supplemental form of variable compensation that is calculated on a phantom stock basis.

The estimated overall compensation of the Board of Directors, statutory directors and Fiscal Board is disclosed (all combined) at the company's Annual General Meeting, held in April of each year.

Defining Responsibilities for Corporate Governance

CPFL has assigned clear responsibilities to various bodies regarding corporate governance policies and practices. In particular, since April 2003, the company has had an active Corporate Governance Department, under the direction and leadership of Marco da Camino Ancona Lopez Soligo, who is directly accountable to the CEO, Wilson P. Ferreira Júnior.

The company systematically and continuously evaluates its corporate governance practices and is always considering modifications for further improvements.

Corporate Governance Recognition

In 2005, in a survey conducted by Institutional Investor magazine involving more than 100 analysts and portfolio managers, the company was recognized as the best in Latin America in Corporate Governance—taking 1st place in ‘Corporate Governance - Latin American Electric Utilities’.

In 2006, the company received an honorable mention in the ‘Best in Corporate Governance’ awards based on a the survey carried out by IR Magazine, one of the top publications covering capital markets in Brazil, involving more than 200 domestic capital markets’ leading experts.

Good Governance Translates into Better Share Performance

While not solely because of good corporate governance, CPFL has had a very good share performance record in recent years. CPFL’s share price rose from R\$ 16.43 (US\$ 6.22) on 31 December 2004 to R\$ 27.06 (US\$ 11.56) on 31 December 2005, an increase of 64.7%.

Additionally, CPFL’s shares (BOVESPA - CPFE3; NYSE - CPT) are included in the following indices:

- IBrX 100—100 shares with the highest tradability;
- IEE—electric energy stock index;
- IGC—corporate governance stock index;
- ITAG—special tag-along stock index; and
- ISE—corporate sustainability stock index.

The company’s shares are part of the Dow Jones Brazil Titans 20 ADR index made up of the principal Brazilian ADRs traded on the NYSE.

In 2005, the company’s shares outperformed the leading capital markets’ stock indices. In the domestic market, the shares reported an appreciation of 64.8%, compared with 42.9% for the “Indice de Energia Elétrica (IEE)” and 27.7% for the BOVESPA Stock Index (Ibovespa). The company’s ADRs posted an appreciation of 85.5% compared with 47.5% for the Dow Jones Brazil Titans 20 ADRs Index and a depreciation of 0.6% for the Dow Jones Industrial Average.

At the end of 2005, the company registered a market capitalization of R\$ 12,982 million (US\$ 5,548 million), up from R\$ 7,420 million (US\$ 2,800 million) in 2004, with 479,756,730 common shares priced at R\$ 27.06 per share on the BOVESPA (US\$ 34.69 per ADR on the NYSE).

Financial Results

CPFL Energia reports its earnings in Brazilian GAAP and US GAAP (reconciling the Brazilian GAAP into US GAAP). In 2005, CPFL reported gross sales revenue of R\$ 10,904 million (US\$ 4,660 million), an increase of 14% compared with the preceding year. Net sales revenue reached R\$ 7,739 million (US\$ 3,307 million), 15% more than R\$ 6,736 million (US\$ 2,542 million) for 2004.

EBIDTA in turn amounted to R\$ 2,100 million (US\$ 906 million) in 2005, equivalent to a growth of 26% compared to R\$ 1,700 million (US\$ 634 million) in 2004.

As a result, the company reported its best net income ever at R\$ 1,021 billion (US\$ 436 million) in 2005, a growth of 266% compared to R\$ 279 million (US\$ 105 million) in 2004. Other year-on-year financial results include:

- Net costs and expenses:
 - 2004 - R\$ 4,306 million (US\$ 1,625 million);
 - 2005 - R\$ 4,594 million (US\$ 1,963 million);
- Net cash:
 - 2004 - R\$ 818 million (US\$ 309 million);
 - 2005 - R\$ 1,029 million (US\$ 440 million);
- Projected cash for 2006 at year-end R\$ 323 million (US\$ 145 million).

In 2005, highlights were the growth in electricity power sales of 4.7% as well as a 114% rise in CPFL's Brazil sales to the free market. The result was also boosted by an increase in installed capacity with the commissioning of the Monte Claro hydro plants for commercial operations at the end of December 2004.

Overall, the growing and consistent results posted over the past few years are a reflection of the company's business strategy based on advanced corporate governance practices and the capture of increasing synergies flowing from combined corporate financial discipline, corporate sustainability and responsibility practices.



Embraer

Based in São José dos Campos, Brazil, Embraer was initially founded in 1969 as a state-owned company, but was privatized on 7 December 1994. Since its privatization, Embraer has become one of the largest aircraft manufacturers in the world by focusing on specific market segments with high growth potential in commercial, defense and executive aviation. Equally important, Embraer provides a superior product package, with comprehensive aircraft and after-sales support for parts, services and technical assistance. Embraer has five plants in Brazil in three different locations, as well as subsidiaries, offices, technical assistance and supply parts distribution centers in China, Singapore, the United States, France and Portugal, together representing in December 2005 a workforce of more than 16,900 employees.

Embraer's 1994 privatization meant a deep cultural transformation process, in which the former engineering and industrially-oriented culture, predominating during the state-owned years, was merged with a new entrepreneurial and administratively-oriented culture brought by the new controlling shareholders. Evolution of the company's governance was an integral part of Embraer's cultural transformation.

Embraer is regarded by the Brazilian government as a strategic company. This status carries with it several implications for the company's governance:

- Embraer's privatization notice stipulated that the interest of foreign entities in Embraer's voting capital should be limited to 40%.
- There is a special class share or Golden Share held by the Brazilian government. The Golden Share provides the same voting rights as the holders of common shares have. However, in addition, the Golden Share carries veto power over, among other things, changes of control or of corporate purpose and creation and alteration of defense programs.

As a result of the privatization, the company not only recovered its financial soundness, but was also able to embark on a new expansion process, primarily driven by the ERJ 145 family project. In the following years, by launching the EMBRAER 170/190 family and the Legacy executive airplane, as well as Intelligence, Surveillance and Reconnaissance (ISR) products and the ALX/Super Tucano project, Embraer significantly increased its aeronautical market share, resulting in growing revenues in diversified marketplaces.

The development of new products by Embraer, as well as its future growth, depends on its flexibility to access capital markets. On 21 July 2000, Embraer simultaneously issued new shares on the New York and São Paulo Stock Exchanges. By extending its

access to international capital markets, the company was able to raise US\$ 250 million to support the development of the EMBRAER 170/190 family, the E-jets, launched in 1999.

In more recent years, a number of important events occurred that consolidated the company's prosperous and sustainable economic and social development such as the entry into service of the new EMBRAER 170/190 family of commercial jets, a program which has required investments of approximately US\$ 1 billion; the confirmation of Embraer's commitment to the executive aviation market, with the launch of new products such as the Phenom 100, the Phenom 300 and the Lineage 1000 executive jets, and the expansion of Embraer's presence in the aeronautical services market, with the acquisition of specialized MRO companies, such as OGMA—Indústria Aeronáutica de Portugal.

Embraer's well-established family of regional airliners places it among the largest commercial aircraft manufacturers in the world. Though its historical focus has been on the small-medium market segment of 30 to 50-seat jets, a few years ago, Embraer also developed a new jetliner family in the 70 to 110-seat category. Today, Embraer is the world's leading manufacturer of commercial jets up to 110 seats. Embraer's defense aircraft market segment is also strong, as measured by the more than 20 air forces around the world deploying Embraer aircraft and defense systems for surveillance, combat and training missions. In addition, the executive jet market provides significant growth opportunities for Embraer. The company expects to offer products in all categories of the executive jet market, from the "very light" to the "ultra large" categories. Embraer has endeavored to understand and respond to market and customer needs, continually improving the product and customer support for its commercial and executive aircrafts.

From 1995 through 2005, Embraer exported US\$ 20 billion in products and services. It was ranked as the largest Brazilian exporter from 1999 to 2001. During this 10-year period, the company accounted for US\$ 8 billion of the country's trade balance.

Capital Restructuring and Ownership Structure

Before 2006, Embraer's capital structure was limited by the Brazilian Corporate Law in terms of the distribution between common and preferred shares. Consequently, Embraer's capital structure not only limited access to the capital markets but also restrained the liquidity of the company's shares, since it limited the adoption of higher levels of corporate governance standards. However, on 31 March 2006, the majority of Embraer's shareholders, including common, preferred and American Depository Share (ADS) holders, approved Embraer's capital restructuring proposal providing a simplified capital structure composed of a single class of shares—common shares—and enhanced corporate governance practices and transparency.

The primary goal of the corporate restructuring was to create a basis for sustainability, growth and continuity of Embraer's businesses and activities. Effectively, the restructuring broke down controlling blocks of shareholders. As a result, Embraer became the largest public company in Brazil with fully dispersed ownership. This should facilitate Embraer's access to capital markets and increase its prospects for obtaining new sources of financing. Additionally, the restructuring will likely result in higher liquidity to all shareholders and better means for a "voice" in company affairs, by virtue of voting rights provided to all shareholders. In other words, without a permanently defined control block, the shareholders will have to meet, assess and depend on the alignment of their interests to make decisions in each Annual General Meeting.

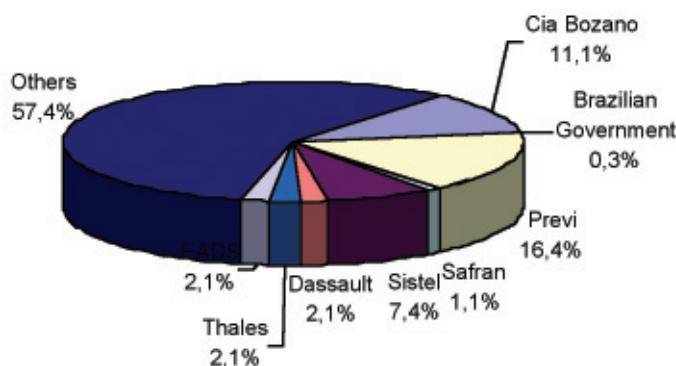
On 5 June 2006, Embraer began trading its single class of common shares on the prestigious Novo Mercado, corporate governance-based tier of BOVESPA (São Paulo Stock Exchange). Embraer's American Depository Receipts (under its Level III ADS program) are traded on the New York Stock Exchange (NYSE). Each ADS represents four common shares of Embraer.

Under Embraer's new by-laws, approved in March 2006, protective mechanisms were created to ensure not only the dilution of the shareholding control, but also the holding by Brazilian shareholders of the majority of votes in the company, so that the decision-making power is held by Brazilian individuals. This is consistent with the 40% restrictive condition set forth during the company's privatization process. The following mechanisms are in force:

- No shareholder or group of shareholders, national or foreign, may vote at each Annual General Meeting with more than 5% of the total outstanding shares. This limitation seeks to prevent the excessive concentration of shares or ADS in the hands of one shareholder or a group of shareholders;
- The total votes granted to foreign shareholders, individually and collectively, is limited to 40% of the total votes to be cast at the General Meeting;
- Any shareholder or a group of shareholders is prohibited from acquiring participation equal or higher than 35% of Embraer's stock, except if expressly authorized by the Federal Government, as the holder of the Golden Share, and subject to the holding of a public tender offer ("Oferta Pública de Aquisição"—OPA); and
- The ownership structure must be disclosed whenever: (i) a shareholder's interest reaches or exceeds 5% of the company's shares; and (ii) any shareholder's interest exceeds 5% of Embraer's capital.

Prior to the capital restructuring, 60.0% of outstanding common shares were held by Embraer's former controlling shareholders—Cia. Bozano, Previ, Sistel—and were subject to a shareholders' agreement and equally divided into 20.0% stakes for each

party. The Brazilian Government held 0.8% of common shares, in addition to the Golden Share. Upon implementation of the capital restructuring, the shareholders' agreement was terminated, and Cia. Bozano, Previ and Sistel now hold 11.1%, 16.4% and 7.4% of shares, respectively. A group of leading European aerospace companies—Dassault Aviation, EADS and Thales—each individually own 2.1% and SAFRAN (formally known as Snecma) owns 1.1%. The Brazilian Government retains 0.3% of the capital. The remaining 57.4% free float is traded on the local and international markets as presented in the chart below.



In order to demonstrate to the market that the former controlling shareholders and the management of Embraer remained committed to the company and believe in its future, a six-month lock-up period was approved, during which the former controlling shareholders could not trade their shares.

Corporate Governance Improvements

Capital restructuring was only part of Embraer's strategy for growing the company and improving its value. The other part of the strategy included adopting a model of corporate governance that embodied a clear distinction of responsibilities among the Board of Directors, the executive officers and the Fiscal Board ("Conselho Fiscal").

The Board of Directors is responsible for approving and keeping track of the company's strategy as well as annual budgets and investment programs established in the action plan prepared by the executive officers.

Embraer's current Board of Directors, elected on 31 March 2006, is composed of 11 members and their respective alternates. In order to ensure the stability of corporate actions and the continuity of management guidelines during the period immediately subsequent to the approval of the capital restructuring, the initial term of the Board of Directors is three years, after which a maximum two-year term must be observed.

During this transition period, the company's Chairman of the Board, Mr. Maurício Novis Botelho, also serves as the Chief Executive Officer until April 2007, when the Board of Directors will elect a new CEO. After that date, it is expressly prohibited to serve concurrently as a member of the Board of Directors and member of senior management. With the exception of the CEO, the representative of the Brazilian government and the two representatives of Embraer's employees, all current members of the Board are independent.

The Board of Directors appoints an Executive Committee, which is composed of up to four members, with the purpose of assisting in the performance of the Board functions, with respect to its executive compensation policy, strategic decisions and corporate governance-related measures.

The company's executive officers are responsible for day-to-day management of the company's affairs. The CEO and CFO were professionals hired after the privatization of the company, while the majority of remaining executive officers had built their careers at the company.

Embraer implemented a plan in 1998 that ties employees' profit sharing to dividend payments. Every time the company pays dividends to its shareholders, it also distributes up to 25% of the dividend amount among employees who have achieved strategic goals established in the action plan approved by the Board of Directors. Therefore, Embraer's profit sharing plan is a true partnership among shareholders, executive officers and employees that helps increase productivity and ensures the alignment of shareholders' and employees' interests.

Under the plan, the company may pay additional amounts of up to 5% of such dividend payment to the executive officers and some employees that have performed exceptionally, on a discretionary basis. In April 2005, the Board of Directors approved certain changes to the company's profit sharing plan related to the additional 5% distribution. These changes were based on recommendations made by an Advisory Committee of the Board of Directors, which was formed in 2004 for the purpose of reviewing the company's policies with regard to compensation. The new policy provides that the additional distribution of up to 5% is limited to an amount equal to 50% of the company's net income adjusted for certain cash flows. For the executive officers and certain senior employees, two-thirds of the distribution will be provided in cash and the remaining one-third will be allocated as "virtual common shares" and payments related thereto will be made over a three-year period, using a weighted average share price. As a result, the value of these payments is tied to the future market performance of the company's shares. The Board of Directors and the Fiscal Board are not entitled to receive payments under the profit sharing plan. Their remuneration is based on market analysis conducted by a human resources consultant firm.

For the fiscal year ended 31 December 2005, the aggregate compensation that was paid to the Board of Directors, Fiscal Board and executive officers was US\$ 8.8 million.

The Fiscal Board's main responsibility is to oversee acts of the executive officers and examine whether financial statements comply with transparency and good corporate governance policies. In view of the requirements placed by the 2004 Sarbanes-Oxley Act on foreign corporations listed in US markets, Embraer implemented several changes in its Fiscal Board. Such adaptations included changes in:

- Its composition with the addition of a member acting as financial specialist; and
- The internal regulations to distribute responsibilities and provide for a broader scope in assessments and analyses undertaken by its members.

As a result, Embraer's Fiscal Board is now composed of five sitting members, of which one is a financial specialist. All are appointed to a one-year term of office. This new Fiscal Board fully complies with the U.S. Securities and Exchange Commission's (SEC) requirements.

In addition to its listing on the NYSE, since 2001 Embraer reports simultaneously its quarterly and annual financial results in Brazilian GAAP and US GAAP.

The company's external auditors are accountable to the full Board while the internal audit function is the responsibility of the company's risk and internal controls office, under the supervision of the CFO and directly reporting to the Fiscal Board. The CFO reports to the Fiscal Board, ensuring the necessary independence and competence to assess the design of the company's internal controls over financial reporting.

In addition to being subject to the Novo Mercado regulations that include rules on corporate governance, Embraer has adopted and observes a disclosure policy, which requires the public disclosure of all relevant information pursuant to guidelines set forth by the Brazilian Securities and Exchange Commission—the CVM, as well as an insider trading policy, which, among other things, establishes black-out periods and requires insiders to inform management of all transactions involving the company's securities.

The Results

Embraer's commitment to its investors, its solid management structure and the adoption of best corporate governance practices have together clearly had an important impact on the company's market value in recent years. At the end of 2005, Embraer reported significant milestones. Net sales increased 11.3% from 2004 to 2005, reaching US\$ 3.829 billion—the highest ever recorded in the company's history. Net income in 2005 reached US\$ 445.7 million, 17.2% higher than in 2004. Net cash on 31 December 2005 was US\$ 360.1 million compared to net cash of US\$ 22.1 million at

the end of 2004 growing more than 16 times. Total operating expenses, including profit sharing and research and development expenses, were US\$ 650 million for the year ending 31 December 2005, up 3.38% from US\$ 629 million for the year ending 31 December 2004.

Over this period, Embraer generated significant wealth for its investors—market capitalization has grown US\$ 4.8 billion in the last six years, from US\$ 2.2 billion as of December 1999 to US\$ 7 billion as of December 2005 (between 2004 and 2005, market capitalization grew 16.67% from US\$ 6 billion to US\$ 7 billion). In that same period, Embraer distributed US\$ 943 million in dividends to its shareholders. In the same period its share price appreciated 157% and increased from R\$ 7.01 in December 1999 to R\$ 18.00 at the end of 2005, while the Ibovespa Stock Index appreciated only 98% (between 2004 and 2005, the share price appreciated 14% from R\$ 15.80 (common shares) to R\$ 18.00).

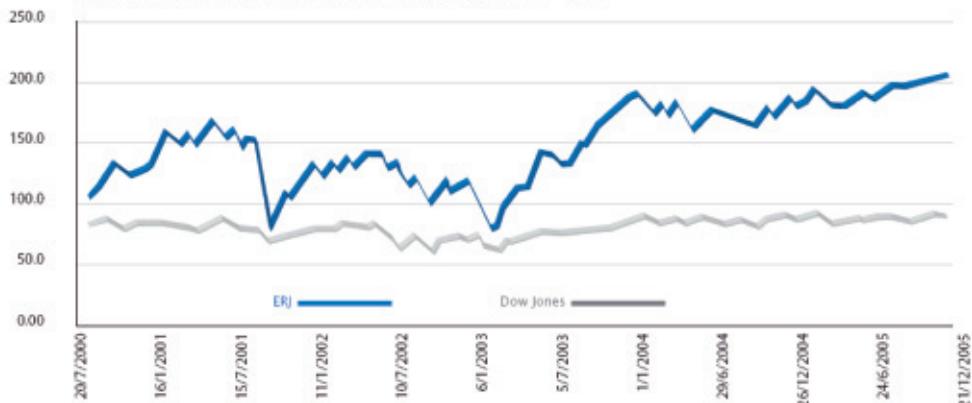


Similarly, the performance of the company's ADSs listed on the NYSE was recorded as high as US\$ 39.10 during the 2005's last session, an appreciation of 111% since its listing in July 2000.

Embraer's advancements in corporate governance are recognized and well-received by the market. The Institutional Investor Research Group, a pioneering research company in Latin American stock markets, awarded Embraer first place in the Best Buy-Side Investor Relations Survey in 2005. This ranking was based on compiled opinion survey results from 53 buy-side investors and 59 sell-side analysts.

The market has also recognized Embraer's transparency standards as exceptional. Embraer was selected as one of ten finalists for seven years in a row—and the winner in

ADS and Dow Jones Performance 7/21/2000 = 100



2000—of the Financial Statement Transparency Award given by the National Finance, Management and Accounting Executives Association in Brazil. In addition, the Brazilian Listed Companies Association (ABRASCA) ranked Embraer among the top ten finalists for the 2005 edition of its annual report.

Finally, Embraer's emphasis on high social and environmental standards has also been recognized, as demonstrated by outranking of its industry competitors on both the Dow Jones Sustainability Index and the BOVESPA Corporate Sustainability Index.

Embraer believes that having high levels of corporate governance is a journey, not a destination. Over the past three years, many improvements on the company's corporate governance practices were implemented, including the conclusion of its restructuring process during the first half of 2006. Embraer is currently undergoing a transition period from being a company with defined ownership to having dispersed shareholding. The company is committed to making the necessary adjustments to meet the new market demands. With the highest standards of corporate governance and transparency, Embraer hopes to stay an investor-friendly company for years to come.



Ferreyros

Ferreyros was founded in 1922 by four friends. The company's principal activities are: the import and sale or rental of machinery and equipment and product support through the sale of spare parts and the provision of workshop services. In 1942, Ferreyros incorporated the distribution of Caterpillar machinery and equipment into its business portfolio, and today this is far and away its core business, representing 88% of sales in 2005. Several other well-known product brands are also in its portfolio.

Ferreyros as of December 2005 had approximately 1,200 employees and 700 shareholders. To date, the 5 Peruvian pension investment funds (AFPs) hold more than 40% of the company's shares. The following is the list of shareholders having more than 5% of the shares, which includes 4 of the pension funds:

- Integra - FONDO 2 - 11.40%;
- Nueva Vida - FONDO 2 - 10.03%;
- La Positiva Vida Seguros y Reaseguros S.A. - 9.63%;
- Horizonte - FONDO 2 - 9.17%;
- Horseshoe Bay Limited - 6.46%; and
- Profuturo - FONDO 2 - 6.00%.

As of the end of 2005, there were only six investors with more than a 5% stake. All other investors hold less than 5% with 43.7% of shares as free float. The company's shares are included in the Lima Stock Exchange Index.

Ferreyros's market capitalization reached US\$ 191 million by the end of July 2006, representing an increase of 62% as compared to US\$ 118 million as of the end of 2005. The year-end market capitalization figure for 2004 was similar to that of 2005. Ferreyros's annual turnover is more than US\$ 300 million.

Company Overview and Strategy

Ferreyros's pattern of ownership and control has experienced significant evolution. The number of shareholders and the structure of their holdings have changed over time. The first generation of founding partners passed on their ownership to a second generation, where not everyone was interested in participating in the business. At this later stage in the company's development, its controlling shareholders determined that Ferreyros should: i) turn over company management to new professional managers; ii) register its shares at the Lima Stock Exchange (BVL) to attract and facilitate the transfer of Ferreyros's stakes to new owners; and iii) institute corporate governance improve-

ments to attract investment and improve the company's controls and performance. That is how and why Ferreyros initially entered the BVL in 1971 and eventually turned into a company with a wide and diverse base of shareholders.

In the early 1990s, the company determined that in order to sustain its growth, its participation in the Peruvian capital market should not be limited to the issuance of shares, but would also include the sale of bonds. Thus, in 1994, its first bond issue of US\$ 5 million was authorized. Since then, there have been 4 bond issues (1994, 1996, 1999 and 2002). In 2001, a commercial paper program was registered. Over a period of two years, a total of 11 issuances were placed for US\$ 49 million. In 2004, another bond program was registered, under which 5 issuances were placed for US\$ 50 million. Every time Ferreyros issued these instruments in Peru, it was rewarded with an over-subscribed demand, sometimes amounting to as much as 3 times the amount issued. In March 2006, at the Annual General Meeting, shareholders approved the registration of a mixed bond and commercial paper program of up to US\$ 90 million.

Corporate Governance

In order to include a diversity of experiences and to encourage a diversity of opinions, the company's by-laws provide that the Board of Directors must be made up of 8 to 12 members. Currently, the Board is composed of 8 directors, each with different professional expertise, thus contributing to better decision-making on behalf of the company.

For many years, the company had two independent directors. In the 2005 election for the Board of Directors, three independent directors, selected by the pension fund managers, joined the company. Today, there are four independent directors. Also, since 2005, the number of Board committees increased from 1 to 3, namely: the Committee of General Management and Corporate Governance; the Audit Committee; and the Organizational Development and Human Resource Committee. Each committee is composed of 5 directors, one or two of whom are independent. Their sessions are held quarterly or semi-annually.

The Board of Directors holds monthly sessions, which are carefully minuted. Board sessions in the last few years had more than 80% attendance. The remuneration of the Board of Directors is determined based on the results obtained by the company. The by-laws stipulate that the Board of Directors is entitled to 6% of freely available profits. There is no other form of remuneration whatsoever for Board members. Board member remuneration and executive compensation as a whole is disclosed in the annual report as a percentage of the company's total income. Approximately 25% of executive compensation is determined based on the company's results.

The company has clearly defined all functions of the Board of Directors, the Chairman and management. The Board of Directors is considered by the management

as an entity that adds great value and is responsible for approving the company's strategy. The Board of Directors oversees the management's performance and prepares a report to the shareholders on such performance, a copy of which is included in the company's annual report. The Chairman of the Board must be someone other than the Chief Executive Officer. Senior managers are selected by the CEO. The market is kept informed about important matters in a timely fashion through the publication of "Hechos de Importancia" (material events disclosure). Finally, from an organizational point of view, the Corporate Governance Committee is responsible for design and oversight of governance programs in Ferreyros.

To ensure information quality and transparency, an internal audit department is in place and reports to the Board. Financial statements are audited by an audit firm selected by and accountable to the Board, pursuant to powers granted by the Annual General Meeting. To this effect, a contract policy was adopted providing the possibility of annual contract renewals and the extension of renewal terms up to 5 years requiring a more thorough assessment of the level of service satisfaction and, in any case, requiring an audit partner and/or staff rotation. As good corporate governance recommends, the company refrains from hiring the external audit firm to perform services other than the audit of financial statements. Legal and tax consultancy services are provided by other unrelated firms.

The company has adopted an "Internal Code of Conduct to ensure compliance with obligations resulting from the registration of securities with the Public Registry of the Securities Market". These rules reflect the company's policy of openness and best disclosure practices. The Code lays down internal procedures that allow the company's stock market representative to disclose material facts to the market within the required time. This same Code establishes the company's stock trading policy, spelling out obligations and procedures for directors, officers, employees and advisors who deal with privileged information. The company's Code clearly prohibits the misuse or unauthorized disclosure of inside information and penalizes insider trading on that basis.

The company notifies the market of material events one day after they have occurred, issues quarterly financial statements and yearly audited financial statements. Ferreyros began publishing its quarterly releases with company financial results many years before any laws required such disclosure and before corporate governance voluntary principles were adopted in Peru. Since 2004, Ferreyros includes a statement on the degree of compliance with corporate governance principles in every annual report.

Ferreyros posts its annual report on web pages accessible to the public. The company's ownership structure is also disclosed, listing those shareholders that hold more than 5% on its website, as well as on the website of Peru's Comisión Nacional Supervisora de Empresas y Valores (CONASEV—the Peruvian securities market regulator). Any change in these holdings is reported immediately. The number of shareholders having

a specific range of shares (over 5%, between 1 and 5%, less than 1%) is also reported in the annual report. No bloc agreements among shareholders exist.

Privately, the company participates in meetings with institutional investors organized by investment banks, delivers a yearly presentation to Peruvian pension fund managers (the country's most important institutional investors) and holds individual meetings with institutional investors at their request or when placements are to be made.

In 1997, the company's shareholders approved the dividend policy, which is observed every year when shareholders approve the profit sharing for the financial year. The dividend policy states that cash dividends will amount to 5% of the capital or a ceiling equal to 50% of freely available profits. The remainder will be capitalized and distributed as stock dividend. With regard to minority shareholders, the company will put all its efforts to notify them of any receivables in the form of cash and stock dividends.

Since 2001, Ferreyros has taken on a corporate governance leadership role to advance better corporate governance practices in the country as a whole. It has done so through its active participation in Procapitales—an association that promotes corporate governance and has participated in the elaboration of the Corporate Governance Principles for Peruvian Companies, led by CONASEV.

The public and the business community recognize Ferreyros's success in implementing good governance. The company's executives receive invitations to talk about their case in at least two seminars every year. Most recently, Ferreyros received the title of "Best Treatment of Shareholders" from Procapitales and Universidad Peruana de Ciencias Aplicadas in May 2006.

The next steps to further improve governance at Ferreyros are to launch a program for evaluating the Board and CEO.

Results

Ferreyros's successful issuances on the Peruvian capital markets and the historically high demand for the company's shares are largely attributable to the corporate strategy of combining efficient succession plans with adoption of a business model based on professional management and the highest regard for corporate governance principles. For Ferreyros, this meant making the necessary changes to:

- Uphold shareholders' rights;
- Ensure equal treatment for all shareholders;
- Provide unfettered access to information;
- Guarantee information transparency, quality and timely disclosure; and
- Establish an efficient and professionally-skilled Board of Directors.

In accordance with Peruvian accounting standards, net sales for the first semester of 2006 were US\$ 221 million, up 43.6% from the same period last year. Net income jumped from US\$ 3.1 million in 6 month period of 2005 to US\$ 14.5 million this year, a whopping 376% jump from the same period last year. EBITDA in the first semester of 2006 was US\$ 30 million, compared to US\$ 15.4 million in the same period last year. This is a 96% increase over one year.² Other financial figures include:

- Net operating revenues:
 - 2004 – Nuevos Soles 929 million / US\$ 282 million;
 - 2005 – Nuevos Soles 1,115 million / US \$338 million;
- Net costs and expenses:
 - 2004 – Nuevos Soles 169.8 million / US\$ 51.5 million;
 - 2005 – Nuevos Soles 168.6 million / US\$ 51 million.

Throughout its 84 years of existence, Ferreyros has witnessed and taken part in many economic crises in Peru—a common situation in the entire region. And more than once, it has seen competitors and clients leave the market. Ferreyros's foundation of good governance—based on the access to capital sources, clearly defined strategies and values, and professional management capable of responding to changing environment—has allowed it to survive periods of economic turmoil and always get back on the track of growth. Recent history shows how Ferreyros considerably recovered after the 1998-2001 economic crisis in Peru. After its sales fell to a little over US\$ 200 mil-



² All figures stated in US dollars here are approximate and do not reflect accurately currency fluctuations. These are Q1 2006 Peruvian Nuevos Soles figures stated in US dollars, calculated using June 2006 exchange rates.

lion, net sales closed in 2005 at the level of US\$ 330 million. The price of shares has shown a very favorable evolution as indicated in the chart below.

To conclude, Ferreyros considers corporate governance to be a process, a journey, rather than a final destination. For this reason, even though it is aware of the significant progress it has made, as well as of its perceived status as a forerunner, it is still committed to the ongoing implementation of best practices.



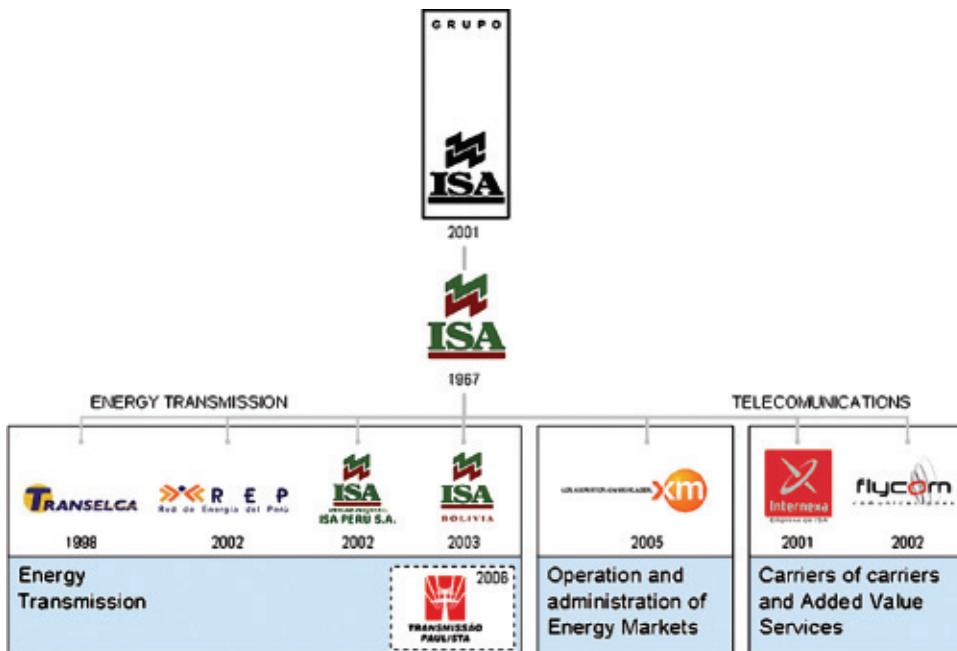
Interconexión Eléctrica S.A. E.S.P. (ISA)

Founded in 1967, Grupo ISA is Colombia's largest energy transport company and a mixed-ownership public utilities company. It was originally established as a wholly-owned state company to connect the various regional transmission grids existing at that time in Colombia. As discussed below, in February 2001, it opened up its share capital to the public, part of a continuous and successful process of introducing good corporate governance practices—a process that has been an important contributor to the company's growth and profitability. Thirty-nine years after its creation, ISA now owns 36,307 km of the grid and is one of the major international energy transmission companies of South and Central America.

Through Interconexión Eléctrica S.A. E.S.P. (the group's parent company) and TRANSELCA, ISA owns 84% of the 220 kV and above transmission grid in Colombia. Additionally, through its affiliate XM Compañía de Expertos en Mercados, it is responsible for the operation of the national grid system, for management of the wholesale energy market and for managing energy transactions with Ecuador. Through Red de Energía de Peru (REP), ISA Peru and Consortium Transmantaro, the company owns 83% of Peru's national grid. In Bolivia, through ISA Bolivia, ISA owns 51% of the Bolivian grid. In Brazil, ISA owns 50.1% of the common shares of the Companhia de Transmissão de Energia Elétrica Paulista—CTEEP, which owns 18% of the national grid. It also provides international connections between Colombia and Venezuela, Colombia and Ecuador, and Peru and Ecuador. ISA owns a 12.5% stake in Empresa Propietaria de la Red (EPR) of Central America, a company responsible for the design, construction, assembly, start-up, operation and maintenance of the SIEPAC Project, a 1,830 km network of 230 kV transmission lines. It owns two telecommunications companies in Colombia: Internexa and Flycom Comunicaciones; Internexa in turn owns a 50% stake in Transnexa S.A. EMA, Empresa Binacional Andina de Telecomunicaciones del Ecuador. ISA Group's structure is presented below.

Company Overview

The Republic of Colombia is ISA's majority shareholder, with 59% of outstanding shares. Currently, 28.19% of shares are held by private investors and regarded as free float. Such shares are not entitled to tag-along rights in the event of a sale of the government's shares.



Shareholders	Number of Shares July 31-2006	%
Traditional Investors	689,590,319	71.807%
The Republic Of Colombia	569,472,561	59.299%
Empresas Públicas de Medellín (EPM) – the largest utility company in Colombia	102,582,317	10.682%
Empresa de Energía de Bogotá (EEB) – Bogota electricity company	17,535,441	1.826%
Private Investors	270,751,364	28.193%
Individuals	131,420,780	13.685%
Institutional Investors	107,709,722	11.216%
Corporations	17,983,484	1.873%
Foreign Investment Funds	8,919,778	0.928%
ISA ADR Program	4,717,600	0.491%
Total	960,341,683	100.00%

Through the program “ISA Acciones Para Todos” (ISA Shares for All), 62,016 shareholders were able to purchase 13.33% of the company’s shares for a total value of US\$ 60 million after its initial offering of shares to the public in 2001. This made ISA the first public utilities company registered in the Colombian Stock Exchange and the second largest company in the country by number of shareholders.

The key factor in the success of ISA’s share issuance to the public was the “Declaration of the Nation in its capacity as Majority Shareholder of ISA,” signed by the Republic of Colombia on 15 December 2000. This Declaration aimed to protect the interests of minority shareholders on crucial issues such as dividend policy, information disclosure, share liquidity mechanisms and representation of minority shareholders.

in the Board of Directors, among others. This document marked the first step in the adoption of good corporate governance practices in Colombia.

Following the success of “ISA Shares for All”, new share issuances took place in 2002 with a total value of US\$ 62 million. After these issuances, 90,000 investors now held 24.3% of the company’s shares, thereby strengthening ISA’s position in the capital market. With a view to increasing transparency, implementing best global corporate governance practices and attracting more shareholders, ISA registered a Level I ADR in the United States in 2003.

ISA has 661 employees. Its market capitalization was US\$ 2.3 billion as of 30 June 2006. On 31 December 2005, its market capitalization was US\$ 2.2 billion, 120% more than on 31 December 2004 when it was US\$ 1 billion.

Corporate Governance

ISA attaches great importance to its shareholders. On 15 November 2001, it adopted a Corporate Governance Code based on international standards and aimed at ensuring the ethical integrity of the company and proper management of the company’s affairs. The goals of the Code are to:

- Foster an environment of respect for its investors;
- Establish open management to guarantee the transparency of its operations and dealings; and
- Develop systems and mechanisms for monitoring adequate and accurate management control.

This Code brought together and further developed management control practices, measures and mechanisms the company already had in place for many years. It is important to highlight that all the subsidiaries of ISA Group that issue securities in the public markets of Colombia, Peru and Brazil fully comply with corporate governance policies currently applied in each of these countries.

ISA’s Board of Directors has seven members. Each director is elected based on aptitude, knowledge, experience and leadership criteria. Each director also has an alternate. All Board members and their alternates attend meetings. Four of these members and their corresponding alternates are independent. The Chairman of the Board, also independent, represents the minority shareholders. Three institutional committees support the work of the Board: the Board Committee; the New Business Committee; and the Audit Committee. The Board may establish temporary committees to study, analyze or investigate specific cases. At ISA, the positions of CEO and Chairman of the Board are filled by different individuals.

The CEO is selected by the Board based on aptitude, knowledge, experience and leadership criteria. The CEO is evaluated annually by the Board against progress made in the achievement of objectives established in the company's strategic plan. Throughout its 39-year history, ISA has had only five CEOs, an exceptional achievement among companies partly owned by the state.

The Annual General Meeting sets the Board's remuneration, stipulating a sitting fee equivalent of three monthly statutory minimum wages (US\$ 530) for each meeting attended. The Board of Directors through its Board Committee determines management compensation. Management compensation has two components: fixed salary paid on a monthly basis and other bonuses linked to performance and achievement of goals. The amounts paid both to the Board of Directors and management are disclosed to the market on a collective basis. ISA does not have any stock options plans for its management, employees or directors.

ISA's external auditors are accountable to the Board of Directors and the Audit Committee, while the chief of internal audit reports to the CEO and Audit Committee.

For ISA, corporate governance is neither fashion nor a temporary trend. ISA has worked to instill in its employees and senior managers the seriousness and importance of duties and obligations consistent with good corporate governance practices over the long-term. This commitment is also incorporated into ISA's by-laws and policies that govern the company's day-to-day operations. ISA's commitment to good governance was recognized by the corporate governance award it received from ANDESCO (National Association of Utilities Companies) in 2006. The company's general counsel is in charge of corporate governance policies and practices in ISA.

The best way of showing to the market, our shareholders, customers and other stakeholders that ISA is committed to good governance practices is through complying with commitments made with respect to the following:

- **Information disclosure:** In every Annual General Meeting, performance evaluation report on the Board of Directors and the CEO and governance Code compliance and development report are submitted in addition to all other statutory reports.
- **Shareholder service center:** ISA has a shareholder service office charged with assisting and replying to shareholder requests. This is done through the following:
 - Shareholder service offices in Medellín and Bogotá, which provided help to 278 shareholders in 2005, and received 781 telephone calls;
 - Shareholder toll-free helpline, which received 55,292 calls in 2005 (with an average of 219 calls per day);

- E-mail based service: 1,348 e-mail requests were received in 2005 from shareholders;
 - At least twice a year, shareholders receive a newsletter with information on company achievements and results, ISA's performance in the market and other matters of interest. Fifteen publications were issued in 2005—nine monthly reports with financial results and six relevant news items; and
 - Quarterly meetings are held with securities analysts and institutional investors in three main cities of Colombia (Bogotá, Cali and Medellín) to provide information regarding ISA's management and financial results.
- **Information provided to the public:** Investors and the public can access financial information on ISA's website. This information is updated quarterly and is the same as that submitted to the Board. It covers issues such as financial results, debt reports, warranties issued, credit risk assessments, reports submitted to the US SEC, shareholding, share trends, dividend payment date, terrorist attacks against pylons, new projects, Board members, tax inspection reports and reports from risk assessment companies.
- **Mechanism for Code monitoring:** ISA has designed an IT tool that allows the public to check, via the website, the level of compliance and implementation of each of the commitments and activities established in the Code. This ensures transparency and accountability of the company's employees regarding corporate governance practices.

Currently, ISA is in the process of updating its Corporate Governance Code.

Results

Based on Colombian GAAP, in 2005, the ISA Group registered a total turnover of US\$ 472 million, an EBITDA of US\$ 307 million, operating revenues of US\$ 214 million and net income of US\$ 88 million. The EBITDA margin of the company was 65%, with net margin of 18.6%. In June 2006, ISA's assets totaled US\$ 5.0 billion and liabilities accounted for US\$ 2.3 billion, to give a net worth of US\$ 1.3 billion. ISA's historic financial results are presented below:

- Net income:
 - 2004 – Pesos Colombianos 140,015 million / US\$ 59 million;
 - 2005 – Pesos Colombianos 187,179 million / US\$ 82 million;
- Net operating revenues:
 - 2004 – Pesos Colombianos 712,206 million / US\$ 298 million;
 - 2005 – Pesos Colombianos 708,281 million / US\$ 310 million;

- Operating costs and expenses:
 - 2004 – Pesos Colombianos 341,406 million / US\$ 143 million;
 - 2005 – Pesos Colombianos 347,515 million / US\$ 152 million;
- Net cash:
 - 2004 – Pesos Colombianos 151,868 million / US\$ 64 million;
 - 2005 – Pesos Colombianos 56,294 million / US\$ 25 million; and
- Projected cash, according to ISA's budget for FY 2006, is Pesos Colombianos 3,237 million / US\$ 1.5 million.

Shareholders have seen their ISA shares appreciate over 80% year-on-year and received substantial dividends since 2001. In particular, the share price rose 170% from Pesos Colombianos 2,090 / US\$ 0.90 cents in 2004 to Pesos Colombianos 5,650 / US\$ 2.47 in 2005. Shareholders received dividend distributions of US\$ 40.9 million for FY 2005. This is consistent with ISA's dividend policy, which requires that at least 70% of each period's distributable income be returned to shareholders as dividends.



Marcopolo

Marcopolo S.A. (Marcopolo) manufactures bus bodies and their components. The company is the market leader in Brazil with approximately 43% market share and holds between 6% and 7% of the global market. Market capitalization is approximately US\$ 362 million as of 30 June 2006, which is 25% more than it was in 31 December 2004 —US\$ 290 million. Marcopolo's shares trade on BOVESPA (São Paulo Stock Exchange), where they were first listed back in 1974. In 2002, Marcopolo became the first industrial company to have its shares listed on Special Corporate Governance Level 2 of BOVESPA. Marcopolo's shares are not included in any stock index.

Marcopolo was founded in 1949. Its headquarters are located in Caxias do Sul, in Brazil's Southern state of Rio Grande do Sul. The story of Marcopolo's success and global market expansion is integrally associated with its business strategy to adopt good corporate governance. Marcopolo's expansion and growth from an essentially family-controlled Brazilian manufacturer with sales mostly coming from the domestic market, to a professionally-managed and internationally-operated conglomerate with dispersed ownership and worldwide sales, were accomplished more rapidly and effectively with the corporate governance practices and structures that the company solidified beginning in early 2000.

From Family Ownership and Management Control to Dispersed Ownership and Enhanced Board Oversight

Paulo Bellini, current Chairman of the Board, is one of the company's founding partners. In the mid-1960s, José A. F. Martins and Valter Gomes Pinto joined the company. Mr. Raul Tessari joined Marcopolo in the mid-1970s. The four became members of the controlling group. Presently, Bellini, Martins and Pinto control the company through a shareholders' agreement. These three shareholders, with their families, hold together approximately 27% of the total capital, approximately 65% of the voting shares, and 4.8% of preferred shares. Another 27% of the company's total capital is held by institutional investors and the remaining shares among other domestic and foreign shareholders. The company's free float is 43.4% of the total capital (includes voting and non-voting shares). Marcopolo's detailed ownership structure is presented in the chart on next page.

The year 2000 is considered a turning point in Marcopolo's corporate governance history. At that time, the Board of Directors had only three members and was not very active due to the fact that they were simultaneously the executive directors of the company. Then, Raul Tessari, one of the controllers, expressed his desire to relinquish his

Marcopolo S.A. - Ownership Structure - 30/06/2006						
Shareholders	Voting Shares	%	Non-Voting Shares	%	TOTAL	%
Controlling Group						
Paulo Pedro Bellini	12,312,569	28.83	2,295,102	3.29	14,607,671	13.00
Partibell - Part. Adm. Ltda	2,920,329	6.84	-	0.00	2,920,329	2.60
Jose Antonio Fernandes Martins	5,241,788	12.28	751,409	1.08	5,993,197	5.32
JM Part. e Adm. Ltda	1,279,054	2.99	-	0.00	1,279,054	1.14
Valter Antonio Gomes Pinto	4,685,954	10.98	109,678	0.16	4,795,632	4.27
Vate Part. e Adm. Ltda	1,260,815	2.95	-	0.00	1,260,815	1.12
Subtotal Control Group	27,700,509	64.87	3,156,189	4.53	30,856,698	27.46
Subtotal Family Members	116,060	0.27	150,257	0.22	266,317	0.24
Subtotal Other Brazilian Shareholders	14,886,649	34.86	34,292,608	49.22	49,179,257	43.76
Subtotal Foreign Shareholders	-	0.00	32,074,617	46.04	32,074,617	28.54
TOTAL	42,703,218	100.00	69,673,671	100.00	112,376,889	100.00
Proportion	38.00%		62.00%		100.00%	

executive role and remain only at the Board. At the same time, Bradesco-Templeton, an active institutional investor and important shareholder, wanted a Board seat, although its stake was not large enough to legally entitle it to elect a member. The combination of the shareholder Raul Tessari's willingness to move to the Board and Bradesco-Templeton's aim to participate with Marcopolo and thus contribute more effectively in the creation of value, led to the restructuring of the company's Board.

At the Annual General Meeting of April 2001, shareholders approved the new Board of Directors with six members, three being external and two of them considered independent, according to the definition of "independence" established by the Brazilian Institute of Corporate Governance (IBGC). Immediately, the new Board began to act.

In April 2002, already under the new Brazilian Corporate Law, the controlling shareholders of Marcopolo gave a fine example of good corporate governance practice. Brazil's recently amended Corporate Law approved by Congress in October 2001, established that during the first five years when the amendments enter into effect, preferred shareholders could elect a Board member only from the three person nominee list provided by the controlling shareholders. In the case of Marcopolo, the controlling shareholders allowed the preferred shareholders to freely elect their director representatives, without requiring adherence to the more restrictive requirement.

Also in 2002, a very important event for Marcopolo took place. Brazil had general elections, and there was genuine concern about what would be the economic policy of

socialist Presidential candidate Mr. Lula da Silva, who was leading in the polls at that time. Given these circumstances, the Board considered that Marcopolo's debt was above the safe level and therefore the Board approved a new equity issue in order to provide an extra cushion of liquidity.

It became clear to the Board that, for the new equity issue to be successful, it had to include additional protections for investors. Therefore, the Board approved the listing of Marcopolo's shares on the Special Corporate Governance Level 2 of BOVESPA, granting tag-along rights of 100% to ON (voting) shares and 80% to PN (non-voting) shares. The commitment to good corporate governance practices and the company's strong fundamentals resulted in a very successful offering raising R\$ 98.0 million, equivalent of US\$ 25.0 million, despite the negative environment for investments in Brazil at that time. The offering was concluded one week before the first round of elections.

Shortly after the successful issuance, in 2004, Raul Tessari decided to sell his voting shares, consequently leaving the controlling group and the Board. The new Board, with an approved composition of six members, was held responsible for the company's corporate governance policies and practices. Among its members, four were nominated by the controllers (two of them engaged in activities outside the company) and the remaining members elected by the minority shareholders and preferred (non-voting) shareholders. The Fiscal Board was elected with three members, two being elected by minority shareholders. To the extent known, Marcopolo is the only Brazilian company where minority shareholders have more representatives than the controlling shareholders on the Fiscal Board.

During 2005, the Board of Directors approved the company Code of Ethics, which included important shareholder protection improvements in regards unauthorized inside information disclosure and other practices that might be interpreted as conflicts of interest. This was welcomed at all levels of company management. Additionally, a Council of Heirs was created to prepare them and the company for the succession process involving founders/controlling group members, their heirs and the company's senior executives. The Board also created four committees to help improve the performance of overall functions, which are: Executive; Auditing and Risks; Innovation and Strategy; and Human Resources and Ethics.

The Annual General Meeting of 2006 marked another important step towards corporate governance best practices: Paulo Bellini stepped down from the CEO's position, remaining as the Chairman of the Board. Jose Rubens De La Rosa, a non-founding (and non-controlling family) member and professional manager was appointed as the CEO.

Company Performance based on Accountable Management and Transparent Business Conduct

The remuneration of the Board members and senior executives is composed of a monthly fixed salary and an annual variable bonus based on the results. Depending on approval by the Annual General Meeting, the executives can be granted a stock option based on the company performance results for the year. The value of the option is deducted from the bonus and the corresponding shares will only be available at the proportion of 1/3 per year within the next three years.

The collective amount of the fixed monthly salary to be paid to the executives is determined during the Annual General Meeting. The total amount is disclosed in the minutes of the Meeting that are published in the legal newspapers, on the company website, etc. The limit on cumulative variable bonus compensation is set forth in the company's by-laws. The actual amount of compensation earned annually is separately disclosed in the company's financial statements.

Marcopolo's common practice is to provide accurate and timely information to the public. In the consolidated quarterly and annual financial statements, the "Management's discussion and analysis of results of operations and financial position" as well as all material information about major corporate events are extensively disclosed and published by the company and filed with the BOVESPA. All financial statements are audited by independent external auditors with recognized competence. The external auditors' opinion is disclosed and published together with financial statements. The external audit firms are rotated according to the law.

Material events, minutes of the Annual General Meetings and minutes of the meetings of the Board of Directors are published in the legal newspapers, filed with BOVESPA and made available on the company's website. The company also publishes its calendar of corporate events every year. Conference calls are held quarterly and, at least once a year, public meetings and presentations are carried out in São Paulo, Rio de Janeiro and Porto Alegre with stockholders, potential investors, financial analysts and other interested parties.

Marcopolo signed with BOVESPA a "Contract of Adoption of Differentiated Practices of Corporate Governance" and, accordingly, made the necessary adaptations required by Level 2 of BOVESPA to its Articles of Incorporation. The copies of the "Shareholders' Agreement" between the controlling shareholders, as well as the rules of the "Stock Option Program" are filed with BOVESPA. The company discloses, in English, the complete set of financial statements prepared according to the US GAAP.

The company keeps adequate systems of internal controls in order to provide protection for the assets of the business. In July 2005, management approved the Code of Conduct, and its contents were disclosed to all employees, who had to

formally commit themselves to observe and comply with the stipulated rules of behavior.

Good Business Combined with Good Governance Gets Results

Marcopolo now not only offers a complete bus body products line but also offers in-house engineering and design services, customizing products to any chassis-maker and to any customer specifications. Customer loyalty, a strong brand and market diversification are important characteristics of Marcopolo's business. Production flexibility and installed capacity enable Marcopolo to deliver large volumes of different products in a short-time span, at competitive prices, using low capital and high inventory turnover. Marcopolo delivers reliable and quality products.

A bus body usually takes up to 800 to 1,200 hours of labor to build. It is a labor-intensive process. Therefore, having motivated and skilled people is essential. Marcopolo values its highly skilled, fully-trained and motivated labor force. Marcopolo employs approximately 11,000 people worldwide.

As part of its strategic plan, Marcopolo had decided to become a global player. The reasons for international expansion strategy are related to the company's needs to:

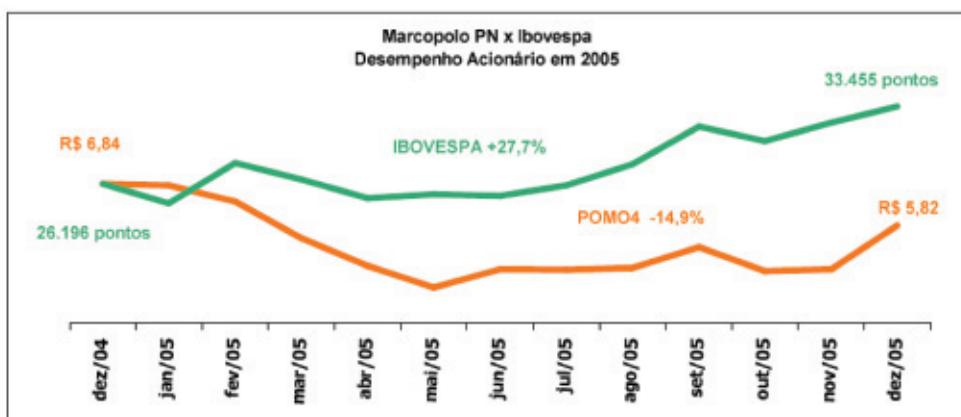
- Grow at a rate higher than that of the market;
- Diversify economic and political risks;
- Minimize fluctuations in global production due to volatility in regional demands;
- Benefit from economies of scale; and
- Increase returns to investors.

Taking this strategy from plan to action, in the early 1990s the company intensified its move towards globalization and accelerated it in the last few years. Besides the three bus body plants located in Brazil, the company now operates plants in Mexico, Colombia, Portugal and South Africa. Earlier this year, the company announced a joint venture with Ruspromauto, the largest manufacturer of vehicles in Russia. In May 2006, it announced a joint venture with Tata Motors, the largest automobile and truck company in India. Exports jointly with revenues from Marcopolo's operations abroad accounted for 55.5% of total revenues in 2005, up from 52.7% in 2004.

Consolidating Marcopolo's global product market results, Marcopolo's results are rather impressive. The financial statements are prepared in accordance with both Brazilian GAAP and US GAAP. A snapshot of the most recent annual financial indicators is presented below:

- Net income:
 - 2004 - R\$ 85.0 million / US\$ 32.1 million;
 - 2005 - R\$ 82.0 million / US\$ 35.0 million;
- Net operating revenues:
 - 2004 - R\$ 1,605 million / US\$ 605.7 million;
 - 2005 - R\$ 1,709 million / US\$ 730.3 million;
- Net costs and expenses:
 - 2004 - R\$ 1,488 million / US\$ 561.5 million;
 - 2005 - R\$ 1,627 million / US\$ 695.3 million;
- Net cash:
 - 2004 - R\$ 186.1 million / US\$ 70.1 million;
 - 2005 - R\$ 115.4 million / US\$ 49.3 million.

The company's share price was R\$ 6.84, or US\$ 2.58, on 31 December 2004 and changed only marginally to R\$ 5.82, or US\$ 2.49, by 31 December 2005.



Finally, the company feels very proud that the market, the bus sector within automotive industry and the investment community have repeatedly recognized Marcopolo's business and corporate governance accomplishments, as demonstrated by the following awards:

- 2006 Best Investors Relations Program in the Small- and Mid-Cap company Category, as awarded by IR Magazine, an investor relations publication that holds an annual contest in conjunction with PR newswire and the Brazilian Institute of Investor Relations (IBRI). The award is based on compiled

research results collected from surveys of 850 market investors and analysts, and independently evaluated by the Brazilian Economic Institute and Getulio Vargas Foundation (FGV).

- 2006 Best Executive Director of an Investor Relations Program in the Small- and Mid-Cap Category awarded to Mr. Carlos Zignani from Marcopolo, as selected by IR Magazine in its second annual Investor Relations contest held in Brazil.
- The Best 100 Companies to Work for in 2002, 2003 (4th place), 2004 and 2005 awarded by Exame Magazine.
- Corporate Citizenship Award in 2002 and 2004—awarded by Exame Magazine.
- 2003 Autodata Award for Social Responsibility—awarded by Autodata Magazine.
- Most recognized company of the year 2003 in the autoparts industry—awarded by DCI newspaper.
- Top 100 companies to work for in Latin America in 2004 and 2005—awarded by Great Place to Work Institute of Brazil.
- Foreign Trade Award in 2004 and 2005—awarded by the Brazilian Association of Foreign Trade.

Future Challenges for Marcopolo

Marcopolo began the year 2006 with a solid portfolio of orders that was larger than historical levels. Looking forward, there is cautious optimism about Brazilian domestic market demand, considering that the Central Bank of Brazil may accelerate reductions in the country's benchmark interest rate, possibly yielding a small increase in domestic demand. Adequate credit supplies at reasonable interest rates are essential to the company's sustainable growth and integral to increased market demand. On the international side, demand is expected to remain stable.

Marcopolo has chosen internationalization as the means for consolidating its growth. This strategy includes rethinking possibilities for expanded exports and increased manufacturing of parts and components by Marcopolo overseas. The company's international expansion posts some challenges, mainly in terms of human resources. Further, there remain challenges of competitiveness and business environment stability. To ensure competitiveness and minimize the adverse impact of any dramatic changes in policy or markets, the company will re-double its cost control and management efforts and has already diversified its markets and client portfolio so that none represents more than 5.0% of sales. This strong effort by the executive management could lead to higher margins in the future.

The current shareholders' agreement expires in 2007. Renewal is an important factor for investors. Management succession is still an open issue, as succession plans are still not defined. The company's by-laws need to be modernized to incorporate improved corporate governance concepts. The recently created Board committees are still in a steep learning curve, but their results should be evident in the near future. The strong corporate culture and the engagement of the controlling shareholders with the company's operations are important factors to determine the pace of corporate governance progress at Marcopolo.



Natura

At business meetings with Natura's founders—Antonio Seabra, Guilherme Leal and Pedro Passos—a question was always raised: “When will the company go public?” The company started with a small store, in the late 1960s, using an initial capital equivalent to the price of a Volkswagen Beetle at that time. Around 2000, Natura was setting new standards for its industry and for the national business culture. Natura today has 4,128 employees.

Natura was already considered a success story. It was already a leader in its industry, as one of the five most valuable Brazilian brands, and it showed a consistent growth in both sales margins and EBITDA.

What would crown such success, in the market’s eyes? Going public would. However, an initial public offering (IPO) was not so obvious an option. The company generated enough cash to maintain and expand its businesses. The way controlling shareholders ran the company inspired trust in the market, attracted good employees and enchanted consumers. Who could ask for more? The demanding founders of Natura could.

The decision to go public was rooted not in a financial need, but in a deep desire to perpetuate not only Natura’s businesses, but also its way of doing business. For many years, financial success was only part of Natura’s mission. The company was guided by a triple bottom line when assessing its own performance: social and environmental, corporate responsibility and financial results. Natura’s owners wanted to be sure that this way of running the company would survive them.

Natura went public opening a new era for Brazilian capital markets. The company’s successful IPO was a sign that the market would welcome good companies and good governance, even when the economy faced tough times.

The Beginning

Natura is the leading company in the Brazilian cosmetics, perfumery and personal hygiene products sector. Committed to the quality of its relationship with stakeholders, Natura established a sustainable development business model, focused on constant innovation and improvement of its products.

Since its foundation in 1969, Natura has held a passionate view of its products. The company sees learning about cosmetics as a way of achieving self-knowledge with a transforming power in people's lives.

Ten years later, the company made the choice to sell its products directly to its customers, a strategy which proved to be one of the main reasons for its continued success.

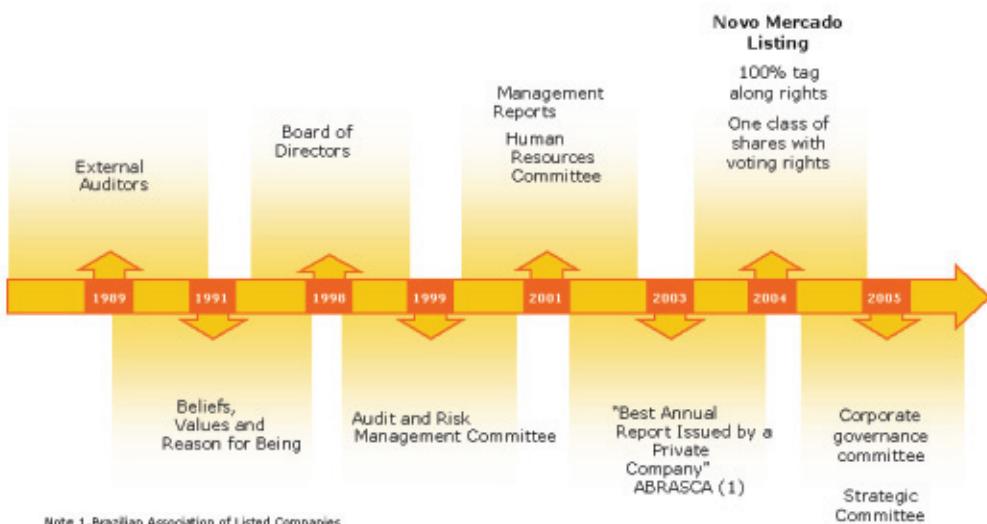
The company grew steadily during the 1980s, and then underwent a broad restructuring process.

In the mid-1990s, Natura launched itself abroad, starting up distribution centers in neighboring countries, such as Argentina, Chile and Peru.

The company's so-called third cycle started in 2000. Natura received huge infrastructure and training investments. An enormous complex of factories, offices, research and development (R&D) and entertainment facilities was built. The company also launched the Ekos line, a new concept in products generated from the flora and the biodiversity of the Amazon region, harvested in a sustainable manner.

A Consistent Path to Corporate Governance

Natura has a substantive history behind its path towards good governance practices. Since the beginning, its three commanders have focused their efforts on perpetuating the company. They decided to pursue actions that would increase the company's credibility in the market, boosting its performance through a challenging management and, overall, building a participative and democratic corporate environment.



When Natura finally decided to go public, the company had already come a long way in implementing good management practices and had a very well-structured governance platform. Its financial reports were prepared in accordance with US GAAP, its Board of Directors included external directors, the Audit Committee was also chaired by an external director and an investor relations department was in place.

When Natura considered on which stock exchange to list its shares, its choice was clear. Natura decided to voluntarily adhere to the listing requirements of the Novo Mercado (New Market), the most demanding special corporate governance segment of BOVESPA (São Paulo Stock Exchange). In the Novo Mercado, companies agree to adopt governance practices beyond Brazilian regulatory requirements, providing greater transparency and strengthening the rights of minority shareholders. Novo Mercado companies may issue only voting shares, and must guarantee minority shareholders tag-along rights when transferring the controlling stake.

A Turning Point for Brazilian Capital Markets

Natura's shares were launched on the Novo Mercado in May 2004, a tough time for the Brazilian economy as well as for global markets. The BOVESPA Stock Index had fallen 14% in US dollar terms, and even the Dow Jones Index slipped 3%. But the market showed that it could recognize value in a solid business that offered good governance and, therefore, less risk to investors.

Natura's IPO was a success: it drew around 5,000 investors, and the stock's demand was 14 times the number of shares offered. This demand helped raise the share price in the aftermarket, resulting in an 18% gain in the first day. Even before the IPO, the demand for Natura's shares seemed strong. During a pre-IPO, in an international road show, the number of orders (174) was higher than the number of investors visited (170). The company's IPO, the first in Brazil since January 2002, also signaled the beginning of a renaissance of the country's stock market. The IPO was followed in May 2004 by a second offering that raised R\$ 768,120,636.³

Today, 73.5% of Natura's shares remain held by controlling shareholders, while 23.9% is held by institutional investors and 2.7% by non-institutional private investors. Accordingly, the total free float is 26.5%. These numbers do not take into account its 1,480,850 treasury shares.

³ It is Natura's policy to prepare and publish all financial data only in Brazilian currency. Thus, all figures in this chapter are presented in Reais. However, for reference of the readers, below are the exchange rates (in relation to the US dollar) recorded for the specific dates (source: The World Bank Integrated Controller's Systems):

- May 2004 – 2.9150;
- 31 December 2004 – 2.6915;
- 31 December 2005 – 2.3325;
- 15 August 2006 – 2.1595.

Governance at Natura Today

Currently, Natura's Board of Directors is comprised of 5 directors, 2 of whom are external directors. The positions of the Chairman and CEO are separate. To assist the Board to carry out its functions, four committees have been established: Strategy; Corporate Governance; Audit, Risk and Finance; and Human Resources.

The company and its subsidiaries pay the management and the Board members a mix of fixed and variable compensation. The variable component is calculated based on economic-financial, social and environmental targets, and the specific goals are determined by the Board of Directors at the beginning of each year. Additionally, senior management also receives stock options. The total compensation is published in the company's annual report.

The company reports its results on a quarterly basis and also conducts conference calls regularly with financial market analysts. The financial statements are prepared in accordance with the Brazilian Corporate Law and best practices of information disclosure. The company's Investor Relations Department has several meetings with analysts and investors each year in order to discuss business results and material developments in the product markets.

Natura's corporate governance secretary, who reports to the Board of Directors, is responsible for the following functions, deemed important from the governance point of view:

- To facilitate the interface between the Board of Executive Officers and the Board of Directors;
- To help plan the annual agenda of the Board of Directors and define the agenda of every Board meeting; and
- As a member of the Board of Directors' Corporate Governance Committee, to propose improvements to Natura's corporate governance system and to coordinate the implementation of improvements approved by the Board of Directors.

Natura's leadership in corporate governance is well recognized by the market. In 2005, Natura received important awards and recognitions, including the award for *Most Highly Regarded Company* (granted by Carta Capital magazine and Interscience) and the Social Report Award (granted by ABRASCA).

Results

Natura's commitment to its investors, its reliable corporate governance practices and its deep concern about sustainable development led to extraordinary operational results. Its sales grew 33% in 2004 and 117% over the past three years, from approximately R\$ 1.2 billion in 2001 to approximately R\$ 2.5 billion in 2004. Its operations in the rest

of Latin America also evolved consistently, growing 52% in 2004 and 107% over the past three years, in dollar terms, from US\$ 11.6 million in 2001 to US\$ 24.1 million in 2004. Its share in the domestic market went up from 17.1% in 2003 to 19.2% in 2004 and to 21.4% in 2005. Natura's net income grew more than 32% from R\$ 300 million in 2004 to R\$ 397 million in 2005. Other financial information also portraits an impressive growth as indicated below:

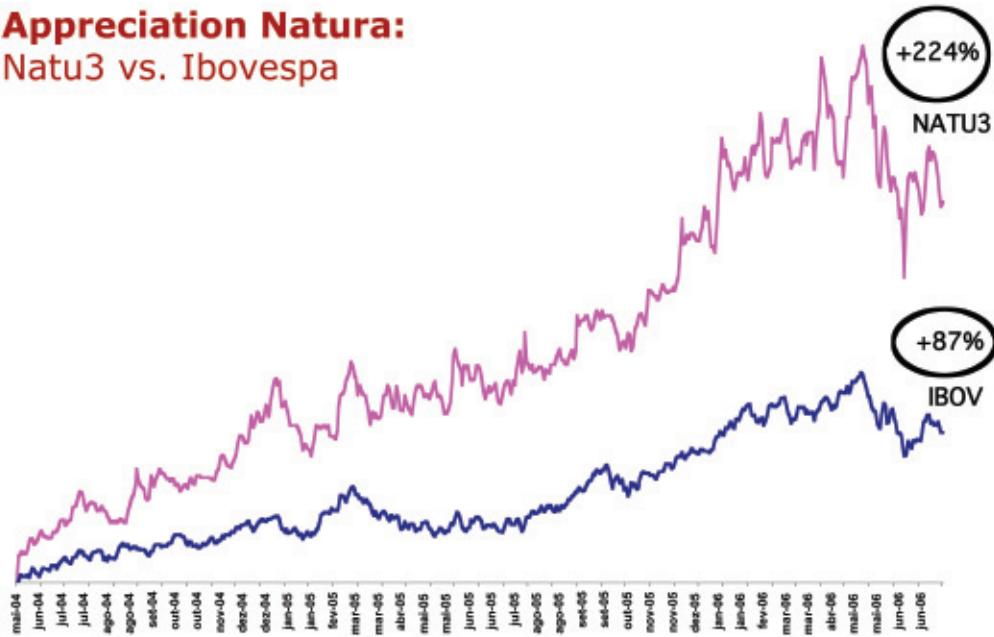
- Net operating revenues:
 - 2004 - R\$ 1,770 million;
 - 2005 - R\$ 2,282 million;
- Net costs and expenses (COGS + SG&A):
 - 2004 - R\$ 1,371 million;
 - 2005 - R\$ 1,750 million;
- Net cash:
 - 2004 - R\$ 97.2 million; and
 - 2005 - R\$ 198.9 million.

Natura ended 2004 with a R\$ 431.7 million EBITDA, 46% higher than the 2003 figure. The company's gross cash generation reached R\$ 385.6 million, which was 60.6% higher than in 2003. Only in April 2005, Natura's shares appreciated 115%, compared to a 31% rise in the BOVESPA Stock Index (Ibovespa) over the same period. Between 31 December 2004 and 31 December 2005, Natura's share price appreciated more than 38% from R\$ 14.44 to R\$ 19.94. Similarly, the company's market capitalization grew more than 37% over the same period from R\$ 6.2 billion on 31 December 2004 to R\$ 8.5 billion on 31 December 2005.

Natura's share price rose 36.9% between 1 January and 15 August 2006 out-performing the following Brazilian stock indices:

- IBrX50 increased 12.8%;
- IBrX100 increased 13.3%;
- ISE increased 13.8%;
- ITAG increased 19.5%; and
- IGC increased 13.8%.

Appreciation Natura: Natu3 vs. Ibovespa



Note: NATU3 until 07/14/06.



NET

The decision by NET Serviços de Comunicação (NET) in June 2001 to join Level 1 of the Novo Mercado, the corporate governance-based tier of BOVESPA (São Paulo Stock Exchange), was relatively easy for its owners. But when the time came to consider the next step to Level 2 of the Novo Mercado, the challenges were different. Moving to Level 2 meant NET would have to meet even stricter governance standards. The macro-economic scenario had changed since 2001, and it was clear that the company would need fresh capital in order to meet its obligations and fund its growth. Joining Level 2 would help outside investors and credit rating agencies look more favorably on the firm. The company's principal financial investors, BNDES (National Economic and Social Development Bank of Brazil) and BRADESPAR (BNDES's parent company), asked for changes in the shareholders' agreement to boost the company's corporate governance standards and make it more attractive to new investors. BNDES and BRADESPAR also wanted to ensure that the corporate governance framework would strengthen the company's operating fundamentals over the long run.

After the owners and NET management discussed the future role of controlling shareholders, NET committed to go to Level 2, completing the necessary requirements by June 2002. The owners noticed the importance of corporate governance reforms and the positive contribution they would likely make to the company's financials and market value. Therefore, management also worked closely with Board members to identify market trends that backed up their argument for higher corporate governance standards. Together they sought out feedback from institutional investors on ways that corporate governance reforms should be implemented, while considering its impact on NET's business.

What Motivated NET to Pursue Better Governance

Operating in forty-four large cities in the country including São Paulo, Rio de Janeiro, Belo Horizonte, Porto Alegre and Brasília with a subscriber base of 1.7 million customers, NET's cable network reaches more than 35,000 kilometers and runs through nearly 7.2 million residential buildings.

NET's strategy is to become the leading provider of entertainment and communications services in Brazil focusing on the residential market. NET aims to maintain its position as Brazil's leading provider of pay-TV services and to continue growing its broadband business. It emphasizes high corporate governance standards and focuses on leading the pay-TV sector through organic growth and consolidation.

Its need for outside capital to fund the construction of its infrastructure in the mid-1990s provided the initial impetus for NET to introduce good governance practices. In 1993 and 1994, two new investment partners, Globopar and Ralph Partners II, joined in with the original partner, Antônio Dias Leite. By 1996, each of these partners held 33.3% of the company's voting shares.

In 1996, the company (then known as Multicanal) raised US\$ 116 million in a domestic/international IPO, listing its shares on BOVESPA and NASDAQ as part of long-term strategy to diversify its funding alternatives. Two years later, the company merged with some pay-TV operators owned by Organizacoes Globo—Brazil's major communications group—and changed its name to Globo Cabo. (In 2002, it changed its name yet again to NET Serviços in order to link the name to the brand name, NET, already well-known by its customers.)

In 1998, the original controlling shareholders decided to strengthen the company's capital base by bringing in two new, large financial investors. As a result, BRADESPAR (the equity arm of Bradesco) and BNDES became part of the controlling group, with the former holding 8% of the voting shares, and the latter 14%. Together with Globo and RBS (the leading media company in the southern part of Brazil), the new shareholders embarked on a long-term strategic plan that would have transparency in the financial markets as a keystone. Both financial investors were clear that in order to continue investing in the business, it would be crucial to have a clear framework of corporate governance.

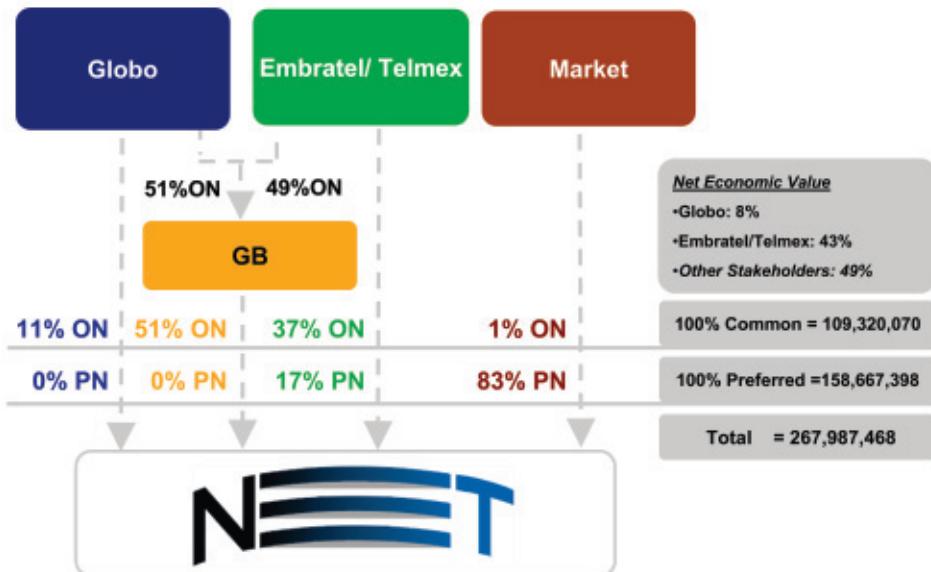
As the business became more mature and the need grew to bring in an additional investor with telecom expertise, it became clear that the advances that had been made in corporate governance also provided the company a competitive advantage when looking for such a technical partner/investor. By the time NET's search for a technical partner/investor was underway, the company was already publicly-held with shares traded on BOVESPA, Nasdaq and Latibex and qualified for the Novo Mercado's Level 2. It had achieved levels of transparency that were internationally competitive and had granted 100% tag-along rights to all shareholders in case of a change of control.

In March 2005, Globo reached a deal with Telmex, which became a shareholder in the company. As Telmex bought a significant part of the equity, BNDES and BRADESPAR left the controlling group. A few months later, BRADESPAR sold its position. BNDES remains a shareholder in the company and is the largest shareholder outside the controlling group. BNDES looks after the interests of minority shareholders currently through its nominated member at the Board of Directors and the Fiscal Board.

Because strong corporate governance standards were implemented in the past in the company, NET's minority shareholders can now monitor the company's performance in a transparent manner. The governance rules also ensure that a balanced decision-making process guides the company's key strategic decisions.

Novo Mercado Level 2

In 2002, new equity-raising activity triggered the second wave of new corporate governance measures, leading the company to join the Novo Mercado's Level 2. NET then became a pioneer in practicing transparency in its relationship with the capital markets. The company increased its capital by US\$ 387.4 million. As a consequence, financial investors obtained veto power over certain key decisions. Also, 100% tag-along rights were extended to all shareholders (voting and non-voting), along with other requirements of the Novo Mercado listing. Additionally, NET increased its level of free-float shares to almost 50%. However, the vast majority of the free floating shares are non-voting—83% of the non-voting shares, but only 1% of voting shares. About 70% of the free float is held by institutional shareholders. The current ownership structure is presented in the chart below.



One year later, a Disclosure Committee (“Comitê de Divulgação”) was established to make decisions on disclosure-related issues. Also, management started certifying financial statements in accordance with Section 302 of the U.S. Sarbanes-Oxley Act.

In 2004, a project to fully comply with the Sarbanes-Oxley Act by the end of 2005 was implemented and a new internal controls group was set up. Also, the company's internal audit function was upgraded, and it began reporting directly to the Board of Directors.

A Fiscal Board was established, with powers to perform Audit Committee functions and ensure compliance with the Sarbanes-Oxley Act's requirements. Its three members are fully independent. One was elected by minority shareholders. NET's External Auditors are accountable to the Board of Directors.

The Board of Directors and Main Executives

Currently, NET's Board of Directors is composed of 12 non-executives. The positions of the Chairman and CEO, therefore, are separate. Seven directors are nominated by Globo, three by Telmex and, following latest requirements of BOVESPA's Level 2 (effective as of April 2006), two are independent, and one of whom is elected by minority shareholders. Directors are elected for a one-year period and may be reelected. The Board of Directors is also supported by an Executive Committee and a Financial Committee.

NET's executive officers are responsible for all matters concerning the company's day-to-day management and operations. The executive officers are residents of Brazil and may or may not be shareholders of NET. In addition, the company currently employs four senior managers.

All members of NET's Board of Directors and Fiscal Board are entitled to receive compensation for serving on the Boards. In practice, only one independent director and all members of the Fiscal Board receive such compensation.

The aggregate compensation paid and in-kind benefits granted to NET's senior executive officers include the long-term incentive plan, which is linked to operational and financial performance. NET discloses the amount of compensation on a collective basis.

Controlling shareholders understand that in order to be successful in the capital markets one must be fully committed to consistency in communication and transparency. High levels of transparency allow the business to be better understood and priced by outside investors. NET has a Disclosure Committee (formed by the executive officers of the company, including the CEO, the CFO and the CLO) that is very active in assuring a high standard of transparency when conveying key messages to the markets and that closely monitors changes in the demand levels from investors. Together with the Board of Directors, which bears overall responsibility for corporate governance in the company, the Disclosure Committee evaluates corporate governance developments in the marketplace to ensure that best practices will continue to be implemented as they emerge.

Financial Results Summary 2004-2005

The good performance posted by NET in 2005, reported in accordance with Brazilian GAAP, is the result of the organic growth recorded in both pay-TV and broadband customer bases, which is being accomplished without losing focus on profitability. The company is increasing its revenues and, at the same time, managing costs and expenses to ensure return from each new subscriber. During 2006, the company expects to keep cash levels at about US\$ 150 million. Seventeen securities analysts cover the company's equity performance. They are expecting average EBITDA for year-end 2006 to be approximately US\$ 240 million.

In 2005, the company recorded US\$ 56 million in net income, an improvement in comparison to the US\$ 96 million net loss recorded for 2004. Stronger operating results and lower foreign exchange exposure supported this positive change. NET's revenues rose 14% in 2005, reaching US\$ 669 million, versus US\$ 497 million in 2004. This result is due to the increase in both pay-TV and broadband subscriber base and to higher revenue coming from pay-per-view ("PPV"). In the year, consolidated EBITDA reached US\$ 186 million, a 46% jump in comparison to US\$ 128 million for the previous year. Consistent subscriber growth and cost control measures explain the growth. Cash, by the end of the second quarter of 2006, totaled US\$ 135 million, a 6% increase in comparison with the US\$ 127 million recorded at the end of the fourth quarter of 2005. In 2005, there was a 40% growth and costs and expenses totaling US\$ 474 million versus US\$ 339 million in 2004.

The company ended the 2005 with 4,181 employees, a 30% growth in comparison to 2004. This growth was concentrated in the sales and installation departments, representing almost a 100% variable component and sustained by the company's accelerated growth strategy.

Results

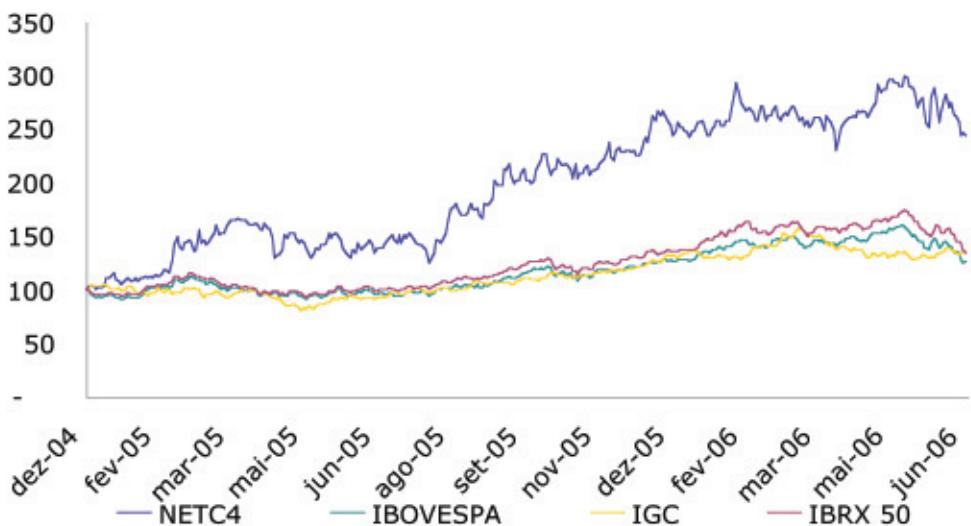
It is always difficult to say with any certainty what drives a company's value in the stock market. However, it is hard to avoid the conclusion that had NET not implemented stricter corporate governance standards, its share price and overall market value growth would not have been as impressive.

In June 2006, NET's market value reached US\$ 2.4 billion, with US\$ 115 million in EBITDA. NET has improved its capital structure and is pursuing growth opportunities on a very solid financial footing. The market is acknowledging these improvements. Two large institutional investors have publicly stated that they each now own more than 5% of the preferred (non-voting) shares. This not only demonstrates that they support the company's current strategy, but also that they are comfortable with the new corporate governance framework.

NET's share price rose 149% from 2004 (R\$ 0.43) to 2005 (R\$ 1.07), and significantly outperformed the Ibovespa, IGC and IBrX50 stock indices, as shown below.

In 2005, the company received two awards, one from Institutional Investor magazine and another from APIMEC-RJ, where the transparency policy adopted was directly recognized. The company has been invited to several groups of companies that discuss and analyze best corporate governance practices with investors and regulators.

In 2006, NET was judged among the Top 5 IR websites by IR Global Rankings and was nominated for the IR Magazine Award 2006 Brazil as one of the companies that demonstrated Higher Evolution in IR.



NET believes that its next steps in improving corporate governance will be dictated by the market. NET's shareholders have clearly demonstrated their commitment to good corporate governance and will most likely support NET's efforts to remain a front-runner in this area.



Suzano

Suzano Group (Suzano) inherited the principles of entrepreneurship, excellence in management, accountability, and commitment to client satisfaction and respect for people, community and environment from the fundamental business philosophy of its founding family, the Feffers. Leon Feffer was a Jewish Russian who immigrated to Brazil after the Russian revolution and his son, Max Feffer, succeeded him and led Suzano until 2001.

When Leon Feffer bought his first paper machine in early 1930s, the group he started in 1924 entered a period of consistent growth and development. After developing the technology to produce pulp from eucalyptus, Suzano industrialized the process during the 1950s. By the 1960s, Suzano was producing paper fully based on pulp from the eucalyptus source. At the beginning of the 1970s, Suzano decided to invest in the petrochemical industry, correctly perceiving that the consumption of plastic in the package industry would increase significantly in the coming years.⁴

Under the management of Max Feffer, after 1999, the group divested from non-strategic positions and established the basis of its growth strategy for the industrial sectors it has chosen to invest in: pulp and paper and petrochemicals. As these two segments are capital intensive, it was important to build a partnership with the capital markets in order to allow for the business growth. In 2001, the pulp and paper and petrochemical businesses, were split into two separate companies, Suzano Papel e Celulose and Suzano Petroquímica. In 2002, under the direction of the third generation, a thorough restructuring process was undertaken to ensure both businesses would be self-sustainable in the long-term and capable of growing competitively. To achieve this, the founding family wanted to ensure that the group would be free from the risks and limitations of dependency on the controlling shareholders' capital.

Corporate governance standards aligned with best practices were central to both the management and capital markets strategies of both companies. By setting the stage for greater liquidity and an appreciation of the companies' shares, modernizing corporate governance also offered a simple, fair and attractive exit for future generations of the controlling group without impairing the companies' activities.

⁴ The following decades represented an important phase in Suzano's history, when important projects were launched, such as the joint venture with Cia. Vale do Rio Doce to implement the so called Bahia Sul, which today is integrated with Suzano Papel e Celulose, in the pulp and paper business, and Rio Polímeros, the first Brazilian petrochemical complex fully integrated and based on natural gas fractions to produce polyethylene.

Governance Changes as Part of a Global Renewal Process

In 2003, Suzano completed the implementation of a management model committed to both companies' growth strategies. This new model rests on three pillars: (1) family control, which conveys a long-term vision, reputation and common values for the group; (2) professional management and performance monitoring; and (3) partnership with the capital markets. The newly-established Suzano Holding provided the controlling shareholders with a platform to supervise the activities of both subsidiary companies, establishing consistent policies in terms of planning, budgeting, auditing, performance assessment and leadership development.

As a first step in the group's restructuring, a team of professional executives, recruited both internally and in the marketplace, took over management of the two main subsidiaries, Suzano Papel e Celulose and Suzano Petroquímica, in addition to Suzano Holding itself. The new management structure at Suzano Holding streamlined corporate activities that had been duplicated in the subsidiaries, leading to a 30% cost reduction.

The implementation of the new group management model was paralleled by an important change in the role of the controlling shareholders—they left the executive function to focus on strategic direction and management oversight. Suzano Holding's Board of Directors began to reflect the Family Council of the Feffer family, with certain members of the family, together with well-known independent professionals from the marketplace, named to the Boards and committees of the subsidiary companies. The complete separation of the family's finances from those of the group was also a *sine qua non* condition for the success of the new governance model. This can be summed up in the credo; “one should not live from the company, but from the company's results”.

The Changes

a) Suzano Papel e Celulose S.A.

In 2003, Suzano Papel e Celulose listed its shares on Level 1 of BOVESPA's (São Paulo Stock Exchange) special corporate governance-based tier and accomplished the first step of its capital markets strategy with a successful R\$ 443 million / US\$ 151 million public offering, of which R\$ 150 million / US\$ 51.2 million was a primary issuance.

As a result of the offering, the holdings of the controlling group were reduced from 59.6% to 55.2% of the total. As of 30 June 2006, Suzano Papel e Celulose had 3,199 shareholders, including 146 foreign institutional investors, 313 local institutional investors and 2,740 local individual investors. The non-controlling shareholders are not provided with tag-along rights.

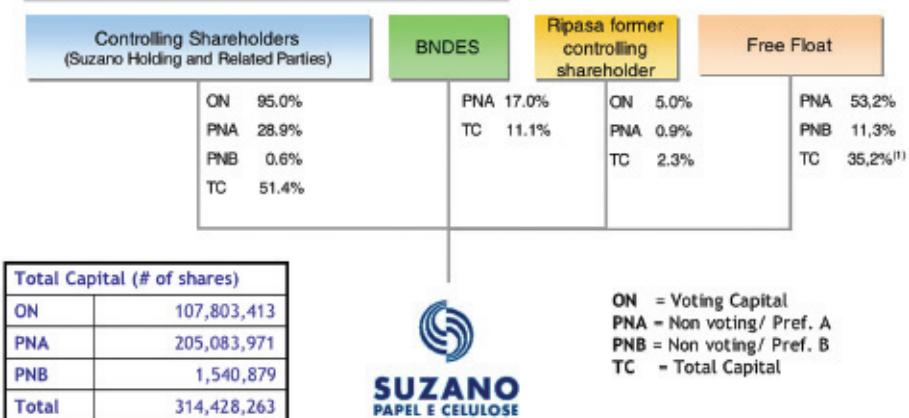
The Chairman of the Board of Suzano Papel e Celulose is the CEO of Suzano

Shareholder	Voting Shares	Preferred Shares Type "A"	Preferred Shares Type "B"	Total Capital
Controlling shareholder and related parties	95.0%	27.5%	0.6%	50.5%
Others	5.0%	0.9%	-	2.3%
BNDES	-	17.0%	-	11.1%
Free float	-	54.6%	11.2%	35.6%

Suzano Papel e Celulose



Shareholders Agreement



Note (1) : There are 1,358,419 PNB shares held in treasury, that represents 88.2% of the PNB shares and 0.5% of total shares. These shares are not included in the free float.

Holding, but no member of the Board of the company belongs to its top management. As per the Suzano Papel e Celulose shareholders' agreement, the Board is composed of 9 members, of whom 5 are elected by the controlling shareholder, 3 are independent and 1 member is elected by BNDES (National Economic and Social Development Bank of Brazil). The Board of Directors has three committees:

- The Management Committee is responsible for advising the Board on financing, budgeting, internal controls, development of human resources and new leaders, executive compensation policies, legal issues, relationship with the capital market and new projects and investments. This Committee also monitors the performance of the company and its executives, as well as the formulation of corporate policies;
- The Sustainability and Strategy Committee is coordinated by an independent Board member and responsible for advising the Board on long-term strategy and planning and the strategic concept of sustainability to achieve worldwide standards of excellence; and

- The Audit Committee is coordinated by an independent Board member and responsible for advising the Board on analyzing the financial statements, implementation of reliable internal controls by senior management and oversight of the quality of information provided to shareholders and the market. As part of this work, the Audit Committee oversees the quality of the work and independence of the external auditors and the internal audit department, and monitors the execution of the Code of Conduct and corporate policies regarding environmental, health and safety aspects.

The senior management team of Suzano Papel e Celulose is composed of 8 professional executives selected in the marketplace following a performance and profile analysis. A new CEO recently hired in the market leads the company's management team. At the end of 2005, the company had 3,283 employees. Suzano Papel e Celulose increased its market capitalization from US\$ 1,067 million at the end of 2003 to the current value of US\$ 1,671 million as of 30 June 2006. The preferred share price of US\$ 3.90 per share at the end of 2003 increased US\$ 5.88 per share as of 30 June 2006.⁵ The company's shares are part of the IBrX 100 Index (this index contains the 100 most liquid companies of the BOVESPA).⁶ In the first half of 2006, the IBrX 100 had a 19.5% appreciation, while Suzano Papel e Celulose shares rose 17.0%, in US dollar terms. The company's financial results in accordance with Brazilian GAAP are presented below:

	In Brazilian \$ / US\$ - 2005	In Brazilian \$ / US\$ - 2004	%
Market capitalization	1,084 mln / 462.9 mln	1,505 mln / 567.1 mln	-28.0 / -18.4
Share price	4.76 / 2.03	6.43 / 2.42	-26.0 / -16.1
Net income	15 mln / 6.3 mln	109 mln / 37.3 mln	-86.2 / -83.2
Net operating revenues	2,521 mln / 1,036 mln	2,516 mln / 860.0 mln	0.2 / 20.4
Net costs and expenses	2,398 mln / 985.0 mln	2,206 mln / 754.0 mln	8.7 / 30.6
Net cash	216 mln / 92.2 mln	172 mln / 64.8 mln	25.6 / 42.0

For both companies, Suzano Papel e Celulose and Suzano Petroquímica, corporate governance guidelines are provided by Suzano Holding, and the CEOs of each company are responsible for their implementation, with support as needed from affected divisions. Any division of the companies can lead or propose improvements in corporate governance practices. The respective investor relations (IR) officer and IR team will assist the CEO in overseeing corporate governance and/or any governance improvements.

⁵ The daily average trading volume of its listed shares after the public offering increased from US\$ 95,000 before the offering to the current level of US\$ 900,000 per day.

⁶ In December 2005 Suzano Papel e Celulose was listed in the first edition of ISE - Índice de Sus-tentabilidade Empresarial, Brazilian stock exchange's index of companies with best practices of sustain-ability. For 2006, Suzano Papel e Celulose hopes to remain in this index after its annual revision. Suzano Petroquímica is working to be included. Suzano Papel e Celulose and Suzano Petroquímica preferred shares are also listed on Latibex, the Madrid Stock Exchange's special segment for Latin American equities.

b) Suzano Petroquímica S.A.

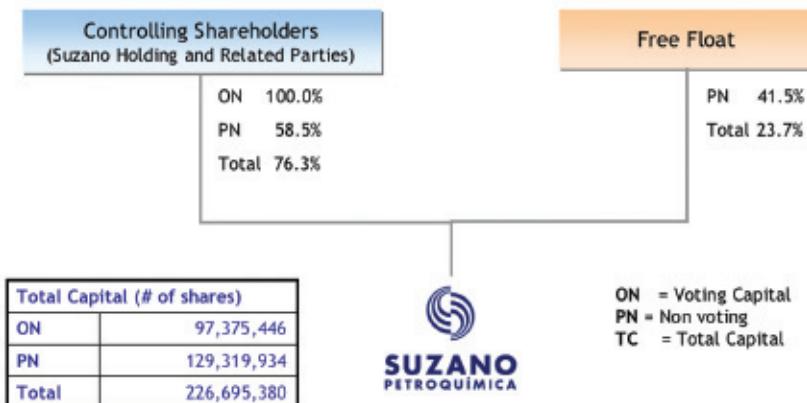
Suzano Petroquímica used to be a holding company with shared control positions in several Brazilian petrochemical companies. After reviewing Suzano Petroquímica's strategy in the national petrochemical sector in 2004, it became evident that the company could become an industry leader in Latin America, given the quality of its assets, its opportunities for consolidation and growth, its sound capital structure and the promising expectations for the petrochemical business in Brazil in the medium- and long-term. And to make this strategy feasible, the partnership with the capital markets was identified as fundamental.

In November 2004, Suzano Petroquímica joined Level 2 of BOVESPA's (São Paulo Stock Exchange) special corporate governance-based tier and adopted additional governance measures even stricter than those required by BOVESPA's rules for the Novo Mercado Level 2 companies at that time. Suzano Petroquímica became the first family-run corporation and the first petrochemicals firm to join Level 2. In the event of a change of control or a merger, all minority shareholders have the right to sell their shares at 80% of the price received by the controlling group. Minority shareholders are also accorded the right to a public offer at market value, if the company de-lists from Level 2. Level 2 companies also agree to private arbitration of shareholder disputes by BOVESPA's Arbitration Chamber.

Suzano Petroquímica's equity offering, held in December 2004, was an important step towards increasing share liquidity and diversifying the shareholder base. It amounted to R\$ 179 million / US\$ 66.2 million, of which R\$ 32 million / US\$ 11.8 million was a primary offering. The offering reduced the controlling group's share in total capital from 83.6% to 73.1%. As of 30 June 2006, Suzano Petroquímica had 4,897 shareholders, including 39 foreign institutional investors, 263 local institutional investors and 4,595 local individual investors.

Shareholder	Voting Shares	Preferred Shares	Total Capital
Controlling shareholder and related parties	100.00%	58.5%	76.3%
Free Float	-	41.5%	23.7%

Until August 2005, the link between Suzano Petroquímica's senior management and its Board was ensured by the presence of representatives of Suzano Holding in the company's top management. With the September 2005 acquisition of Polibrasil, through which Suzano Petroquímica became the Latin American leader in the production and trading of polypropylene and the second largest producer of thermoplastic resins in Brazil, an executive management was put in place to ensure a harmonious merger of cultures. The senior management structure of Suzano Petroquímica reflected this transitional phase until September 2006, with the Chairman of the Board also combining the CEO position.



As of September 2006, the new senior management is composed of 4 executives led by two co-CEOs. Mr. João Pinheiro Nogueira Batista and Mr. José Ricardo Roriz Coelho have been nominated as co-CEOs, thus separating the positions of the Chairman of the Board and the CEO. No other members on the Board of Directors belong to the top management of the company.

Suzano Petroquímica also created the Management Committee as a Board committee, putting in place the same governance structure adopted by Suzano Papel e Celulose. The responsibility for governance policies and practices is also structured similarly to those of Suzano Papel e Celulose. These moves reflect the Suzano controlling shareholders' understanding of the best *modus operandi* for its controlled companies and alignment of its governance practices across the group.

The Board of Directors of Suzano Petroquímica has three committees: the Sustainability and Strategy Committee; the Audit Committee; and the Management Committee, each with the same attributions as the respective committees in Suzano Papel e Celulose.

At the end of 2005, Suzano Petroquímica had 474 employees. The market capitalization of Suzano Petroquímica increased from US\$ 237 million at the end of 2003 to US\$ 350 million as of 30 June 2006. The preferred share price of US\$ 1.02 per share by the end of 2003 increased to US\$ 1.56 per share as of 30 June 2006.⁷ Right after

⁷ The daily average trading volume of its listed shares rose from US\$ 33,740 in 2003 to the current level of US\$ 1 million per day. In 2005, the daily average trading volume was higher than US\$ 1 million. All petrochemical company stocks listed on BOVESPA suffered significant declines in 2006 as a result of high production costs coinciding with a strong appreciation of the local currency. In twelve months before June 2006, Suzano Petroquímica's preferred shares suffered 17.2% depreciation in US dollar terms, while its industrial peers listed on BOVESPA on average devaluated 22.8%.

the follow-on equity offering, Suzano Petroquímica joined the IBrX 100 index. The company reports its financial results in accordance with Brazilian GAAP and US GAAP, as required by Level 2 of BOVESPA:

	In Brazilian \$ / US\$ - 2005	In Brazilian \$ / US\$ - 2004	%
Market capitalization	1,084 mln / 462.9 mln	1,505 mln / 567.1 mln	-28.0 / -18.4
Share price	4.76 / 2.03	6.43 / 2.42	-26.0 / -16.1
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Net cash	216 mln / 92.2 mln	172 mln / 64.8 mln	25.6 / 42.0

Other Key Governance Features

Partnering with the capital markets requires Suzano group to equitably balance the respective rights of each class of shares of its subsidiaries. In both companies, Suzano Holding waived its legal right to require minority shareholders to elect a member of the Board from a list of three candidates—years before this became legally required. Instead, a direct election takes place with owners of preferred shares holding at least 10% of the total capital voting separately for a Board member. Minority shareholders are also represented on the permanent Fiscal Board of both companies.

In June 2006, Suzano group published its Code of Conduct, applicable to all its companies. The Code of Conduct contains guidelines and rules of behavior for all personnel working in Suzano group companies, formalizes the practices and values that have been part of the day-to-day routine of the Suzano group for more than 80 years, and reaffirms the group's commitment to the capital markets, its principles of attributing value to our people, sustainable development and ethical principles that orient all the companies' work.

The Boards of Suzano Papel e Celulose and Suzano Petroquímica have designated a Remuneration Commission composed of Board members of each company. Each company has its own committee responsible for distributing the amount approved by the Annual General Meeting between the Board of Directors and senior management, based on external benchmarks, whereas the Management Committee is responsible for establishing executive compensation policies. The group seeks to align executive incentives with the objectives of the companies and their shareholders. Long-term compensation programs are established based on share performance and its relative behavior compared to its peers (restricted phantom shares program). The compensation of senior management for both Suzano Papel e Celulose and Suzano Petroquímica is also based on short-term benefits tied to corporate results.

Recent Advancements and Future Plans

The adoption of high standard governance practices and partnership with the capital market continue to enable both Suzano Papel e Celulose and Suzano Petroquímica to carry out their strategic expansion of operations. Examples are Suzano Papel e Celulose's investing in its second pulp line at Mucuri and the acquisition of 50% of Ripasa S.A. Celulose e Papel, which produces pulp, printing and writing paper, specialty papers, paperboard and cardboards.⁸ The acquisition of control of Polibrasil allowed Suzano Petroquímica to become a company with its own operations, simplifying its structure, providing more transparency and facilitating the understanding of its activities by the market.

The repositioning of the two companies—Suzano Papel e Celulose and Suzano Petroquímica—in the capital markets is just beginning. It is a strategic decision founded on an understanding that sustainability does not rely exclusively on profitability. The capital market is intimately linked to sustainability, financing growth, reducing cost of capital, improving institutional image and providing an exit mechanism for the members of the controlling group over time.

In the near future, some of Suzano group's corporate governance goals are: (i) to have the recently created Board committees of both Suzano Papel e Celulose and Suzano Petroquímica fully operational; and (ii) to focus more on internal controls, improving risk management structures and procedures.

Suzano group plays an increasingly active part in forums where issues of corporate governance and capital markets development are permanently discussed. In particular, Suzano group is one of the sponsors of and an active participant at IBRI—Instituto Brasileiro de Relações com Investidores (Brazilian Institute of Investor Relations), whose mission is to contribute to the development and specialization of the investor relations' professionals.⁹ To stimulate the development of the Brazilian capital market and attract more retail investors to the stock exchange, Suzano group, in partnership with other companies and institutions also founded the National Investors Institute (Instituto Nacional de Investidores—INI), whose target is to provide up-to-date knowledge and education about stock market to individuals through the creation of investment clubs.¹⁰

⁸ The acquisition of Ripasa consolidated Suzano Papel e Celulose's leadership in the Brazilian paper market, in printing and writing paper and paperboard segments.

⁹ The Co-CEO of Suzano Petroquímica is currently the Chairman of the Board of IBRI, and the IR manager of Suzano Petroquímica is the Director of the Institute.

¹⁰ The IR manager of Suzano Papel e Celulose is currently the President of INI.



Ultrapar

At the end of the 1960s and the beginning of the 1970s, the main business of Ultrapar Participações S.A. (Ultrapar) was still the distribution of LPG—liquefied petroleum gas—the business on which the company was founded in 1937. Shortly thereafter, the company entered into a new phase of entrepreneurship and diversification when Mr. Pery Igel, the son of Ernesto Igel, the company's founder, assumed control of the company. Pery Igel took advantage of the opportunities for the company's expansion and growth presented by developments occurring in Brazil at that time.

Investments were made in the expansion of the company's petrochemical and chemical segments, and in the fertilizers, transport, engineering, animal breeding and warehousing industries. For example, the company and business line Oxiteno was founded in 1970 and soon became a pioneer in the production of ethylene oxide and its main derivatives. Oxiteno's launch coincided with the construction of an industrial park in the Mauá Petrochemical Complex, in São Paulo. Eight years after Oxiteno's launch, Ultrapar founded another entity, Tequimar. Tequimar soon became the principal company responsible for the warehousing of chemical products in Brazil.

As a result of the increasing complexity of its business lines and increasing competition in their respective market segments and industries, Ultrapar experienced a period of intense professionalization of management and staff in the 1970s. This brought its own challenges.

Reconciling the potentially divergent forces of the company's future business objectives with the founding family's uncertainties and interests was the challenge facing Ultrapar CEO Pery Igel. To strike this balance, Pery Igel set out to implement an unparalleled set of corporate governance initiatives beginning in the mid-1980s, when the expression “corporate governance” was not even a commonly known term in the region.

As part of that effort, in 1984, Mr. Igel issued restricted stock to company managers as part of a 20-year employment contract. The objective was to align management's interests with those of shareholders and ensure that the former would, in their new position as long-term owners/managers, help build a solid company over time. This start of a new governance process was followed in the next decade by an international initial public offering (IPO), resulting in the listing of company's shares on BOVESPA (São Paulo Stock Exchange) and the New York Stock Exchange (NYSE). One year after that, Ultrapar granted tag-along rights to all shareholders, reinforcing its other good governance initiatives.

The Long Path to Good Governance

In the first 15 years after Mr. Igel launched his initial series of corporate governance initiatives, the company consciously implemented a new share capital structure and restructuring strategy aimed at protecting the business from any future conflicts in the owners' family. Minority shareholders were sought and brought in as new owners, and they helped maintain the momentum for implementing the new governance structure of the company. Consolidation was the next key part of the strategy.

Family ownership interests in the company were consolidated into a holding entity named Ultra S.A. Today, Ultra S.A. is owned primarily by members of the Igel family and certain members of senior management and controls the majority of shares of Ultrapar.

The fact that the company operated in many insulated businesses had created a perfect environment for Ultrapar to duplicate structures and increase costs. Recognizing this, company management began selling non-core assets. Businesses that were not performing were sold, and the company was consolidated.

The next step for Ultrapar was to go public, which the company did in 1999, raising US\$ 130 million. The IPO was considered a very important step in the company's success, because it brought discipline to the firm and helped it focus on value creation. In addition, the plan to become a publicly-traded company was designed, ultimately, to provide the family and the management with access to liquidity in a way that would not adversely affect the company's business.

Listening to Investors

One year after the 1999 IPO, the company granted tag-along rights to all shareholders, guaranteeing equal treatment to minority shareholders in the event of a change in corporate control. The decision was based on the understanding that to become a truly publicly-held company, it was necessary to align external investors' interests with those of controlling shareholders. This initiative set Ultrapar apart from most companies in the country. It was only in the following year that the new Corporate Law made tag-along rights mandatory. Even so, the Law limited mandatory tag-along rights to 80%, and this treatment was only required for common (voting) shares. Ultrapar's tag-along rights guaranteed 100% of the offer price to holders of all classes of shares, voting and non-voting.

It took some time for the market to recognize that Ultrapar was seriously reforming its corporate governance. Ultrapar's stock price struggled in its first years as a publicly-traded company. However, in the first follow-on offering six years later, the market's reaction completely changed, and the firm was valued in line with Brazilian market indicators.

Corporate Governance Process

Ultrapar's governance structure and processes seek to align the interests of executives and all shareholders. It is guided by the belief that an effective corporate governance system supports the confidence that underlies proper functioning of a market economy. For example, the company equalized dividend treatment among common and preferred shareholders as part of its governance reform.

The alignment principle also drove the firm to establish an executive compensation system linked to creation of shareholder value. Since 2002, executives' bonuses have been linked to the economic value added (EVA) performance of each business unit. In addition, to ensure that the new generation of key managers acts as partners in the firm as well, a long-term share compensation plan was introduced utilizing preferred shares held in the company's treasury.

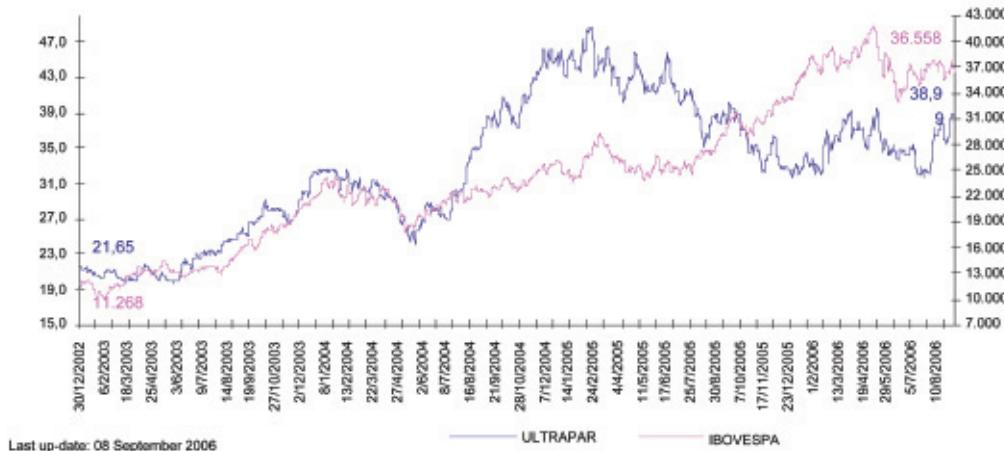
The Board of Directors, chaired by the CEO, is a critical corporate governance mechanism at Ultrapar. It is composed of seven members, including four independent non-executive directors and two senior executives. There are 3 Board committees —Audit, Compensation and Ethics. The Compensation Committee and the Ethics Committee report directly to the Board of Directors. In 2002, the company granted minority shareholders the right to elect Board members, a requirement which Brazilian companies were not required complying with until 2006. The initiative is rare in Brazil and is a demonstration of the company's commitment to protecting non-controlling shareholders' interests.

Although there is no body or officer specifically responsible for governance policies and practices in the company, the Executive Board and the Board of Directors always keep corporate governance and best business practices on their radar screens and agenda.

For example, a Code of Ethics was drawn up to be followed by all the company's structures and professionals. The Code aims to: reduce the level of subjectivity in interpretation of ethical principles; formalize a guide for professional conduct, including resolution of conflicts of interest; and guarantee that concerns about efficiency, competitiveness and profitability include due attention to ethical conduct by all company staff and units.

Ultrapar's most recent step along the path of good corporate governance was its entry onto Level 1 of BOVESPA's special corporate governance-based tier on 2 October 2005. Already a component of BOVESPA's Differentiated Tag-Along Shares Index (ITAG), joining Level 1 also made Ultrapar one of the companies that compose the Differentiated Corporate Governance Shares Index (IGC). The company's shares perform almost parallel to the Ibovespa Stock Index.

Ultrapar and Ibovespa performance



Last up-date: 08 September 2006

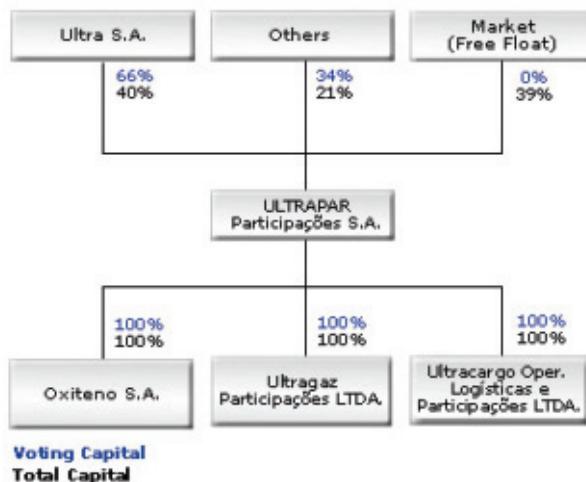
Regarding Ultrapar's performance on the stock exchange, the shares depreciated by 27% on BOVESPA during 2005. Despite the fact that the petrochemicals market faced a difficult year, Ultrapar's shares were among the best performers. However, compared with the share price of R\$ 32.43 / US\$ 11.07 (already adjusted for the share dividend) on 31 December 2003, the share price of Ultrapar rose 42.1% in US\$ terms to 15.73 / R\$ 34.10 on 30 June 2006. Similarly, as of 30 June 2006, Ultrapar's market capitalization was R\$ 2.8 billion / US\$ 1.3 billion, which represents an increase of 46.56% compared to R\$ 2.6 billion / US\$ 887 million as of 31 December 2003.

Results

Today, Ultrapar is one of Brazil's most successful conglomerates. It unites three different companies, as portrayed below, each with a prominent position in its own segment: Ultragaz, the leader in Brazil's distribution market for LPG, boasts a 24% market share; Oxiteno, the largest producer of specialty chemicals in Brazil, is the only manufacturer of ethylene oxide and its main derivatives in the Mercosur area (comprising Brazil, Argentina, Paraguay and Uruguay); and Ultracargo is a leading provider of integrated road transport, storage and handling services for chemicals and fuels.

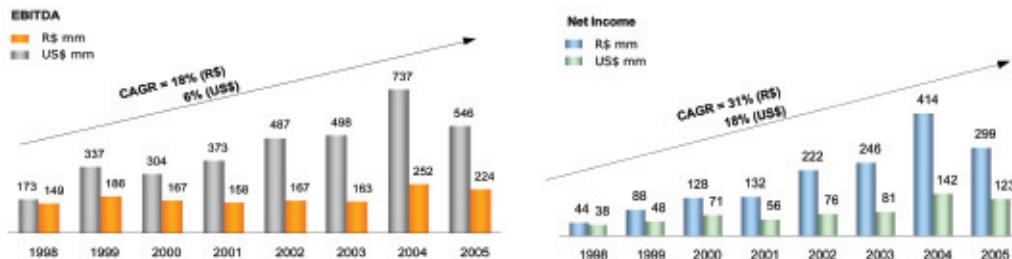
As indicated by Ultrapar's financial statements prepared in accordance with Brazilian GAAP and US GAAP, the combined net revenues of these three businesses in 2005 amounted to R\$ 4.7 billion / US\$ 1.9 billion, with EBITDA of R\$ 546 million / US\$ 224 million and net income of R\$ 299 million / US\$ 123 million. Since 1998 (the base year for the company's IPO), Ultrapar has reported an annual average compound growth of 18% in EBITDA terms and 31% in net income terms. Below are Ultrapar's financial results for 2004 and 2005.

Corporate Structure



Common Shares		%	Preferred Shares	%	Total	%
ULTRA S.A.	32,646,696	66%	0	0%	32,646,696	40%
Other	15,014,462	31%	2,482,161	8%	17,496,623	21%
Market (free float)	1,768,739	3%	29,413,351	92%	31,182,290	39%
TOTAL	49,429,897	100%	31,895,512	100%	81,325,409	100%

- Net income:
 - 2004 - R\$ 414 million / US\$ 142 million;
 - 2005 - R\$ 299 million / US\$ 123 million;
 - Net operating revenues:
 - 2004 - R\$ 4,784 million / US\$ 1,635 million;
 - 2005 - R\$ 4,694 million / US\$ 1,928 million;
 - Net costs and expenses:
 - 2004 - R\$ 4,220 million / US\$ 1,442 million;
 - 2005 - R\$ 4,335 million / US\$ 1,780 million;
 - Net cash:
 - 2004 - R\$ 46 million / US\$ 17 million; and
 - 2005 - R\$ 191 million / US\$ 82 million.



Today, the company has around 7,000 employees.

The Recognition for Good Governance

In its search for better corporate governance, the company has been awarded various forms of recognition from the capital markets, and some of them are described below:

Year	Award / Recognition	Entity
2006	Best Firm in Corporate Governance in the Oil, Gas & Petrochemical segment for the Latin American Ranking, and Fourth Best Firm in Corporate Governance for the Latin American Ranking	IR Global Rankings
2005	Best CFO in the Oil, Gas & Petrochemical segment for the Latin American Ranking – Fábio Schwartsman	Institutional Investor Research Group
2005	Best Firm in Corporate Governance in the Oil, Gas & Petrochemical segment for the Latin American Ranking for the second consecutive year	Institutional Investor Research Group
2005	Shortlisted Best IR Executive – Companies Outside Ibovespa Index – Fábio Schwartsman	IR Magazine Awards Brazil
2005	Shortlisted Best Corporate Governance company	IR Magazine Awards Brazil
2005	Shortlisted – Grand Prix for the Best IR Program – Companies Outside Ibovespa Index	IR Magazine Awards Brazil
2004	Shortlisted Best Brazilian Investor Relations Website	IR Global Rankings
2004	Best Firm in Corporate Governance for the Latin American Ranking	Institutional Investor Research Group
2004	Second Best Firm in Investor Relations in the Oil, Gas and Petrochemicals segment for the Latin American Ranking	Institutional Investor Research Group
2003	Shortlisted Best IR Program for Brazilian Companies in 2003 – small and mid-cap companies	IR Magazine Latin America Award
2002	Awarded with “Destaque Cias Abertas - 4º best company in the Brazilian capital market”	Agência Estado

For Ultrapar, these awards represent recognition of its efforts to achieve business results, while conducting business with transparency, integrity and respect for minority shareholders. Ultrapar believes that this stance consistently creates value for its shareholders.

The Future

The time has come to start thinking about corporate governance in a broader way. Ultrapar is currently working to complete its compliance with the Sarbanes-Oxley Act's requirements. The company has already incorporated material contractual obligations and off-balance sheet transactions into its financial statements, as required under Sarbanes-Oxley Act. The firm has adopted a Fiscal Board, which will also act as an Audit Committee, also as required under the Sarbanes-Oxley Act. The Fiscal Board has five members. Two of them are representatives of the minority shareholders.

By implementing standards of good governance, Pery Igel paved the way for continued strong performance for Ultrapar. The processes now in place at the company will maintain the firm on the path of ever-improving governance practices and continued profitability.

The Companies Circle

The Companies Circle of the Latin American Corporate Governance Roundtable was launched by OECD, IFC and its founding members in May 2005. The Circle brings together leading companies with practical experience in implementing best practices in corporate governance in the Latin American context. Its goals are: (1) to share with each other and the broader community of Latin American firms practical solutions to the corporate governance challenges facing companies in the region; and (2) to contribute to the work of the Roundtable the views and experiences of companies that have successfully undertaken corporate governance reforms.

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