

Code of Best Practice of Corporate Governance

4th Edition

IBGC **15** *Anos
Disseminando as
Melhores Práticas*

Instituto Brasileiro de Governança Corporativa

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Brazilian Institute of Corporate Governance - IBGC

The IBGC is an organization solely dedicated to promoting corporate governance in Brazil. It is the leading driver of practices and discussions on the subject in Brazil, having achieved national and international recognition.

Founded on November 27, 1995, IBGC – a Brazilian nonprofit organization – is aimed to be a reference in Corporate Governance, contributing to the sustainable performance of organizations and influencing the agents of our society towards greater transparency, fairness and responsibility.

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FOREWORD

This is the fourth edition of the Code of Best Practice of Corporate Governance of IBGC – the Brazilian Institute of Corporate Governance.

The first edition, released in 1999, focused on the Board of Directors alone, and was revised in 2001 to include recommendations for other agents of corporate governance – such as shareholders, managers, auditors and the Fiscal Council. The document was revised again in 2004, with updated content geared to the country's market demands at the time.

In the past five years, since the previous edition of the Code, there have been a number of changes in the Brazilian organizational environment, which include the capital market revival, a large number of new companies going public, the arrival of widely dispersed and diffuse ownership companies, mergers and acquisitions of large businesses, setbacks of veterans and newcomers, and the global financial downturn. These factors brought to light a few corporate weaknesses and their fragile governance systems, pointing to the need to implement robust corporate governance practices.

At this moment, by stressing the value of the best practices and adapting them to the new market demands and realities, IBGC's role is of vital importance – and the revised Code goes precisely in this direction. The Brazilian institutional environment has considerably evolved since the last revision, and the Code was required not only to keep track of these changes, but to take a step forward from what is already mandatory for Brazilian organizations.

Work started in 2007 with the suggestions from a few IBGC members regarding what the Code already contained, and evolved throughout 2008, with the creation of a committee in charge of the Code's revision.

After several meetings to evaluate all suggestions received, the committee met again for two days, in Campinas, to focus on revision discussions. In that meeting, suggestions were reviewed, and new issues arising from the expertise and experience of committee members, besides changes to the business environment, were also discussed, as well as legislation and Brazilian governance changes which have occurred since 2004. A document was then prepared and submitted to public consultation between December 2008 and February 2009.

FOREWORD

Over 350 comments and suggestions were received during the public consultation, which demanded over four months of analysis. We thank all who were willing to analyze the document and send their comments and suggestions with consistency and reasoning.

After nearly two years of intense work, we now make this document available to all, and hope that its amendments and innovations will fulfill the role of making the Brazilian organizational and institutional environment stronger, fairer, more accountable and transparent. We hope that the recommendations contained herein will contribute toward creating better governance systems in organizations, and also contribute toward a better performance and longevity.

INTRODUCTION

The principles and practices of good corporate governance apply to any kind of organization, regardless of size, legal nature, or type of ownership (these two concepts will be detailed later).

We must say that this Code was developed primarily with a focus on business organizations. However, during its compilation, an option was made to use the word “organization” throughout the Code to make the document as comprehensive as possible and adaptable to other types of organizations, such as, for example, the third sector, cooperatives, and government corporations, foundations, and agencies, among others. It is recommended that each organization evaluate which principles it should adopt and how best to do it, so that it fits its structure and reality.

Also with regard to terminology, this Code uses, without distinction, the terms “partners”, “shareholders” and “owners”, despite the legal differences between them, to facilitate their comprehension.

The Code is divided into six (6) chapters:

- Ownership
- Board of Directors
- Management
- Independent Auditing
- Fiscal Council
- Conduct and Conflicts of Interest

Each chapter discusses practices and recommendations for each part of the organizations' governance system (Figure 1). The last chapter discusses conduct and behavior standards, applicable to one or more agents, in addition to proposing policies and practices to avoid conflicts of interest and misuse of assets and information relating to the organization.

INTRODUCTION

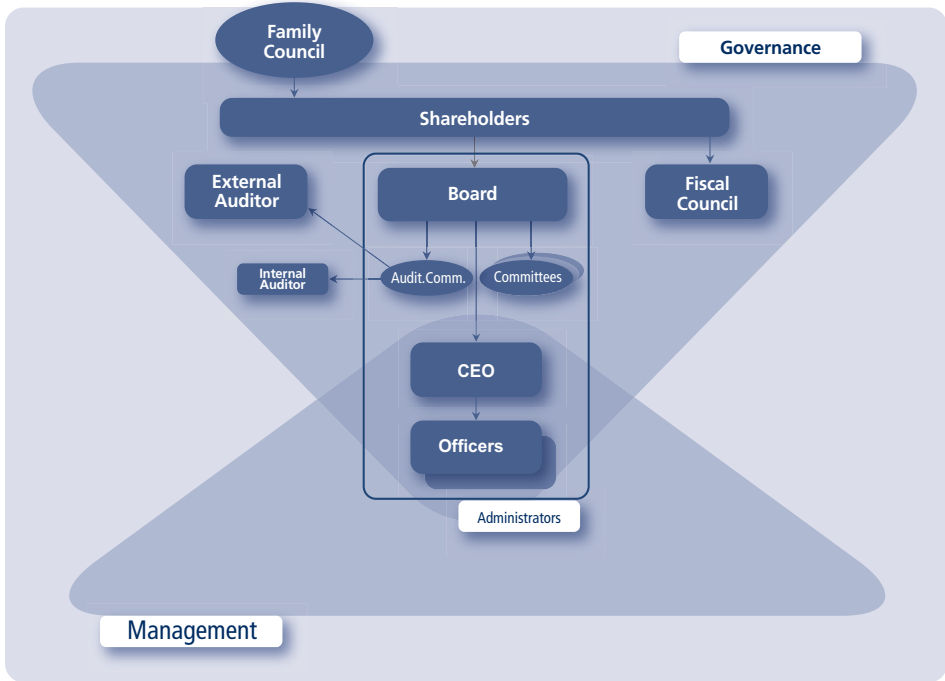


Figure 1 – The Corporate Governance System

Legal Nature, Forms, and Types of Control

Organizations can be categorized according to their legal nature, control structures and types of controlling shareholder. Below, we discuss the most important categories and aspects of each of these classes for the purposes of this Code.

Legal Nature

- **3rd sector** - Non-profit organizations (associations and foundations).

- **Co-operatives** – People partnerships formed to provide services to partners. Profit distribution in a cooperative is linked to the operations performed by a partner on behalf of the co-op and unrelated to their holdings in the co-op, whose political rights are linked to its people and disconnected from their share in its equity.
- **Sociedades Limitadas** (equivalent to Limited Liability Companies) – People partnerships or for profit capital companies, formed to provide services or goods to third parties. Profit sharing and political rights of Limitadas in Brazil are linked to holdings in its equity. These companies have a small administrative structure, of internal controls, and transparency¹. No access to funds allowed through the capital market.
- **Sociedades Anônimas** (equivalent to Corporations) – For profit business corporations, established to provide services or goods to third parties. Profit sharing and political rights of a Sociedade Anônima (S.A.) are linked to capital holdings. S.A.s have complex administrative structures, of internal controls, and an enhanced transparency. Access to funds is allowed through the capital market. An S.A. can either be publicly-held or privately-held, depending on whether the securities it issues are or not traded on the market.

There are three main forms of control of an organization:

- **Defined ownership** – Control is exercised by a shareholder or group of shareholders bound by a shareholders' agreement, or under common control. The controlling shareholder or group of shareholders officially holds more than 50% of the organization's voting shares. In this case, control can only be acquired when sold by the original controlling shareholders (transfer of control).
- **Diffuse ownership** – Control is exercised by a shareholder or group of shareholders who are neither bound by a shareholders' agreement nor under control or representing a common interest, holding a relevant part of the organization's voting stock, but less than 50% of its

1 Although legislation allows companies to start off with a leaner management and controlling structure, besides a lower level of disclosure, IBGC believes that they should expand their administrative structure and internal controls, as well as adopt a higher level of transparency.

INTRODUCTION

stock capital. In this case, the controlling interest can be acquired when sold by the original controlling owner (transfer of control) or on the marketplace (acquisition of control).

- **Widely-held or dispersed ownership** – Shares are dispersed among a large number of shareholders, therefore no shareholder or group of shareholders is able to exercise control on a permanent basis. In this case, control may only be acquired on the market (acquisition of control).

As regards the controlling shareholder, organizations may be classified as follows:

- **State-owned** – Defined ownership, where the majority of the voting shares are held by the government.
- **Family/Multifamily** – Defined or diffuse ownership, by one or more families.
- **Non-family** – Defined or diffuse ownership, where control is held by one or more individuals or business groups.
- **Foreign owned** – Defined or diffuse ownership, where control is exercised by a foreign controlling shareholder.
- **Institutional** – Defined or diffuse ownership, where control is exercised by institutional investors (pension funds and investment funds, among others).

CONCEPT AND PRINCIPLES OF CORPORATE GOVERNANCE

Corporate Governance is the system whereby organizations are run, overseen and incentivized. It involves relationships between the shareholders, the Board of Directors, the Officers and oversight bodies. Good corporate governance practices convert principles into objective recommendations, aligning interests with the purpose of preserving and enhancing the organization's value, facilitating its access to capital and contributing to its longevity.

The basic principles of Corporate Governance are:

Transparency

More than the duty to inform, it is the desire to provide interested parties with information that is of interest, and not merely those imposed by laws or regulations. An adequate transparency results in an atmosphere of trust, both internal and external, in third-party relationships. It should not be restricted to the economic and financial performance, but also consider other tangible and intangible factors that guide managerial action and lead to the creation of value.

Fairness

A fair treatment of all shareholders and other stakeholders. Discriminatory attitudes or policies, under any pretext, are entirely unacceptable.

Accountability

The agents of governance² should be accountable for their actions, undertaking the full consequences of their acts and omissions.

Corporate Responsibility

The agents of governance should watch over the sustainability of their organizations, to ensure their company's longevity, by observing social and environmental principles when identifying business deals and operations.

² The phrase 'agents of governance' refers to the shareholders, administrators (Board members and executives/officers), members of the Fiscal Council, and auditors.

OWNERSHIP

1 OWNERSHIP

1.1 Ownership – shareholders³

Each shareholder is an owner of the organization, and their ownership is commensurate with their holdings in the capital stock.

1.2 The “one share = one vote” concept

Political power, represented by the right to vote, must always be aligned with economic rights.

The right to vote should be ensured to all shareholders. Thus, each share or unit must ensure the right to one vote. This principle must apply to all kinds of organization. The bond between the right to vote and one’s holdings in the company favors the alignment of interests among all shareholders.

Exceptions to the rule “one share = one vote” should be avoided. If they occur, however, there should be a compelling reason to justify the misalignment of interests they create. The reasons for the exception should be transparent, so that shareholders can evaluate their advantages and disadvantages.

Organizations with a defined ownership must clearly disclose how the political power is exercised by their controlling shareholders, i.e., they must inform whether this control is direct, through a majority of shares, or through control-expanding mechanisms.

These mechanisms include, among others, non-voting shares or restricted-voting shares, share borrowing, pyramidal structures⁴, golden shares⁵, and takeover restrictions – such as poison pills (see 1.6). All shareholders should evaluate whether any misalignment of interests may affect the performance of the organization and its access to capital.

³Owners hold a part of the organization’s stock capital. Corporate assets are separate from the owners’ personal assets.

⁴A layered structure of companies, usually holding companies, in which one controls the other, allowing the controlling shareholder to reduce their economic exposure in the company and preserve or increase their controlling power.

⁵Shares held by a certain partner, which allow them to vote on strategic issues and give them a vetoing power, regardless of the number of shares they hold.

OWNERSHIP

1.3 Shareholder agreements

Shareholder agreements on the purchase and sale of their holdings, purchasing preference, the exercise of voting rights or controlling power:

- Must be available and accessible to all other shareholders. In listed companies, such agreements should be open and published on the websites of the organization and Comissão de Valores Mobiliários (CVM – equivalent to the Securities and Exchange Commission in the U.S.A.);
- Should contain resolution mechanisms for cases of conflict of interest (see 6.2) and conditions for the exit of shareholders (see 1.7);
- The agreements should not bind or restrict the voting rights exercised by any member of the Board of Directors, who should faithfully perform their duty of loyalty and diligence to the organization. This duty must override the interests of those who nominated them (see 2.1);
- They should not discuss the nomination of any organization officers (see 3.2).

1.4 General Meeting / Shareholders' Meeting

The General Meeting / Shareholders' Meeting is the sovereign body of the organization. All references in this Code to the "General Assembly" or "General Meeting" include the "Shareholders' or Partners' Meeting".

1.4.1 Main powers

The General Assembly's main powers include:

- Increasing or reducing stock capital and amending the Articles of Incorporation/ Articles of Organization (bylaws);
- Electing and removing members of the Board of Directors or Fiscal Council, at any time;
- Reviewing the administrators' accounts and discussing the financial statements, on an annual basis;
- Deciding on the change, consolidation, merger, split-off, dissolution, or liquidation of the company;
- Decide on the evaluation of assets that become part of the paid-up capital; and
- Approve the administrators' compensation (see 2.24 and 3.9).

1.4.2 Call notice and fulfillment of the General Meeting

The general Meeting should be called at a venue, date and time that encourages the presence of as many shareholders as possible and give them time to adequately prepare themselves for the decisions. The call notice should be sent at least 30 days in advance. The greater the complexity of the issues to be discussed and the wider the dispersion of shareholders, the more time should be given in the notice.

It is good practice to use instruments facilitating the access of shareholders to the General Meeting, such as webcasting, online broadcasting, electronic voting, and proxy voting, among other methods (see 1.4.6, 1.4.6.1 and 1.4.6.2).

Any shareholder may request the organization's administration a justified suspension or interruption of the call notice, if the General Meeting is to addresses matters of greater complexity. The administrators should analyze the request, and, in case of a negative response, explain why.

1.4.3 Agenda and documentation

The General Meeting's agenda and relevant documentation should be available with the greatest detail possible, at the time of first call, so that shareholders can position themselves as to the matters on which they will vote. The agenda should not include vague topics such as "other matters", to allow all important issues to be revealed as early as possible.

The Articles of Incorporation/Organization must provide that matters not expressly mentioned in the notice of the meeting may only be voted on in the presence of all the shareholders, including any preferred shareholders with a right to vote on the subject in question (see 1.2).

The existence of dissenting votes should be recorded in the minutes, when required. For publicly-held businesses, all the minutes must be submitted in full to CVM and/or the stock exchange on which they are listed, even if they are published in summary form. The Assembly meeting agendas and minutes of listed companies must be made public. In privately-held companies, they should be sent to all partners.

OWNERSHIP

1.4.4 Proposals from Shareholders

Mechanisms should be established to allow the organization to receive, prior to the call notice of the General Meeting, proposals that the shareholders are interested in including the agenda, so that there is sufficient time for their discussion and possible inclusion.

1.4.5 Questions in advance from shareholders

Owners should always be able to request information from Management and receive it in time. Questions should be asked in writing and addressed to the chief executive officer or the investor relations officer. The organization must provide answers to the most frequently asked questions received from its shareholders, investors and the market in general, making them public, in the case of publicly-traded organizations, or sending them to all partners, when privately-held.

1.4.6 Voting rules and shareholder registration

Voting rules must be clear, objective and well-defined to simplify the voting process, even in the case of proxy voting, or voting by other channels (see 1.4.6.1 and 1.4.6.2), in addition to being available since the call for the meeting is published.

Proxyholders should vote in accordance with the issuers' express instructions, as per their respective proxies. Both the proxies and the shareholders' evidentiary documents must be analyzed using the principle of good faith, with minimal bureaucratic requirements.

It is good practice for the organization to encourage interaction among shareholders. The registration of all shareholders, indicating their respective number of shares/units and other securities issued by the company should be made available by the company to any of its shareholders.

1.4.6.1 Proxy Statement

It is recommended that companies, especially those with widely-dispersed ownership structures, prepare manuals to facilitate and encourage shareholders to attend General Meetings. These manuals should provide detailed information on each subject to be discussed at the meetings, including the Administration's positioning on each point. Additionally,

they should contain proxy models with different voting options (see 1.4.6.2) for shareholders.

These manuals should be available on the organization's website, and regularly filed with the CVM and the stock exchange where it is listed (for publicly-traded organizations).

1.4.6.2 Proxy voting

The organization should seek to facilitate shareholders to attend General Meetings, even if by proxy. For this purpose, it can use technologies such as an electronic signature and digital certification, in addition to providing voting agents to receive shareholder proxies and vote in accordance with their instructions.

1.4.7 Conflicts of interest at General Meetings

If, for whatever reason, a shareholder has a personal or conflicting interest with the organization's interest with regard to a specific decision, they must immediately communicate the fact and refrain from taking part in the discussion or voting on the item, even if on behalf of a third party (see 6.2.2).

The Articles of Incorporation/Organization and/or shareholders' Agreement should contain mechanisms to resolve Conflicts of Interest (see 6.2).

1.5 Transfers of Control

In a transfer of control, even if indirect – as in the case of transfer of an associated company/ subsidiary which has a significant holding in the deal - the offer to purchase shares/units should be made to all shareholders under the same terms (tag along rights)⁶. In the case of an original acquisition⁷, the offer should be submitted to the decision of all shareholders, who may waive the need to acquire all the shares. Anyway, in the latter case, the partial tender offer should be made proportionately to all shareholders.

⁶The right to transfer shares conferred to minority shareholders, in case of a transfer of shares made by the company's controlling shareholders.

⁷Original acquisition of control is one in which a controlling owner appears from a share capital so far widely dispersed. In this case, there is control, although no sale of control has been made by another owner.

OWNERSHIP

The organizations and their shareholders should refrain from using legal instruments which, although in compliance with the law, violate the principle of fairness among owners.

1.6 Anti-Takeover Mechanisms (poison pills)

Mechanisms that require the purchaser of a minority position to make a tender bid to acquire shares⁸ from all other shareholders of a listed company, especially when its Articles of Incorporation impose definite price criteria for this offer, should be seen with reservation.

In companies with a controlling shareholder or where the equity position acquired on the market is not enough to ensure a controlling interest (independent or shared), the use of these mechanisms is even less desirable.

These mechanisms may make sense in diffuse ownership companies, provided they do not deprive the shareholders from the final decision on the need for a tender bid. They may be acceptable, provided they are clearly intended to optimize and preserve value for all shareholders. Still, they should be used sparingly and with discretion, and must be reviewed from time to time. When defining such mechanisms, it is important to reflect on their consequences. Moreover, these devices must have a corporate provision on a quorum to ensure the owners' representativeness, and avoid obstructing the change.

Provisions that are difficult to remove, or are ways of perpetuating the administrators, such as inflexible or unrealistic price parameters driven by the acquisition of holdings that are neither relevant nor conducive to a takeover, are not recommended.

These mechanisms should meet the principles of good corporate governance and explicitly provide that the Board of Directors engage in discussions and take a position in that regard.

1.7 Leaving the organization

The Articles of Incorporation/Organization must clearly list the situations in which the shareholder may leave the organization, as well as the conditions for this.

⁸Tender bid made to all shareholders for the acquisition of their holdings in the organization.

Any corporate reorganization (including takeover, split-off, merger, or going private) should serve the interests of the organizations involved. Such operations must be at a price commensurate with the economic value of the organization.

1.8 Mediation and arbitration

In case a successful negotiation cannot be reached between the parties involved, the conflicts between shareholders and administrators and between administrators and the organization should be resolved, preferably through mediation, and, failing that, through arbitration. It is recommended that such mechanisms be included in the Articles of Incorporation/Organization, or a commitment be made and signed between the parties.

1.9 Family Council

Family organizations should consider establishing a Family Council, a group formed to discuss family issues and the alignment of its members' expectations with regard to the organization. The main practices of the Family Council include:

- Setting boundaries between family interests and business interests;
- Preserving family values (history, culture and shared vision);
- Defining and agreeing on standards for asset protection, growth, diversification and management of securities and real property;
- Creating mechanisms (e.g.: an equity fund) for the purchase of other partners' holdings in case they leave the organization;
- Succession planning, transfer of property and inheritance;
- Viewing the organization as a uniting and family continuity factor;
- Preparing family members to succeed in the organization, considering their willingness and aptness, their professional future, and continuing education; and
- Defining rules for the appointment of members who will make up the Board of Directors (see 2.5).

OWNERSHIP

The objectives of the Family Council should not be confused with those of the Board of Directors (see 2.1 and 2.2), which are geared to the organization.

1.10 Liquidity of securities

Publicly-traded companies must strive to preserve their securities liquidity, keeping an adequate amount of floating stocks⁹, through the active management of the shareholder base, always with due care to prevent negotiations leading to artificial pricing. To this end, the area of investor relations (IR) may be involved, or the services of market makers¹⁰, among others.

1.11 Dividend policy

The company should disclose its Dividend Payout Policy and how often this document is revised. This policy, established by the Board of Directors and approved by the General Assembly, must contain, among other things: the frequency of payments, the benchmark used to define the amount (percentage of adjusted net income and free cash flow, among others); the process and the parties responsible for dividend payouts; the circumstances and factors that may affect a payout.

⁹Floating stocks: number of company shares available for free trading on a capital market, i.e., all the shares issued by the company, except those: (i) owned by the controlling owner, their spouse, partner and dependents included in the owner's annual income tax returns; (ii) treasury shares; (iii) owned by the company's subsidiaries and affiliates, as well as other companies in the same group, in fact or in law; (iv) owned by subsidiaries or affiliates of the controlling owner, as well as other companies in the same group, in fact or law; and (v) special class preferred shares which ensure differentiated political rights, cannot be transferred and belong exclusively to the privatizing entity.

¹⁰Institutions hired by listed companies, their shareholders or controlled companies, which maintain firm purchasing or selling offers of shares traded on the stock exchange, over the counter, or computer, to promote liquid trades. Their activities are regulated by CVM and Bovespa (the São Paulo Stock Exchange).

BOARD OF DIRECTORS

2 BOARD OF DIRECTORS

2.1 Board of Directors

The Board of Directors, a collective body in charge of the decision-making process of an organization with regard to its strategic direction, is the main part of the governance system. And its role is to be the link between shareholders and Management, to guide and oversee Management and its relationship with other stakeholders. The Board is vested in rights conferred by the shareholders, to whom the Board is accountable.

The Board of Directors is the custodian of the organization's object and governance system. The Board decides the direction of business, according to the organization's best interests.

Every organization should have a Board of Directors elected by the shareholders, without losing sight of the other stakeholders, the organization's purpose, and its sustainability in the long term.

The Board of Directors should always decide in favor of the best interests of the organization as a whole, regardless of the parties who have appointed or elected its members.

2.2 Board of Directors' Mission

The mission of the Board of Directors is to protect and value the organization, optimize the return on investment in the long term and seek a balance between the desires of stakeholders (shareholders¹¹ and other stakeholders¹²), so that each receives an appropriate and proportional benefit to their holdings in the organization and the risk to which they are exposed.

2.3 Responsibilities

The Board of Directors should preserve the values and purposes of the organization and outline its strategic guidelines. So that the organization's interest can always prevail, the Board of Directors must prevent and handle conflicts of interest (see 6.2) and manage differences of opinion.

¹¹ Share or unit holders in a given organization.

¹² Any person, entity, or system that affects or is affected by the activities of an organization. Parties who have a stake in an organization.

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The main responsibilities of the Board include:

- Discussion, approval, and monitoring of decisions involving:
 - Strategy;
 - Capital structure;
 - Risk appetite and tolerance (risk profile)¹³ ;
 - Mergers and acquisitions;
 - Hiring, dismissal, assessment (see 3.8) and compensation (see 3.9) of the CEO¹⁴ , and the other officers, starting with the proposal submitted by the CEO;
 - Choice and evaluation of independent auditors;
 - The succession process of Board members and officers (see 2.20);
 - Corporate Governance Practices;
 - Relationship with stakeholders;
 - The internal controls system (including policies and limits of authority);
 - Policy on people management;
 - Code of Conduct (see 6.1).

It is also responsible for supporting and continuously overseeing the organization's Management with respect to businesses, risks and people. It should not interfere in operating matters, but is free to request all the information required to perform its functions, including to external experts, when necessary.

The Board is accountable to shareholders, and should issue an opinion on Management's report

¹³ Risk appetite relates to the level of risk the organization can accept while seeking and attaining its mission/vision (an activity which is more associated to a prior analysis of risks); risk tolerance relates to the acceptable level of variability in attaining defined targets and objectives (more associated to the monitoring of risks). These two components in conjunction define the organization's risk profile with regard to the exposure to risk the organization is willing to accept.

¹⁴ In this code, chief executive officer, chief executive, executive officer, main executive, and CEO shall be used as synonyms.

and the financial statements, and to propose the annual compensation of administrations for discussion at the General Meeting. Compensation shall always be linked to an assessment of organizational bodies and their members.

2.3.1 Corporate risk management

The Board of Directors must ensure that Management preemptively identifies and lists the main risks to which the organization is exposed, through an adequate information system. Management should also calculate the odds of such risks actually occurring, in addition to the organization's consolidated financial exposure to such risks (according to probability, potential financial impact, and intangible aspects) and the measures and procedures adopted for their prevention or mitigation.

2.3.2 – Sustainability

In seeking the organization's viability and longevity, the Board of Directors should adopt and make sure Management also adopt social and environmental considerations when making decisions on business deals and operations. It is the Board's responsibility to guide the process of defining tools and management indicators, including compensation, so as to link sustainability aspects to the strategic choices and reflect them in regular reports (see 3.5). This attitude should be disseminated throughout the production chain, through formal mechanisms, such as contracts or partnership agreements.

2.3.3 - Spokesperson Policy

The Board of Directors shall adopt a spokesperson policy, to eliminate the risk of contradictions between the statements made by the various areas and the organization's executives. The investor relations officer has vested powers of a spokesperson for the company.

2.4 Composition of the Board of Directors

The composition of the Board depends on a number of factors describing the organization and the environment in which it operates. The main factors include: objectives, stage/level of maturity of the organization and expectations regarding the performance of the Board.

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The concept of representing any of the stakeholders is not suitable for the composition of the Board, since Board members have their duties to the organization, and therefore to all shareholders. The Board is, therefore, bound to none.

When making up the Board, the organization should consider creating an environment that allows Board members to express themselves freely.

In any case, the diversity of backgrounds should be pursued, as well as skills and styles of behavior, so that the Board may embody the necessary skills to perform its duties (see 2.3).

As a collective body, the Board should seek to gather the following skills:

- Experience of participating in other Boards of Directors;
- Experience as a senior officer;
- Experience in change management and crisis management;
- Experience in identifying and controlling risks;
- Experience in people management;
- Financial literacy;
- Accounting knowledge;
- Legal knowledge;
- Knowledge of the organization's business;
- Knowledge of national and international markets;
- Contacts of interest to the organization.

2.5 Board member qualifications

A Board member should, at least:

- Be aligned with the organization's values and Code of Conduct;
- Be able to defend his/her point of view based on his/her own judgment;
- Have time available (see 2.8);
- Be motivated.

It is also recommended that a Board member possess:

- Strategic vision;
- Knowledge of good Corporate Governance practices;
- Ability to work in teams;
- Ability to read and understand management, accounting and financial reports;
- Knowledge of corporate law;
- Perception of the organization's risk profile.

The Board member should also have no conflict of interest of a serious nature (unmanageable, not occasional, not situational, or expected to be permanent) and be always aware of the organization's affairs. A Board member should moreover understand their duties and responsibilities are comprehensive (and not restricted to the Board's meetings).

2.6 Age

When the requirements described under items 2.4 and 2.5 are fulfilled, age becomes a factor of relative importance. The effective contribution of a Board member to the Board, the organization, and its shareholders is ultimately what should prevail.

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2.7 Term of office

The term of office of a Board member should not exceed two (2) years. Reelection is desirable to build an experienced and productive Board, but it should not be automatic. All Directors must be elected at the same General Meeting.

The renewal of a Board member's term of office should take into account the results of the annual assessment (see 2.18). The standards for renewal must be expressed in the organization's Articles of Incorporation/Organization or the Board's Internal Regulations. The Board's internal regulations should be precise as to the number of absences tolerated at meetings, before removing a Director.

To avoid tenure, the internal regulations may establish a maximum number of years of continuous Board service.

2.8 Time Availability

By accepting a seat at the Board of Directors, the Directors should bear in mind not just fiduciary duties of care, loyalty and to inform, as provided by law, but also their responsibility to stakeholders who rely on their commitment and attentive participation to preserve and add the organization's value over time.

To fulfill this role, the Director should closely observe their personal and professional commitments, and evaluate whether they can devote the necessary time to the new Board. A Director's participation goes beyond their presence at Board meetings and reading the documentation in advance.

2.8.1 Serving on other boards and committees

Administration must submit to the General Assembly's approval the maximum number of councils and committees (see 2.28) to be served by Directors, taking into account the Director's main activity. Within this limit, the following guidelines are recommended:

- The Chairman may serve as Board member of two other boards, at most;
- External and/or independent Directors with no other activity may serve at five councils, at most;
- Senior executives may serve as Directors of one organization only, unless it is an associated company, or a company in the same group;
- Internal Directors and/or the CEO may serve at no more than one other Board, unless it is an associated company, or a company in the same group;
- A CEO and a Chairman should not chair the Board of another organization (except at third sector entities), unless it is an associated company, or a company in the same group.

2.9 The Chairman

The Chairman is responsible for ensuring the effectiveness and good performance of the Board and each of its members.

The Chairman should establish the Board's goals and programs, chair its meetings, organize and coordinate its agenda, coordinate and supervise the activities of the other Directors, assign responsibilities and deadlines, and monitor the evaluation process of the Board (see 2.18), according to good principles of corporate governance. He should also ensure that Directors receive complete and timely information for the exercise of their functions.

2.10 Separation of Chairman and CEO roles

The duties of the Chairman are different and complementary to those of the CEO. To avoid concentration of power at the expense of adequate supervision of Management, the positions of Chairman and Chief Executive Officer should not be held by the same person.

While it is recommended that the CEO should not be a member of the Board, the CEO should attend the Board meetings as a guest (see 2.12).

2.11 Executive sessions

The Board shall hold regular sessions without the presence of executives – the so-called executive

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sessions. Thus, the Board has an opportunity for discussion exclusively among Board members, without causing embarrassment to any parties.

2.12 Guests to Board meetings

Other organization officers, technical assistants, or consultants may occasionally be invited to Board meetings to provide information, explain their activities, or provide opinions on matters in which they specialize. They should not, however, be present when the decision is made.

2.13 Directors alternates

The existence of alternate Directors is not a good corporate governance practice, and should be avoided. The alternates for occasional absences are not sufficiently familiar with the organization's issues.

2.14 Number of members

The number of directors may vary according to the organization's industry, size, complexity of activities, stage of its life cycle, and its need to form committees. The recommended number is between a minimum of five (5) and a maximum of eleven (11) members.

2.15 Independent, external and internal Directors

There are three classes of Directors:

- **Independent** (see 2.16);
- **External:** Directors who have no current link to the organization, but are not independent. For example: former officers and former employees, lawyers and consultants who provide services to the company, partners or employees of the controlling group and their close relatives, etc.;
- **Internal:** Directors who are organization officers or employees.

In cases when an organization employee is elected a Director according to the law, he should act to protect the interests of the organization and possess the necessary skills.

The Board member should seek the greatest possible independence vis-à-vis the partner, shareholder group, or stakeholder who nominated him to the position, and be aware that, once elected, their responsibility is to the organization.

If a Director identifies pressures from managers or shareholder groups in the exercise of their functions, or feels embarrassed in any way, they should undertake an independent position when voting, or, when appropriate, resign without prejudice to a possible complaint to the General Meeting and/or regulating authorities.

It is recommended that the Board be formed exclusively by external and independent Directors.

2.16 Independent Directors

The number of independent members at the Board shall depend on the level of maturity of the organization, its life cycle, and its characteristics. It is recommended that the majority of members be independent, hired through formal processes, and with a well-defined scope of work and qualifications.

The independent Director is characterized by:

- Not being bound to the organization, except for non-relevant holdings¹⁵ in it;
- Not being a controlling shareholder, member of the controlling group, or another group with relevant holdings in the organization, spouse or relative up to the second degree of any of the aforementioned parties, or connected to organizations¹⁶ related to the controlling shareholder;
- Not being bound by a shareholders' agreement;
- Not having been an employee or officer of the organization (or its subsidiaries) for at least three (3) years;

¹⁵Such holdings depend on the company's share structure. A Director who has more incentive to act as a shareholder than a Director may have compromised their independence.

¹⁶This recommendation does not apply to an independent Director of a controlled company.

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- Not being or having been, for less than three (3) years, a Director of a controlled organization ;
- Not be supplying, purchasing, or bidding, directly or indirectly, to provide services and/or products to the organization in a relevant scale to a Director or the organization;
- Not be a spouse or second degree relative of any Director or manager of the organization;
- Not getting compensation from the organization, except for Director fees. (Dividends from non-relevant holdings in the organization are excluded from this limitation);
- Not having been a partner, in the last three (3) years, of an audit firm which is auditing or has audited the organization in the same period;
- Not being a member of a non-profit organization that receives significant funds from the organization or its related parties;
- Staying independent with regard to the CEO¹⁷ ;
- Not financially depending upon the organization's compensation.

A Director should seek to be independent from the party who named or elected him/her and from other Administration members. A Director's sole objective should be to preserve and create value for the organization as a whole. The Board should use all resources available to assess the independence of its members. Ultimately, it is up to each member of the Board to reflect on their ability to make a fair judgment. This self-assessment should be routine with regard to the issues examined by the Board.

It is recommended that the organization define and disclose the maximum period a Director can serve as an independent member.

A former Director can recover their independence after a period set by the organization, of not less than three (3) years.

¹⁷The Director of company A, who is the CEO of company B, can no longer be independent, when the CEO of company A also becomes Director of company B.

The importance of independent Directors should be highlighted in the context of an organization where there is no defined control and the shares are widely dispersed. In this case, the organization's Management undertakes a predominant role, which has to be counterbalanced by a greater presence of independent directors. Directors should take particular care in supervising the managers.

2.16.1 The role of independent Directors in the absence of separation between CEO and Chairman roles

If the positions of Chairman and CEO are exercised by the same person and a separation of roles is momentarily impossible (see 2.10), it is recommended that independent directors undertake the responsibility of leading discussions involving conflicts between the CEO and the Chairman roles.

2.16.2 Meeting of independent and external Directors

To enable the Board to assess, without embarrassment, the work of managers, it is important that external and independent directors meet regularly and in the absence of officers and/or internal Directors.

2.17 Continuing education of Directors

Given the need to improve their performance and focus on the long term, it is essential that Directors seek to constantly improve their skills.

2.18 Assessment of Board and Directors

A formal assessment of the performance of the Board and each of the Directors must be made on a yearly basis. The assessment system should be adapted to each organization's circumstances. It is important that the assessment be supported by formal processes, with a well-defined activity scope and qualifications.

The Chairman is responsible for performing this assessment, and participation of external specialists may contribute to an objective process. Individual assessment – particularly as regards presence, attendance, and involvement/partaking in meetings (including their level of distraction

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during the meeting to perform unrelated activities) - is critical for the nomination of Directors in future re-elections.

It is recommended that the assessment process and results be communicated to the owners under a specific item in the Board's report.

2.19 Evaluation of the CEO and the Officers

The Board of Directors shall establish the performance goals of the CEO at the beginning of the year and annually perform a formal assessment of this executive. It is the CEO's responsibility to assess the performance of his team (see 3.8) and establish a development program. The assessment result on the executives should be submitted to the Board with the CEO's proposal for maintaining or not each executive in their respective positions. The Board should review and approve the CEO's recommendations, both with regard to targets at the beginning of the year and evaluation.

2.20 Succession planning

The Board of Directors must keep an updated succession plan for the CEO, and ensure that the CEO does the same for all key personnel at the organization.

It is good practice for the CEO to bring his officers closer to the Board of Directors, so that potential candidates to succession can be evaluated.

2.21 Introducing new Directors

Each new Director must go through an induction program, with the description of their function and responsibilities. They should also receive the latest annual reports, minutes of regular and special meetings, of Board meetings, strategic planning, management and risk control system, among other relevant information on the organization and its industry. The new Director must be introduced to his colleagues, and to officers and key personnel of the organization, as well as led to visits to main locations where the company conducts its activities.

2.22 Board interlocking

The Director should inform the other members of the Board of any other councils or boards (Administrative, Fiscal Council and Supervisory Board) in which he serves, including nonprofit

organizations. The goal is not only observe the existence of possible conflicts of interest (see 6.2), but also determine whether the Director has enough time to properly engage in this activity (see 2.8). In the event of a conflict or unavailable time, the other Directors should consider whether it is convenient to keep such member on the Board or remove him. This information, as well as information on the Director's main activity, should be disclosed and made available in periodical reports and other means of communication of the organization.

2.23 Change in Director's main occupation

Main occupation is one of the most important factors in choosing a director. Therefore, when there is a significant change in a Director's occupation, they should inform the Chairman, and the collective body shall assess whether it is desirable for the director to remain or leave the Board.

2.24 Director's Compensation

Directors should be adequately compensated, considering market rates, skills, value to the organization and activity risks. However, the Board's incentive pay structures should be different from those people hired for Management, given the distinctive nature of these two bodies of the organization. Short-term result-based compensation should be avoided at the Board.

Organizations should have a formal and transparent procedure to approve their Directors' compensation and benefit policies, including any long-term incentives paid in shares or share-based. Consideration should be given to the costs and risks involved in these programs and the possible dilution of the shareholder's holdings in the company.

Director access to any compensation in shares or share-based should be allowed only subsequently to the term set for managers.

Compensation amounts and policy for Directors should be proposed by the Board and submitted to General Meeting approval.

The incentive structure should include a system of checks and balances to indicate the action limits of those involved, to prevent the same person to control the decision-making process and its respective supervision. No one should be involved in any decision involving their own pay.

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Director compensation should be disclosed individually or, at least, in a separate group from Management compensation.

If there is no disclosure of individual pay to Directors, the organization must justify its choice in a broad, comprehensive and transparent manner. The organization should also highlight at least the average of the compensation amounts paid, as well as lower and higher payments with reasons for the difference, if any.

Disclosure should include all kinds of compensation paid to Directors, such as: a) salaries b) bonuses; c) all security-based, particularly the share-based, benefits; d) incentive gratuities; e) payments calculated as post-employment benefits of retirement programs and leaves; and f) other direct and indirect short, medium, and long-term benefits.

Also payments related to any consulting agreements between the organization, subsidiary or affiliate, and a firm controlled by Directors.

The targets and metrics of any variable compensation should be measurable, and can be audited and published. The rules applying to Director compensation and benefit policies, including any long-term incentives paid in shares or share-based, should be disclosed and explained. The items that must be informed, in case of a variable compensation, include:

- The variable compensation mechanisms (% profit, bonuses, stock, stock options, etc.);
- The performance indicators/metrics used in the variable compensation program;
- Target award levels (paid for attaining 100% of goals);
- The main features of any stock option plan (eligibility, strike price, vesting period and exercise period of the options, standards to define number of options, granting frequency, maximum dilution, annual dilution, etc.);
- Description of the benefits offered;
- The potential and actually paid percentage mix of total compensation, i.e., what each part (fixed, variable, benefits, and share plans) represents of the total.

2.25 Internal Regulations of the Board of Directors¹⁸

The activities of the Board of Directors should be laid down in the Internal Regulations, which clarifies responsibilities, powers (see 2.3) and measures to be adopted in situations of conflict, especially when involving the CEO and the shareholders. The limits of action and responsibilities of the Board of Directors and its members should be clear. Organizations that access the capital market should publish their internal regulations on their websites.

2.26 Board budget and external consulting

The organization's budget should include a specific annual account for the Board, approved by the owners.

The Board shall have the right to consult with outside professionals (lawyers, accountants, tax specialists, human resources, etc.) paid by the company, to gather adequate input on matters of relevance.

Expenses for a Director to attend board meetings should be covered by the organization.

Items that can appear on the budget of the Board of Directors include: Board, committee, and secretary's compensation; displacement, accommodations, and meals; specialized consulting and external professionals' fees; training and development expenses; travel to represent the organization; secretary's expenses and events of the Board of Directors; Liability Insurance for Administrators.

2.27 The Advisory Board

The existence of an Advisory Board, preferably made up of independent members, is good practice, particularly for organizations taking the first steps in the adoption of good practices of corporate governance. It allows independent members to contribute to the organization and gradually improve its corporate governance.

¹⁸The Board's internal regulations: A set of standards and rules describing the responsibilities, powers, and work routines of the Board of Directors or the Fiscal Council, and prevents conflict of interest situations with the Executive Management, especially with the chief executive (CEO).

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The role, responsibilities, and scope of operation of advisory Board members must be well-defined. In the case of privately-held companies aiming to go public, it is recommended that the Advisory Board be a temporary body.

Regardless of whether or not the Advisory Board is provided for in the Articles of Incorporation/ Organization and the legal implications of this fact, the Advisory Board's performance should be guided by the same principles governing the Board of Directors.

2.28 Committees of the Board of Directors

Committees are accessory bodies to the Board of Directors. Their existence does not imply a delegation of responsibilities that belong to the Board of Directors as a whole.

Several Board of Directors activities that require a long time – not always available during the meetings - can be carried out more fully by specific committees. Board committees may include: Audit (see 2.30), Human Resources/Compensation (see 2.31), Governance, Finance, and Sustainability, among others.

The number of committees will depend on the size of the organization. An excessive number of such groups can unduly mimic the company's internal structure at the Board and create inappropriate interference in Management.

The committees study their respective matters and prepare proposals to submit to the Board. The necessary material for Board examination should be submitted with a vote recommendation. Only the Board can make decisions.

The Board's Internal Regulations should guide the creation and composition of the committees and their coordination by independent Directors having the most adequate expertise and skills.

Information obtained by a member of the Board or committee must be available to all other members of the same body.

The existence and scope of each committee shall be reviewed from time to time to ensure that they have an effective role.

2.29 Composition of the committees

The Board of Directors' committees should preferably be formed by Directors only. When this is not feasible, most of their members should be Directors, preferably coordinated by an independent Director. If there is no specialist in the subject to be studied among the Directors, outside experts may be invited. The Audit Committee (see 2.30) and Human Resources Committee (see 2.31) should preferably be formed exclusively by independent members of the Board, given the high potential for conflicts of interest, without the presence of internal Directors (with executive roles at the organization).

2.29.1 Qualifications and commitment

The Board of Directors shall provide a formal description of the qualifications, engagement, and the time commitment it expects from the committees. Each committee shall adopt their own Internal Regulations, and be made up of at least three members, all knowledgeable in the subject at issue. The other committees should likewise have at least one expert in their respective subjects.

The term of office at the committees may be constrained by the limit in the number of committees which a member can serve in that organization, or other organizations (see 2.8.1).

2.30 The Audit Committee

The establishment of an Audit Committee is recommended, in order to review the financial statements, supervise and promote Financial area accountability, ensure that Management develop reliable internal controls (which the committee should fully understand and adequately monitor), Internal Audit performs its role satisfactorily, and independent auditors review and assess Management and Internal Audit practices. The committee should also ensure compliance with the organization's Code of Conduct (see 6.1), in the absence of a Conduct Committee (or Ethics Committee) appointed by the Board of Directors for this purpose.

In the Audit Committee's case, at least one member should have proven experience in the accounting and auditing fields.

The existence of an Audit Committee does not preclude the establishment of a Fiscal Council (see 5.5).

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The Board of Directors and the Audit Committee must continuously monitor the assessments and recommendations of the independent auditors and internal auditors on the controls and risks environment. The Board of Directors and the Audit Committee should also ensure that the Directors account for actions taken on these recommendations.

2.30.1 Relationship of the Audit Committee with the Board of Directors, the CEO and Officers

The Audit Committee should meet regularly with the Board of Directors, the Fiscal Council (when established), the CEO and the other officers. Management should provide the Audit Committee with: (i) timely and periodical reviews of financial statements and related documents prior to their disclosure; (ii) presentations on changes to accounting principles and standards, accounting treatment given to the main operations, and significant variations between budgeted and actual amounts in a given account; (iii) information regarding any "second opinions" obtained by Administration from an independent auditor, regarding the accounting treatment of a particular event or transaction; and (iv) any mail exchanged with the Internal Audit or an independent auditor.

2.30.2 Relationship with independent auditors

The Audit Committee should discuss with the independent auditors: (i) changes or maintenance of accounting principles and standards; (ii) the use of reserves and provisions; (iii) relevant estimates and judgments used in preparing the financial statements; (iv) risk evaluation methods and the results of these evaluations; (v) main risks; (vi) changes in the scope of the independent audit; (vii) material weaknesses and significant flaws in internal controls; (viii) knowledge of illegal acts; and (ix) effects of external economic, regulatory, industry, social, and environmental factors on the financial statements and the auditing process. The discussion should include issues such as the clarity of the financial disclosures, and the level of aggressiveness or conservatism of the accounting principles and standards, and the assumptions adopted.

2.30.3 Relationship with subsidiaries, associated companies, and third parties.

The Audit Committee must ensure the quality of the information originating from subsidiaries and affiliates or third parties (such as experts), due to the reflection of this information on the organization's financial statements.

It should also, from time to time, assess relevant aspects in relationships with third parties such as competence and professional independence. When necessary, it should obtain a second opinion on any work submitted by third parties.

2.31 Human Resources Committee

This committee is in charge of matters relating to succession (see 2.20), compensation, and people development. It should also examine in depth the criteria for hiring and dismissing officers, and review the existing policies and compensation packages. The Human Resources Committee should additionally verify whether the compensation model provides mechanisms to align the administrators' interests with those of the organization. To perform this analysis, the committee can use experts to compare the organization's compensation practices with those on the marketplace and create indicators to be pursued, aligning the administrators' actions with the organization's strategic plan.

As in the other committees, the best practice is a composition, preferably with independent members of the Board, with Human Resources/Compensation expertise. The conflict of interest inherent to the responsibilities of this committee reinforces the need to select independent Directors to form the HR committee.

This committee should examine the compensation mechanisms for Directors (see 2.24), submitting to the Board of Directors the amounts proposed for the year. After analyzing them, the Board shall submit the Management compensation proposal, as well as its own compensation proposal, to the General Meeting for approval. The Human Resources Committee must also assess and monitor the succession practices and processes at all hierarchical levels of the organization. The succession of the CEO should be followed up in greater detail.

This committee should support the Chairman in preparing and reviewing the annual assessment of the executives (see 2.19), Directors, and the Board (see 2.18), as well as propose a descriptive profile of desired Directors.

2.32 Ombudsman and Reporting Channel

The organization should have its own means – such as a formal complaints or reporting channel, or ombudsman – to gather opinions, criticism, complaints and reports from stakeholders, always

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ensuring the privacy and secrecy of its users, and conduct investigations to determine the truth and the appropriate action to be pursued.

These channels should be directed to the Board of Directors. The purpose is to allow greater transparency to the organization's relationship with its stakeholders.

2.33 Internal Audit

The Internal Audit is responsible for monitoring and assessing the adequacy of internal controls and the standards and procedures established by Management. The internal auditors should proactively act on the recommendation of improved controls, standards and procedures, in line with the best market practices.

In case this activity is outsourced, the internal audit services should not be exercised by the same company that provides independent auditing services. However, the internal auditors may cooperate with the external auditors, to the extent deemed necessary.

The organization's Management and, particularly, the CEO are directly benefited by the improved control environment due to the activities of the Internal Audit.

This body should not only point out irregularities, but pursue the improvement of processes and practices based on an enhanced control environment. Its work should be perfectly aligned with the organization's strategy.

2.34 Relationships

The Board of Directors, as the central body within the organization's governance system, must ensure that its various relationships (with shareholders, the CEO, other officers, committees, the Fiscal Council and auditors) occur in an efficient and transparent manner.

2.34.1 Relationship with shareholders

The Board is the link between the shareholders and the rest of the organization, and must oversee the organization's relationship with its other stakeholders. In this context, the Chairman should establish a dedicated channel of contact with the shareholders, not restricted to General Meeting or Partner Meeting situations.

The Board must account for its activities to the shareholders, to allow them a full understanding and assessment of the Board's actions. The main vehicles in this communication are the Annual Report, the organization's website, the Proxy Statement (see 1.4.6.1), and the General Meeting. A direct contact between Directors and shareholders is also allowed, and even desirable, provided secrecy and fairness rules in treating information are observed.

2.34.2 Relationship with the CEO and his subordinates

The CEO is the link between the Board of Directors and the rest of the organization. It is vital that this communication occur in a clear and continuous manner, leading to an effective decision making process.

While the CEO should be regularly invited to attend Board meetings, the Chairman plays a specific role in relation to the CEO – with whom he most frequently interacts. A clear separation of roles between the two positions and clear power and action limits are of fundamental importance (see 2.10).

To preserve the hierarchy and ensure a fair sharing of information, the CEO and/or the Chairman should be advised/consulted when Directors wish to contact the officers for any clarification.

2.34.3 Relationship with the Committees

The Board should set the scope of activities for the committees and approve their respective work plans and reports. The Board should meet regularly with the committees.

2.34.4 Relationship with independent auditors

The relationship with the independent auditors is an inalienable right and duty of the Board, which should choose these professionals, approve their fees and a work plan, as well as assess their performance. If the organization has an Audit Committee, it will be its duty to handle these matters, and submit them to the Board's approval.

2.34.5 Relationship with the Internal Audit

Internal Audit should report to the Audit Committee, or, in its absence, to the Board of

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Directors. In the absence of a Board of Directors, the company's Internal Audit should report directly to the shareholders, to ensure independence from Management.

The Board must also approve the annual plan, analyze the results, and monitor the implementation of the recommendations made by Internal Audit. In case this activity is outsourced, the internal audit services should not be exercised by the same independent auditors.

It is recommended that the Audit Committee and the Board of Directors effectively participate in the Internal Audit's work plans.

While reporting to the Board or the Audit Committee (to avoid conflicts of interest), Internal Audit should listen to Management's demands for improvement in the controlling environment. Reports should be submitted to Management based on information provided to the Audit Committee and the Board.

2.34.6 Relationship with the Fiscal Council

The Board of Directors shall periodically meet with the Fiscal Council, when established, to address issues of common interest and develop a productive work schedule. By law, the Fiscal Council has the right and duty to attend meetings of the Board of Directors whenever they discuss issues on which the Fiscal Council should have a say.

The Board of Directors must provide members of the Fiscal Council with a full copy of the minutes of all Board meetings.

2.35 Secretary of the Board of Directors

The Board of Directors shall appoint a professional (who is not a Director) to act as secretary, with the following responsibilities:

- Support the organization's corporate governance processes and propose its constant improvement;
- Assist the Chairman in setting the agenda for Board meetings and convening the General Meetings;

- Send out the agenda and supporting Board meeting materials, interacting with members of the Executive Management, to fulfill requests for clarification and information made by Directors;
- Support the Directors and members of the Board's committees in the performance of his activities;
- Prepare, record in a specific book, file with the proper authorities, and publish the minutes of meetings of the Board of Directors and General Meetings, in accordance with applicable legislation;
- Manage the information available through the Governance Portal¹⁹, if existing, and make sure it is permanently updated.

Requests for the inclusion of items in the agenda or the call notice to regular and special meetings of the Board, made by the Directors or the CEO, must be sent in writing to the Board's Secretary, who shall submit the proposals received to the Chairman and inform the Directors and the CEO of the Chair's decision.

2.36 Meeting dates and agendas

It is the Chairman's responsibility to propose an annual calendar of regular and special meetings.

The frequency of meetings will be determined by the company's circumstances, to ensure the effectiveness of the Board's work. Board meetings should not be more frequent than once a month, at the risk of interfering in Management work.

The Board meeting agendas shall be prepared by the Chairman, after consultation with the other Directors, the CEO and, if appropriate, the other officers.

In addition to the calendar with the meeting dates, the Chairman should organize a

¹⁹The governance portal is an interactive tool that accomplishes good practices of Corporate Governance, and which can be accessed from any place, inside or outside the organization, and enables Board members, Fiscal Council members and other administrators to access the necessary information for the performance of their legal and corporate responsibilities in the best possible manner.

THE BOARD OF DIRECTORS

schedule for the Board on major issues to be discussed throughout the year and the dates they should be addressed. This method allows the Board to examine in depth strategic issues and have a more proactive role. Another advantage is to allow Management to get organized and know when the issues under their responsibility will be closely examined by the Board. This schedule does not prevent subjects from being discussed according to their need and urgency at Board meetings.

2.37 Documentation and preparation for meetings

The effectiveness of meetings of the Board of Directors depends on the quality of the documentation sent out in advance (minimum of 7 days) to Directors. Proposals must be well-grounded. Directors should have read all the documentation and be prepared for the meeting. The documentation must be clear and in adequate amount. A summary of the proposed topic should be sent prior to the material for each subject, as well as Management's voting recommendation for its respective proposition.

The agenda of the meetings will include a description of items in progress, indicating when the decisions were made, progress report, deadlines for completion, and other relevant aspects. In every meeting of the Board and committees the relevant corporate documents should be available. These include the Articles of Incorporation/Organization, minutes of previous Board meetings and General Meetings, among others.

2.38 Meeting proceedings

Board meetings should be physically attended by the Directors. Virtual attendance by telephone or video conference should only be considered in exceptional cases.

The Chairman shall ensure the proper proceedings of the meetings. The Chair should also see that the agenda is followed, the time allotted for each item, and encourage participation by all, coordinating the debate in order to avoid simultaneous conversations. Directors should seek to express their views in an objective manner, to avoid a repetition of views on a topic. The Directors should fully focus on the meeting, and avoid communication devices and unrelated conversations.

At the end of each decision, this should be summarized and confirmed by all Directors.

The minutes should be drafted and approved at the end of the meeting, to avoid a potential loss of information or further doubts about its content.

2.39 Meeting Minutes

Minutes should be clearly worded. All decisions made should be recorded, including abstentions from voting due to conflicts of interest, responsibilities, and deadlines. The document should be formally approved and signed by all Directors present at the meeting.

Dissenting votes and relevant discussions should be recorded in the minutes when required.

The minutes should be circulated among all parties involved, for comments and/or amendments prior to approval, recording, archiving, and submittal of the resolutions to the CEO, who should ensure they are sent to those responsible for their implementation.

A list of participants with the names of Directors and guests who fully or partly attended the Board meeting should be recorded.

2.40 Confidentiality

Board decisions should be minuted and forwarded to the competent body. Some decisions must be treated as confidential, especially when addressing issues of strategic interest not yet matured or which may expose the organization to the competition. The administrators may choose not to disclose information whose disclosure they believe may endanger a legitimate interest of the organization. Disclosure should be made in equal conditions to all shareholders, through publication.

MANAGEMENT

3 MANAGEMENT

3.1 Responsibilities

The CEO is responsible for managing the organization and coordinating Management. He acts as a link between Management and the Board of Directors. The CEO is also responsible for implementing the guidelines established by the Board of Directors and is accountable to the Board. His duty of loyalty is to the organization.

Each of the Officers is personally responsible for their duties in Management. Each officer is accountable to the CEO and, whenever requested, to the Board of Directors, shareholders, and other stakeholders, with the consent of the CEO.

The CEO, jointly with the other officers and areas of the company, is responsible for developing and implementing all operating and financial processes, after their approval by the Board of Directors. The segregation of roles concept should permeate all processes.

3.2 Officer nominating

It is the CEO's responsibility to nominate the officers and to propose their respective compensation for approval of the Board of Directors.

3.3 Relationship with stakeholders

Stakeholders are individuals or entities that assume some kind of direct or indirect risk related to the organization's activities. In addition to the shareholders, the stakeholders include employees, customers, suppliers, creditors, the government, communities around the operating units, and other parties. The CEO and the other officers should ensure a transparent and long-term relationship with stakeholders and set a strategy to communicate with these parties.

3.4 Disclosure

The CEO must ensure that stakeholders are provided with information of their interest, as soon as they become available, besides mandatory information required by law or regulations. The CEO must ensure that this communication is clear with substance prevailing over form. Management should use an accessible language when communicating with stakeholders.

The information provided must be balanced and good quality. Communications must address both positive and negative issues, to enable stakeholders to have a correct understanding of the organization.

Any piece of information that could influence investment decisions should be released immediately and simultaneously to all stakeholders. The Internet and other technologies should be used to seek the necessary speed and a wide dissemination of information (see 6.5).

3.5 Regular reports

As a result of a clear policy of communication and relationship with stakeholders, the organization should disclose, at least on its website, full, objective, timely and equitable reports from time to time on all aspects of its business activities, including its social and environmental agenda, related party transactions (see 6.2.1), costs of political and philanthropic activities (see 6.6), administrators' compensation, and risk factors, among others, in addition to economic and financial and other information required by law. These reports should also contain information on the activities of the Board and its committees, as well as a detailed management and governance model.

The annual report is the most comprehensive and usual way of providing information to society, but it should not be used to restrict the timing and frequency of company communications. Virtual channels and other technologies should be explored for speed and dissemination of information.

3.5.1 International standards

Organizations must recognize international trends and society's demands. Therefore, they should prepare periodical reports in accordance with internationally accepted standards as regards accounting and guidelines that include economic, financial, social, environmental, and corporate governance aspects²⁰. This approach permits a comparison of reports, so that investors and society at large can learn about the commitments, policies, indicators, and ethical principles of organizations. Such information contributes to a better assessment of the organization's managerial quality and the risks that the company is willing to face.

²⁰Example: Global Reporting Initiative (GRI) reporting framework.

MANAGEMENT

3.6 Internal controls

The CEO, jointly with Management and assisted by other oversight bodies linked to the Board of Directors, is responsible for developing and submitting internal control systems for the Board's approval. These systems are geared to monitoring compliance with operating and financial processes, as well as non-compliance risks. These controls should be reviewed at least once a year for effectiveness. Internal control systems should encourage Administration bodies in charge of monitoring and enforcing to take on preventive and proactive measures to forestall or minimize risks.

3.7 Code of Conduct

The CEO and Management shall ensure compliance with the organization's Code of Conduct (see 6.1) approved by the Board of Directors.

3.8 Assessment of the CEO and Executive Management

The CEO must be annually evaluated by the Board of Directors. The CEO is responsible for the evaluation of Management, which should be shared with the Board of Directors — in this case, through the Compensation or Human Resources Committee, if available.

3.9 Management compensation

The total Management compensation should be linked to results, with short and long-term goals, clearly and objectively associated to the creation of economic value for the organization. The goal is for compensation to be an effective tool to align the interests of the officers with those of the organization.

Organizations should have a formal and transparent procedure to approve their compensation and benefit policies for officers, including any long-term share-based incentives or paid in shares. Consideration should be given to the costs and risks involved in these programs and a potential dilution of the shareholders' holdings in the company. Executive compensation payments and policy, proposed by the Board, should be submitted to the General Meeting for approval.

The incentive structure should include a checks and balances system indicating the action limits of those involved, to prevent a same person to control the decision-making process and its respective oversight. No one should be involved in any discussion involving their own compensation.

The officers' compensation should be disclosed individually or, at least in a separate group from the total amount relative to the Board of Directors.

If there is no disclosure of individual payments to officers, the organization must justify its decision in an extensive, complete, and transparent manner. The organization should also highlight at least the average of compensation amounts paid, as well as the lowest and highest payments made, with reasons for the difference, if any.

Disclosure should include all kinds of compensation payments made to officers, such as: a) monthly salaries; b) bonuses; c) security-based benefits, particularly share-based benefits; d) incentive bonuses; e) payments calculated as post-employment benefits, in retirement and leave programs; and f) other direct and indirect short, medium and long-term benefits.

Also payments relating to any consulting agreements between the organization, subsidiary or affiliate, and a firm controlled by officers should be disclosed.

The targets and assumptions of any variable compensation payments should be measurable, as well as audited and published. Rules inherent to compensation and benefit policies for management, including any long-term incentives paid in shares, or share-based incentives, should be disclosed and explained. The items that should be informed, in case of variable compensation, include:

- Variable compensation mechanisms (% profit, bonuses, stock, stock options, etc.);
- The performance indicators/metrics used in the variable compensation program;
- Target award levels (paid for attaining 100% of the targets);
- The main features of any stock option plan (eligibility, strike price, vesting period and exercise period, standards to define the number of options, granting frequency, maximum dilution, annual dilution, etc.);
- The description of the benefits offered;
- The potential and actually paid mix (percentage) of total compensation, i.e., how much each part (fixed, variable, benefits, and share plans) represents of the total.

MANAGEMENT

3.10 Access to the facilities, information, and files

Management should enable members of the Board of Directors and Fiscal Council to visit company facilities and access information, files, and documents necessary to the performance their functions, including those relating to previous years.

INDEPENDENT AUDITING

4 INDEPENDENT AUDITING

4.1 Independent auditing

Every organization should have its financial statements audited by independent external auditors. Their main task is to determine whether the financial statements adequately reflect the company's reality.

As an inherent part of the independent auditors' work, they should also review and assess the organization's internal controls. This task should result in a specific recommendations report on improvements of the internal controls.

The organization may also hire other independent external audit services for non-financial information it deems relevant.

4.2 Independent auditors' report

The independent auditors must clearly declare whether the financial statements prepared by Management adequately represent the company's equity and financial position and its results for the period. Their report should define scope, the work performed, their opinion and, therefore, their assumed responsibility.

4.3 Hiring, compensation, retention and dismissal

The Board of Directors and/or the Audit Committee shall establish with the independent auditors a work plan and an agreement on fees. The Audit Committee shall recommend to the Board the hiring, pay, retention, and replacement of independent auditors.

In the absence of a Board of Directors, the company's independent auditors should report directly to the shareholders, to ensure independence from Management.

4.4 Independent auditor recommendations

The independent auditors should report to the Audit Committee and, in its absence, directly to the Board of Directors on the following points: discussion of the main accounting policies; material weaknesses and significant flaws in the internal controls and procedures; alternative accounting treatments; cases of disagreement with Management; risk assessment and analysis of possible fraud.

INDEPENDENT AUDITING

4.5 Hiring and independence

The auditors, for the benefit of their independence, should be hired for a predefined period of time, and, if necessary, rehired after a formal and documented assessment of their independence and performance, made by the Audit Committee and/or Board of Directors, observing professional standards, legislation, and the regulations in force.

It is recommended that any new agreement with the auditing firm, after a maximum of five (5) years, be subject to the approval of the majority of shareholders present at the General Meeting. The vote should include all classes of shares (see 1.2). If the independent auditors are rehired after 5 years, the Board of Directors/Audit Committee should confirm that the auditing firm rotates its key professionals in the team, as established by professional standards.

4.6 Non-audit services

Auditors cannot audit their own work. Consequently, as a general rule, auditors should not provide consultancy work for the organization they audit. The Audit Committee or, in its absence, the Board should be aware of all the services provided by independent auditors (including their fees), to ensure that the auditor's independence is not questioned, and to avoid potential conflicts of interest.

The Board should disclose to stakeholders the proportion between the fees paid to auditors for their audit services and any payments for other services.

It should also establish formal rules for the approval of services other than audit work on the financial statements provided by the independent auditors.

The auditors' independence also applies in situations where few clients represent substantial portions of a single audit firm's revenues. The Audit Committee and/or Board of Directors should ensure that the independent auditors do not financially depend on the audited company.

4.7 Professional standards of independence

The independent auditors should annually assure their independence from the organization. This assurance must be made in writing to the Audit Committee or, in its absence, to the Board of Directors.

The relationship between the independent auditors and the CEO, the officers and the organization should be guided by professionalism and independence. The independent auditors and Management shall inform the Audit Committee or, in its absence, the Board of Directors directly, in any case when a member of the independent auditors' working team is recruited by the organization to supervise financial statements. In the event the technical partner is hired by the organization, the Board of Directors must evaluate whether or not the organization should proceed with its relationship with the independent auditors.

THE FISCAL COUNCIL

5 FISCAL COUNCIL

5.1 Fiscal Council

Depending on the Articles of Incorporation/Organization, the Fiscal Council may be permanent or not. If temporary, it should be established at the request of a shareholder or group of shareholders. Its main goals are:

- Inspection, conducted by any of its members, of administrators' acts and checking their compliance with legal and statutory duties;
- Providing an opinion on the annual management report, including the additional information it deems necessary or useful for discussion at the General Meeting;
- Providing an opinion on the proposals of Administration bodies to be submitted to the General Meeting, relative to the change in stock capital, issuance of debentures or subscription bonuses, investment plans or capital budgets, dividend payouts, transformation, merger, consolidation or split-off (see 1.4.1);
- Report, through any of its members, to the Board of Directors, or alternatively, to the General Meeting, if the Board does not take the necessary measures to protect the interests of the company, any errors, fraud or crimes it find out, and suggest useful measures to the company;
- Analyze, at least on a quarterly basis, the balance sheet and other financial statements periodically prepared by the company;
- Examine the financial statements for the fiscal year and opine on them.

It should be seen as an independent control tool for owners, which aim to add value to the organization.

The Fiscal Council shall have the right to consult with outside professionals (lawyers, accountants, tax or human resources specialists, etc.) paid by the organization, to gather adequate information on matters of relevance.

The Fiscal Council members have the power to act individually, although they belong to a collective body. (See 5.3).

5.2 Composition

The law defines the way to elect Fiscal Council members. When there is no defined controlling shareholder, or there is just one class of shares, the establishment of a Fiscal Council, requested by any group of shareholders, should be facilitated by the organization.

All shareholders should be represented at the Fiscal Council, even in organizations without a defined controlling shareholder.

In organizations where there is a defined control, the controlling shareholders should waive the privilege to elect the majority of the members of the Fiscal Council, allowing the majority to be made up of members elected by non-controlling shareholders.

Before the election of Fiscal Council members, organizations should encourage a debate among all shareholders on the composition of the Fiscal Council, in order to achieve the desired diversity of professional backgrounds relevant to the functions of the body and the organization's field of activity.

5.3 Work agenda

For a more effective work, the Fiscal Council's priorities should be established by its members, in line with the shareholders' expectations.

It is the Fiscal Council's responsibility to decide on a minimum work agenda, which should include the focus of its activities throughout the year. This agenda should include a list of regular meetings, as well as information to be periodically sent to the Board Members (see 5.5).

The Fiscal Council should have its own Internal Regulations, which should not inhibit the freedom of action of its individual members. No Fiscal Council document should restrict individual activity, as provided by law. The Fiscal Council member, in turn, must be concerned with not making this prerogative counterproductive, always seeking, as much as possible, to act in harmony with the other members.

FISCAL COUNCIL

5.4 Relationship with owners

The Fiscal Council members' responsibility is to the organization, regardless of who nominated them. Therefore, their action must be led by fairness, transparency, independence, and, as a general rule, by confidentiality.

5.5 Relationship with the Audit Committee

The Fiscal Council does not replace the Audit Committee. The Audit Committee is a controlling body whose functions are delegated by the Board of Directors (see 2.30), while the Fiscal Council is an inspection body, whose functions are directly defined by the shareholders and, by law, does not report to the Board of Directors. When both are in place, there are normally some overlapping functions. In this case, the two bodies should coordinate their activities. It is recommended that they hold a few joint meetings, with the possible presence of the independent auditors.

5.6 Relationship with the independent auditors

The Fiscal Council should monitor the work of the independent auditors, accounting and other, and the relationship of these professionals with Administration. The auditors should attend the Fiscal Council meetings whenever requested, to provide information related to their work. The Fiscal Council and the independent auditors should seek a productive and mutually beneficial work schedule.

Administration must not obstruct or hamper communications between any members of the Fiscal Council and the independent auditors, and should even provide reports and recommendations issued by the independent auditors and other experts to Fiscal Council members.

5.7 Relationship with the Internal Audit

The Fiscal Council should monitor Internal Audit work, in cooperation with the Audit Committee. The Board of Directors may require the establishment of communication channels between Internal Audit and the Fiscal Council, as a way to ensure independent monitoring of all the activities of the organization.

5.8 Fiscal Council Compensation

Fiscal Council members should be adequately compensated, considering the experience and skills required to perform their function. They are entitled to reimbursement of any expenses relating to the performance of their function.

There should be no variable compensation for Fiscal Council members. Their pay should be set according to the total compensation for executives, including amounts received by the executives through different companies in the same group.

Fiscal Council compensation should be disclosed individually, or at least as a separate group from the administrators' compensation.

If there is no disclosure of individual payments to Fiscal Council members, the organization must justify its option in a broad, comprehensive, and transparent manner.

5.9 Fiscal Council opinions

It is recommended that the Fiscal Council's opinion be included in the company's information disclosure policy (see 6.5). The votes, whether dissident or not, and the Fiscal Council members' justifications on the financial statements and other documents, should also be disclosed.

CONDUCT AND CONFLICT OF INTEREST

6 CONDUCT AND CONFLICT OF INTEREST

6.1 Code of Conduct

In addition to respecting the laws of the country, every organization should have a Code of Conduct binding administrators and employees. The Code of Conduct must be prepared by Management, in accordance with the principles and policies defined and approved by the Board of Directors. The Code of Conduct should also establish social and environmental responsibilities.

The Code should accurately reflect the company's culture and state, as clearly as possible, the principles on which it is based. It should also implement ways to complain or report problems of an ethical nature (complaints channel, ombudsman).

6.1.1 Scope

The Code of Conduct should cover the relationship between Directors, officers, shareholders, employees, suppliers and other stakeholders. Directors and officers should not exercise their authority in their own benefit or to benefit third parties. The Code of Conduct should mainly cover the following subjects:

- Compliance with laws and tax payment;
- Transactions with related parties (see 6.2.1);
- The use of the organization's assets;
- Conflicts of interest (see 6.2);
- Insider information (see 6.3);
- Policy on trading company shares (see 6.4);
- Lawsuits and arbitration (see 1.8);
- Whistle-blower²¹ ;
- Prevention and treatment of fraud (see 6.7);

²¹A person who reports to the proper authorities any illegal and/or immoral activities or inappropriate conduct by people related to the organization, and with a potential to affect the organization. Whistle-blowing can be made to the people with authority inside the organization, or to the regulators, the media, or government entities.

- Questionable payments made or received;
- Receiving gifts and favors;
- Donations (see 6.6);
- Political activities (see 6.6);
- The right to privacy;
- Nepotism;
- The environment;
- Discrimination in the workplace;
- Moral or sexual harassment;
- Work safety;
- Exploitation of adult or child labor;
- Relations with the community;
- Use of alcohol and drugs.

6.2 Conflicts of interest

A conflict of interest occurs when someone is not independent with regard to the subject being discussed, and may influence or make decisions motivated by interests other than those of the organization. This person must state, in a timely fashion, their conflict of interest or private interest. If the person fails to do so, someone else can express the conflict.

It is important to appreciate the separation of duties and clear definition of roles and responsibilities associated with the terms of office of all agents of governance, including the definition of authority to make specific decisions, so as to minimize possible sources of conflicts of interest.

Definitions of independence were given in this Code, for Directors (see 2.15), partners (see 1.4.7) and independent auditors (see 4.6). Similar standards apply to officers and any employee or organization representative. Directors, as well as officers, have a duty of loyalty to the organization and all the shareholders, not just those who elected them.

CONDUCT AND CONFLICT OF INTEREST

6.2.1 Related party transactions

It is the Directors' duty to monitor and manage potential conflicts of interests of the executives, Directors, and shareholders, in order to avoid misuse of the organization's assets and, in particular, the abuse of related party transactions. The Director should ensure that these transactions are conducted according to market practices, in terms of deadlines, rates, and guarantees, and are clearly reflected in the organization's reports.

Loans in favor of the controlling partner and the administrators should be prohibited. The Articles of Incorporation/Organization should forbid these operations, as well as establish policies to conduct transactions with related parties, or require them to be approved by the Board of Directors.

Whenever possible, these operations must be based on independent appraisal reports, based on realistic assumptions and information endorsed by third parties. The appraisal reports cannot originate from the parties involved in the operation, whether banks, lawyers, specialized consultancies, or other companies.

Forms of compensation paid to assistants, consultants or middlemen that create conflicts of interest with the organization, the administrators, the shareholders, or groups of shareholders, are not good practice.

Loans between related parties should be avoided, except for those in which there is no difference between the stock ownership/holdings of the parties involved.

Transactions with other related parties should observe the policies defined, and be clearly beneficial to the organization. The Board of Directors should oversee the optimization of benefits to the organization, seeking equal or better than market conditions, adjusted by the risk factors involved.

6.2.2 Staying away from discussions and resolutions

Once a conflict of interest is identified with regard to a specific topic, the person involved should move away and physically remove themselves from discussions

and decisions, without neglecting the administrator's legal duties. The temporary removal should be recorded in the minutes.

6.3 The use insider information

The Code of Conduct should qualify as a violation of the basic principle of fairness the use of insider information for personal benefit or for the benefit of third parties. The organization must also lay down, in a specific document, the procedures to be followed to prevent or punish the misuse of such information.

6.4 Stock trading policy

A listed company must adopt, by resolution of its Board of Directors, a policy on trading the securities it issues. The policy should also apply to bonds based on the company's securities, or issued by organizations with which the company maintains a relevant business relationship, or is in the process of negotiating corporate holdings. These guidelines should apply to controlling shareholders, officers, and members of the Board, the Fiscal Council and other corporate bodies.

The organization should develop and monitor controls that enable the fulfillment of this policy.

It is recommended the establishment of an area responsible for monitoring, determining, and punishing in cases of non-compliance with the company's different policies.

6.5 Information disclosure policy

In order to abide by the principle of transparency, the organization should have a formal information disclosure policy in place.

This policy should include the disclosure of information in addition to that required by law or regulation. The idea is that the disclosure be complete, objective, timely and equitable.

It is recommended that the organization make available its annual report, including financial statements and socio-environmental reports, preferably audited, to the market (see 4.1).

6.6 Contributions and donations policy

In order to ensure greater transparency on the use of its shareholders' resources, organizations

CONDUCT AND CONFLICT OF INTEREST

must develop a policy of voluntary contributions, including political. The Board of Directors shall be responsible for approving all disbursements related to political activities. Every year, the organization must disclose, in a transparent manner, all costs arising from their volunteer activities.

The policy should make clear that the promotion and financing of philanthropic, cultural, social and environmental projects must have a clear bearing with the organization's business or contribute in an easily identifiable way to its value.

6.7 - Policy against illegal acts

The organization shall establish a policy with concepts and guidelines to prevent and fight illicit acts.

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The recommendations we offer our clients result in organizational change, strengthen the leadership team, develop internal talent, and enhance the company's performance. Activities are intrinsically based on best practices of corporate governance, the focus of IBGC's wonderful work, which we are proud to support.



Transparency, accountability, ethics, and corporate responsibility are some of the pillars of Oi's performance. The largest Brazilian telecommunications company, with more than 60 million customers, Oi realizes that building an increasingly sustainable society depends on the existence of those principles in the strategy of companies.

This is why, in 2009, for the second consecutive year, Oi joined Bovespa's ISE (Corporate Sustainability Index), to reflect its strong commitment to social responsibility and the adherence to sustainable management practices.

A company with a capacity for innovation, which invents and reinvents itself while seeking perpetuity, knows the importance of an instrument such as the Code of Best Practices to assist in the evolution of Corporate Governance and the satisfaction of all stakeholders.

IBGC 15 Anos Disseminando as Melhores Práticas

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