Law No. 11,638

Changes to accounting practices in Brazil

Amendment to Brazilian Corporate Law, introducing changes to accounting practices generally accepted in Brazil, effective for fiscal years beginning on or after January 1, 2008

On December 28, 2007, Law No. 11,638 was enacted, that alters, revokes and adds new provisions to the Brazilian Corporate Law, especially with respect to chapter XV, Fiscal Year and Financial Statements. Law No. 11,638/07 was designed primarily to update accounting practices as contemplated in Brazilian Corporate Law, so as to enable the convergence of Brazilian accounting practices with accounting standards generally accepted in the international capital markets, and contemplates broad changes to accounting practices generally accepted in Brazil, as they relate to statutory accounting practices and procedures. The Law also allows the Brazilian Securities Commission (CVM) to issue new accounting standards and procedures, applicable to public companies in Brazil, in conformity with such international accounting standards.

The financial statement provisions of the Brazilian Corporate Law are applicable to all companies incorporated as corporations ("Sociedades Anônimas"), including public companies ("companhias de capital aberto") registered with the CVM. The Law, however, introduces a new requirement for certain other large companies not incorporated as "Sociedades Anônimas" (large companies) to prepare annual financial statements in accordance with the financial statement provisions of Brazilian Corporate Law, including those new provisions introduced by the Law, and requires that these financial statements be audited by an independent auditor registered with the CVM. Such large companies, as defined, are entities or group of entities under common control, that have more than R$240 million of assets or more than R$300 million of gross revenues, both measured as of and for the prior fiscal year. Furthermore, private companies ("companhias de capital fechado") subject to the financial statement provisions of the Brazilian Corporate Law may choose to prepare such financial statements in accordance with standards issued by the CVM.

The changes and requirements introduced by the Law are effective for fiscal years beginning on or after January 1, 2008. Certain of these changes shall be applied as of the beginning of Company's fiscal year while others are, and will be, subject to additional interpretation and regulation by applicable regulatory agencies and accounting standards bodies in Brazil.

The following summarizes certain of the significant changes introduced by the Law:

- Elimination of the requirement to present a statement of changes in financial position and a new requirement to present a statement of cash flows.

- A new requirement for the presentation of a statement of value added, applicable to public companies, that presents the additional value created by the Company, as well as the composition of the sources of such value and the amount of undistributed value.

- The ability to maintain separate or auxiliary accounting ledgers and records for purposes of reflecting necessary

adjustments to financial statements prepared for income tax or other regulatory requirements in order to prepare the required financial statements in conformity with Brazilian Corporate Law.

• Creation of a new account group, intangible assets, for purposes of balance sheet presentation, which encompass rights in intangible assets maintained or used in the operation of the Company's business.

• Modification of the definition of those assets to be recorded under the caption property, plant and equipment in the balance sheet, to be those rights in tangible assets that are maintained or used in the operations of the Company's business, including those rights received as a result of transactions that transfer the benefits, risks and control of such assets to the Company (e.g., capital leases).

• Modification of the definition of those assets to be recorded under the caption deferred charges in the balance sheet, to be pre-operational expenses and certain restructuring costs that will effectively benefit earnings in future periods and that do not simply represent future cost reductions or increases in future operational efficiencies.

• Requirement that periodic review and analysis of the recoverability of amounts recorded in property, plant and equipment, intangible assets and deferred charges be performed to ensure that: (i) impairment losses are recorded as a result of decisions to discontinue activities related to such assets or when there is evidence that future operating results will not be sufficient to ensure their realization; and (ii) the criteria used to determine the estimated remaining useful life of such assets for purposes of recording depreciation, amortization and depletion expense are reviewed and adjusted.

• Requirement that investments in financial instruments, including derivatives, be accounted for: (i) at fair value or equivalent value for trading securities or securities available for sale; or (ii) at the lower of historical cost, adjusted for contractual interest and other contractual provisions, and realizable value for other investments. Additional fair value concepts and considerations have also been defined for such financial instruments.

• Creation of a new account group, valuation adjustments to shareholders' equity, for purposes of balance sheet presentation, to be used to record certain valuation adjustments not recorded in earnings for certain assets and liabilities. Such adjustments may include, among others, fair value adjustments for certain qualifying financial instruments, foreign currency exchange rate variations on foreign investments accounted for under the equity method of accounting (through December 31, 2007, such adjustments used to be recorded to profit and loss account), and certain fair value adjustments related to assets and liabilities as a result of a merger between unrelated parties that results in the transfer of control.

• Requirement that certain long-term assets and liabilities be recorded at present value, and, if material, for certain other short-term assets and liabilities.

• Elimination of the ability to record: (i) the premium received on issue of debentures; and (ii) donations and government investment grants (including tax incentives) directly as capital reserves in shareholders' equity. Such items are now required to be recorded as part of earnings in the income statement. Donations and government grants (including tax incentives) may be required to be allocated, after being recorded in earnings, to the tax incentive reserve in equity.

• Discontinuation, on a prospective basis, of creating and recording revaluation reserves as a component of equity. Companies will have an irrevocable option to: (i) maintain any balance of existing revaluation reserve as of the first day of the first fiscal year beginning on or after January 1, 2008 until its effective realization; or (ii) fully reverse the balance of existing revaluation reserve by the end of first fiscal year beginning on or after January 1, 2008.

• Requirement that for transactions involving the merger or spin-off between unrelated parties that result in the effective transfer of control, the related assets and liabilities of the entity being merged or spun-off should be recorded at fair market value.

• Elimination of the materiality parameter in determining the applicability of the equity method of accounting for investments in affiliates and subsidiaries and a new requirement that the equity method of accounting for such investments is required when management has significant influence over the investee or when the Company's direct and indirect interest in the voting capital of the investee is greater than 20% of the outstanding voting capital of the investee.

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