

A Roadmap for Going Public in Brazil (IPO)

The Dawn of a
New Decade of Growth

BM&FBOVESPA
A Nova Bolsa



BRAIN
Brasil Investimentos
& Negócios



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Introduction

Going public is one of the most important decisions for any company. After all, it is a strategic decision which forever changes the company's form of management, internal controls and level of transparency. A Public Company has access to the alternatives which the capital markets provide as sources of financing (receivables securitization fund or FIDC, debentures, equities, etc.) not available to privately-held companies, in addition to being able to use its own shares as a currency to acquire other companies. However, the process of going public can be time-consuming and presents certain unique challenges that a company should be prepared to undertake.

An initial public offering, called an IPO, is a transformational event for an organization. Receiving new partners through the market means a change of paradigm in the company's management and culture. Preparing to becoming a Public Company with shares traded on the stock exchange is as important as preparing for the "day after" going public. A company will need to meet additional requirements and continuing obligations as a public company that may require new skill sets on the part of management and employees, additional controls and changes to the business. Thinking through these requirements in advance and developing an appropriate plan is the key to a successful start to life as a public company and will reduce unexpected post-IPO issues.

As the number of companies looking to access the equity markets continues to grow, we are publishing this first edition of the guide “A Roadmap for Going Public in Brazil (IPO) – The Dawn of a New Decade of Growth”, which covers both the preparatory aspects as well as the impact of going public.

This publication contains information that a company will need when it debates whether to go public or to pursue alternate means to finance growth. The purpose of the guide is to help companies make informed decisions by addressing factors such as the advantages, disadvantages, costs, timing and alternatives to going public. It presents the process of going public in Brazil and discusses the registration and information disclosure requirements Public Companies are subject to. Finally, the guide summarizes the most important accounting and governance considerations involved in the process of going public.

We hope you find this guide a helpful and easy-to-use reference for planning and executing a successful IPO as you determine the best path for sustaining your company's growth as Brazil launches into a new decade of growth.

Sao Paulo, April 2011

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This guide is a free translation from Portuguese and is also available in Spanish in our website: www.pwc.com/br.

The Going Public Decision



1

What does it mean for a company to “go public”? To have their shares traded on a stock exchange, companies must go public, and legislation defines as a “Public Company” (“Companhia Aberta”) one which has its own securities (Shares, debentures, promissory notes, etc.) traded publicly, normally on a stock exchange. In order to become a Public Company, a company must comply with the legal and institutional requirements defined by Law (“Lei”) No. 6404/76, and listing requirements of the BM&FBOVESPA Exchange and registration as a Public Company with the “Comissão de Valores Mobiliários (CVM)” (Brazilian Securities Exchange).

The market considers that a company is fully public when its shares are issued publicly for trading on a stock exchange or organized over-the-counter market. However, in the event funds need to be raised, some companies choose to go public through a primary distribution of debentures, as investors are more willing to purchase fixed income instruments, given current interest rates in Brazil and the issuers' credit risk. Promissory notes are less convenient securities in a going public process, and are used for special cases (short-term fund raising or financial planning), when the company is already public.

The first step for a company to go public is to file a Public Company registration request ("*Pedido de Registro de Companhia Aberta*") with the CVM, which is the regulatory and supervisory body of the Brazilian capital market. Along with this request, it is common for companies to ask the CVM to authorize a sale of shares to the public, technically known as a public distribution of shares. As it is the company's first public share placement, it is called an Initial Public Offering or IPO.

At the same time the requests are being filed with the CVM, the company may request to be listed on the BM&FBOVESPA stock exchange. Only companies who obtain these registries may have their shares traded on the Stock Exchange.

What is a public offering?

An initial public offering is the event which marks a company's first sale of shares and, later, the beginning of trading of these shares on a stock exchange. This operation may occur by means of a primary distribution, a secondary distribution or a combination of the two.

In a primary distribution, the company issues new shares in the market. In this case, the seller is the Company itself and, thus, the funds received from the distribution are channeled to the company's bank account. In a secondary distribution, it is the owner and/or some of his or her current partners who sell the shares. Therefore, these are existing shares which are being sold. As the funds received go to the seller, it is he or she who receives the funds, and not the company.

Regardless of whether the distribution is primary or secondary, at this stage, the company increases the number of shareholders. The investors then become partners and equity owners of the company.

Tip

During the IPO process, companies often underestimate the requirements to complete the transaction in addition to the ongoing obligations and scrutiny of life as a public company. An early assessment of a company preparing to go public could uncover unforeseen issues, including:

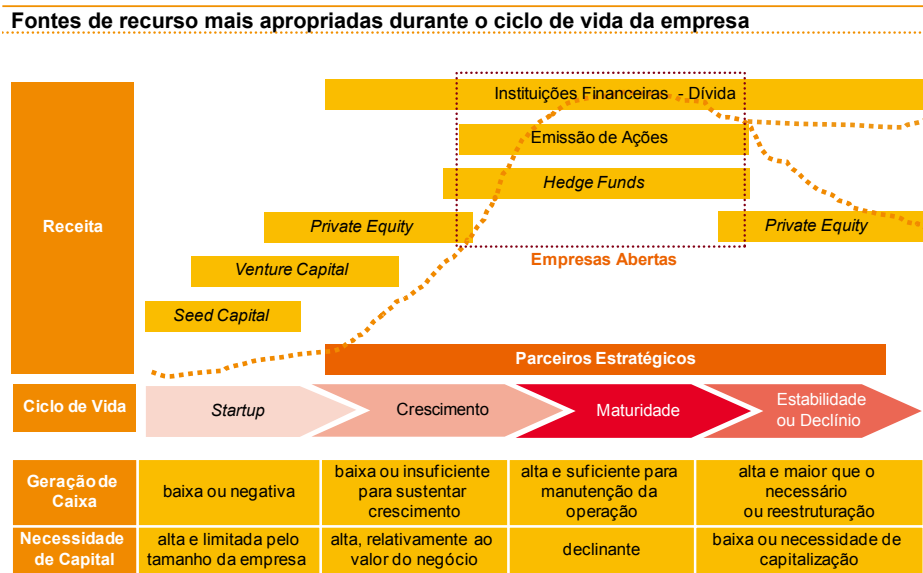
- *Financial reporting*
- *Tax*
- *Governance*
- *Internal controls*
- *Compliance*
- *Human resources*
- *Structuring (legal)*

Why should a company go public by issuing shares?

The most important question a controlling shareholder should ask is: ‘Why do I want my company to go public?’ We have listed below some of the reasons:

- Gain access to the capital market and obtain funds to finance investment projects. Financing by issuing shares, that is, increasing equity capital and admitting new partners. As long as the company has feasible and profitable projects, investors will be interested in financing them.
- Use shares traded on the stock exchange as a form of paying for acquisitions of other companies. A Public Company can use its own shares as an instrument (currency) to acquire other companies, without having to outlay cash.
- Create a reference to value the business. After going public, a company is continually evaluated by the market. Its share price in the market is an indicator of its value, as it represents an equilibrium between the perceptions of many investors, reflecting expectations regarding the Company’s future.
- Seek professionalization of its management. Going public encourages the company to professionalize itself, affecting not only top management, but all employees, and also making succession processes easier. Basically, the process is a result of legal requirements, which open the possibility of electing board members to represent the new shareholders and which require, for example, the creation of a Director of Investor Relations position.
- Offer liquidity to entrepreneurs or make it possible for investor partners to exit, such as, for example, private equity or venture capital funds.
- Improve the corporate image and strengthen relations with different stakeholders. After being listed on the stock exchange, the company becomes more prominent and gains recognition from all groups with whom it has relations. This occurs because it starts to become more visible, regularly mentioned in the media and followed by the domestic and international financial communities.

Other reasons may be private and personal. It is important to keep specific goals in mind throughout the going-public process.



Is going public the most appropriate alternative for the company?

There are a series of stages to go through during and after deciding to go public. In general, these stages are not clearly separable and, in many cases, occur simultaneously. The decision to go public precedes all other stages and is the watershed decision. In this phase it is necessary to weigh the costs and benefits of going public, in addition to evaluating if the company's profile and culture are right for it to become a company listed on the stock exchange. This may be directed by company personnel or by outside consultants. Simply needing capital does not always mean that going public is the right, or even possible, answer. There are a number of questions that an entrepreneur should ask before deciding to go public. There are several factors which influence the choice of where to raise funds and in preparing the company.

Fatores que influenciam na escolha da fonte de captação de recursos

Maturidade do Negócio	Negócios mais maduros são mais facilmente entendidos pelo investidor.
Perfil dos Fluxos de Caixa	Setores com fluxos mais previsíveis apresentam mais alternativas e menor custo de captação.
Perfil do Endividamento /Alavancagem	Uma alavancagem elevada, antes ou depois de uma aquisição pode levar à necessidade de uma injeção de capital.
Rating da Empresa	Afeta a flexibilidade para a operação de captação e seus custos.
Momento de Mercado	Os mercados de ações e dívida são cíclicos e podem estar indisponíveis durante um determinado período, não necessariamente ao mesmo tempo, pois estes não possuem uma relação direta.



Does the company have the right profile to be a Public Company?

An important aspect to be analyzed is the vocation and profile of being a Public Company. A Public Company has to provide a much higher level of information than a privately-held company does. It is to be assumed that the company, represented by its executives and majority shareholders, is culturally open to meeting the requirement of having to be accountable to the market and has the organization structure and control mechanisms to allow minority partners to follow and supervise its performance and management.

If is the company's decision to go public, after understanding the impact it will have on its business, it must adopt good Corporate Governance practices to preserve the rights of its new shareholders, identifying their immediate (payment of dividends, for example) and long-term needs (sustained growth, consolidation of its business segment, diversification etc.).

Does your company have an attractive track record?

Generally, a company that outpaces the industry average in growth will have a better chance of attracting prospective investors than one with marginal or inconsistent growth. Investment bankers wish the offering that they underwrite to be successful. Therefore, they look for companies that can meet several tried and tested criteria to boost the chances for a successful offering and good performance in the aftermarket. Here are some of the more important factors:

- An attractive product or service, preferably one with a competitive advantage and a promising market.
- An experienced management team.
- A positive trend of historical financial results.
- Favorable financial and market prospects.
- A well-thought-out, focused business plan.
- Strong financial, operational, and compliance controls.

Though some companies may not currently meet all of these criteria, investors may perceive these companies as having enormous potential for growth due to the other favorable characteristics they possess (e.g., a product or service that is highly visible, unique, or of interest to the public and capable and committed management).

Tip

Companies need to objectively assess their readiness for life as a public company. Going public requires management to be prepared to meet shareholder and market expectations from Day One. Companies will need to address ongoing compliance and regulatory requirements, operational effectiveness, risk management, periodic reporting, and investor relations.

It is difficult to fix a tarnished image.

Is your company prepared to file timely financial statements with the regulatory authority (“CVM”)?

Public companies need to file financial statements on a quarterly and annual basis with the CVM, with prescribed data requirements and required adherence to strict CVM accounting and financial information disclosure guidelines. Brazilian accounting practices applicable to the consolidated financial statements are 100% consistent with the sophisticated and demanding International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB). These financial statements are due soon after the end of each period – the due date for submission of Quarterly Information (“*Informações Trimestrais*”) (ITR) will be reduced from 45 to 30 days* starting with the first ITR of 2012 and the Standardized Financial Statement (“*Demonstração Financeira Padronizada*”) (DFP) must be submitted within 90 days after the close of the fiscal year, so there is growing time pressure to issue Public Company financial statements as compared to information presented by privately held companies. The disclosure schedule must take into account the time required to issue the auditor’s report, for Senior Management and the Fiscal Council (“*Conselho Fiscal*”)/Audit

Committee (“*Comitê de Auditoria*”) to approve the results and the Investor Relations Department to prepare its press releases.

It should be emphasized that the annual financial statements, prepared in accordance with applicable legislation, must be published in newspapers with wide circulation and in the Official Gazette (“*Diário Oficial*”) of the state where the company’s headquarters is located, within 30 days after the annual general shareholders’ meeting (“*assembleia geral ordinária*”), within the first four months of the year end.

The Reference Form (“*Formulário de Referência*”), an extensive document which covers all aspects of the company’s life, a fundamental item in the process of going public, must be updated and filed annually with the CVM during the first five months of the following fiscal year (with Section 10, which includes management comments on financial position liquidity and capital resources, and others, the so-called “MD&A”, must be made available to shareholders within 30 days after the annual shareholders’ meeting).

(*) Regulation revoked, 45 days remain.

Has the company established an efficient system of internal controls and procedures?

Management of a Public Company needs to certify the efficiency of its internal controls structure which supports the preparation of its financial statements on an annual basis, including any deficiencies and recommendations regarding that structure, with a statement signed by the President and Director of Investor Relations, pursuant to CVM Instruction N° 480. Thus, ensuring that the internal control systems, processes and procedures have been evaluated is crucial to the going public process.

Is key management competent and committed? Does the Board of Directors understand its responsibilities?

In any public offering, the quality of the leadership team is a key factor. It is vital to ensure that the board of directors as well as management has the right blend of experience and skills to establish the optimal corporate governance structure.

Tip

Alert top management about their new administrative responsibilities in presenting the “Formulário de Referência”, (“Reference Form”) among others:

- a) *The responsibilities of the Investor Relation Department, to provide all information required in the regulations, which does not exempt the issuer, controlling shareholder and other members of top management from possible liabilities.*
- b) *Declare that they have reviewed and agree with the financial statements and with the opinions of the auditors.*
- c) *Comment on the internal controls which have been adopted to ensure the preparation of reliable financial statements.*
- d) *The duty for disclosing information that is truthful, complete, consistent and not misleading to investors.*
- e) *The obligation, within its sphere of responsibility, to ensure that the issuer complies with market legislation.*

Do the benefits outweigh the costs of going public?

Upon the sale of shares, an analysis must be made as to whether or not the introduction of new investor partners will generate greater wealth to the current shareholders. In other words, if the new shareholders will make the company larger and more profitable and if the wealth of the entrepreneurs will increase even if they become owners of a smaller piece of the business.

On the positive side, advantages can be listed such as: increased liquidity of the current owners' assets, returns on investments to be made with the funds raised from the share issue, reduced Company cost of capital and improved performance with the strengthening of its institutional image and the incentives for increased efficiency.

These benefits should be compared with the costs to be incurred by the company in the going public process and in meeting the obligations to remain a Public Company. Among these costs are: the costs related to going public and the regulations of Public Company legal entities.

Comparison between the costs and advantages should consider the immediate benefit resulting from the first share issue as well as those from subsequent issues, as listing on the BM&FBOVESPA Exchange opens the way for future distributions of shares, ('follow-ons') at even more favorable conditions. As a listed company, many of the uncertainties of the investors during the IPO, due to limited knowledge of and familiarity with the Company and its business, will have been overcome.



Choosing the Listing Segment for the shares on the BM&FBOVESPA exchange

- Besides the traditional segment, the BM&FBOVESPA Exchange has other Listing Segments, the so-called “*segmentos especiais*” (“special segments”) of Corporate Governance (“*Nível 1, Nível 2, Novo Mercado and the BOVESPA MAIS*”), and each segment has specific admission requirements, related to informational disclosure (financial and otherwise), corporate structure, shareholder composition, the percent of outstanding shares and aspects of Corporate Governance. The great majority of companies launching IPOs choose the “*Novo Mercado*” (“New Market”) segment for listing. The BM&FBOVESPA also makes available to companies a special entry-level segment in the organized over-the-counter market -the *BOVESPA MAIS* segment, with requirements similar to those of the *Novo Mercado*, but adapted for smaller companies seeking gradual access to the stock market. In the case of this entry-level market, companies look to increase their exposure in the market, building a history of relations with investors and helping them to better understand the stage these companies are going through. The amounts are less than those usually raised in other listing segments. Among the differences of *BOVESPA MAIS* in relation to the “*Novo Mercado*” and other listing segments is the ability of the company taking seven years to reach the minimum of 25% of its shares which are freely traded in the market (free float). This allows for a gradual adaptation to the new condition as a Public Company, attracting and awakening interest of investors.

A company planning to go public and have its shares listed on the stock exchange should select the right market to fit its expectations. For more information on the different segments of the BM&FBOVESPA, see Section 3 – Regulations.

Tip

Beginning early to position your company to go public will increase your flexibility to take advantage of windows of opportunity. The sooner you are ready to enter the market, the more flexibility you will have to take advantage of market 'windows' and the greater issue proceeds and market valuation that favorable market conditions provide. By engaging external advisors early in the IPO process, companies get an objective and professional mechanism for assessing the state of readiness for life as a public company.

What is the right moment for my IPO?

The demand for initial public offerings can vary dramatically, depending on overall market strength, company profitability prospects, the market's opinion of IPOs of Brazilian companies, industry economic conditions, technological changes, international geopolitical conditions, and many other factors. Stock market volatility and the availability of funds for investment are important aspects to evaluate the best moment for going public, assuring the company is prepared to take advantage of the "Windows of opportunity", an important factor in the timing and success of an initial public offering. Although it is impossible to accurately forecast the market's mood, a company must consider the importance of timing and be prepared to alter its timetable.

Other Sources of Capital

If a company has a project to expand its business or plans to consolidate its market through acquisition it may want to consider other alternatives such as loans from commercial or development banks or issuing debt securities. For this form of financing, companies may be exempted from complying with certain information disclosure rules and giving new rights to shareholders, as participants will be creditors of the company and demand real guarantees and not be partners in the business.

Prós e contras das outras fontes de captação de recursos

	Vantagens	Desvantagens
Notas Promissórias	<ul style="list-style-type: none"> ▲ Baseados no relacionamento com o cliente. ▲ Estrutura flexível. ▲ Não requer Documento de oferta/prospecto detalhado. 	<ul style="list-style-type: none"> ▼ Custos dependem do crédito e relacionamento. ▼ Prazos mais curtos (até 1 ano). ▼ Exigências de garantias. ▼ Alguns tipos em moeda estrangeira.
Debêntures	<ul style="list-style-type: none"> ▲ Taxas determinadas em moeda local. 	<ul style="list-style-type: none"> ▼ Flexibilidade nos prazos (de 1 a 5 anos). ▼ Requer registro na CVM. ▼ Prospecto necessário para prazos a partir de 180 dias.
Empréstimos Bancários	<ul style="list-style-type: none"> ▲ Principal instrumento de dívida no mercado de capitais brasileiro. ▲ Prazos mais longos. ▲ Indexação flexível. 	<ul style="list-style-type: none"> ▼ Requer <i>rating</i> de crédito. ▼ Custo de estruturação relativamente alto, requer operações maiores que R\$ 100 milhões.
BNDES	<ul style="list-style-type: none"> ▲ Prazos longos. ▲ Taxas subsidiadas. ▲ Grandes volumes. 	<ul style="list-style-type: none"> ▼ Processo longo e burocrático. ▼ Exigência de garantias reais, avais, ou recebíveis, <i>covenants</i> (cláusulas restritivas).
Eurobonds	<ul style="list-style-type: none"> ▲ Prazos mais longos. ▲ Não acarreta risco cambial. ▲ Taxas préfixadas em reais. 	<ul style="list-style-type: none"> ▼ Requer dois <i>ratings</i> de crédito. ▼ Custo de estruturação alto para operações menores que US\$ 100 milhões. ▼ <i>Covenants</i>.

Pros and Cons of Going Public

Pros

- Increased cash in the case of a primary issue and/or liquidity for the partners in a secondary issue.
- Creation of a currency of exchange for acquisition or incorporation of another company
- Increased visibility, allowing for possible mergers, acquisitions or incorporations.
- Diversification of funding sources (including optimization of the debt/equity profile) allowing for execution of growth strategies.
- Making it possible to offer special remuneration to the staff with share purchase option in order to retain them.

Cons

- Significant costs related to going public disclosures and maintaining the status of a Public Company.
- Increased recurring expenses and compliance costs.
- Need to establish an Investor Relations structure.
- Need to meet specific information disclosure requirements, including significant facts which can affect shares prices.
- No turning back: taking a company private can be difficult and costly.
- Less flexibility in the decision making process and pressure for performance.
- Restrictions on insider sales.
- Vulnerability to hostile takeovers.



Preparing for a Successful Offering



2

A successful IPO requires careful planning which involves some basic initiatives. Once factors like the reasons for going public, the company's level of preparation to meet legal requirements, internal team to work in the pre- and post-IPO period, market conditions and costs have been analyzed, company executives start to work on the process itself.

Tip

Evaluate the convenience of hiring specialized consultants to manage the requirements of the IPO, and, in certain cases, meet demands for which management does not have the resources or needed expertise.

Hiring a firm to act as PMO (Project Management Office) may make the process of task management, resource allocation and schedule control of the IPO significantly easier and allow management to focus on the critical aspects of the IPO and managing the company's business. Similarly, a consultant specialized in aspects such as complex accounting issues and financial statement requirements, structuring of a business plan and projections, Corporate Governance and internal controls and others, may meet important demands in the IPO process, including supporting the preparation of the company for life as a Public Company.

The process of going public required the involvement of several external agents service providers including audit firms, law offices, investment banks, consultants and a custodian bank.

The auditors' task is to audit and/or review the financial statements, as well as evaluate if the financial information presented in the offering document is appropriate and consistent, reducing the risk of disclosing information that is inconsistent with accounting records which could lead to incorrect interpretations of the financial data contained in the offering document.

The banks are responsible for the Due Diligence and the attorneys for preparing the prospectus, as well as corporate restructurings, such as to transform a limited liability company (Ltda.) into a corporation (S.A.), changes in the company's corporate structure and organizing and structuring its corporate by-laws.

It is the banks, along with the Company, who define the terms of the IPO, such as the amount of funds to be raised, mix between primary and secondary issues, definition of the price range (share offer price), marketing of the offering, roadshow and bookbuilding ("pricing" and allotting the shares in the offering).

A specialized consulting firm is not only able to advise the Company on how to properly prepare to go public, but also to fully understand the process, its respective steps and implications. Thus, the Company will be ready to begin its relationship with the underwriter, reinforcing its ability to actively negotiate the term and, to a certain degree, lead its own IPO.

This broader advisory activity covers both an analysis and adjustment of the company's internal structure and the commitment to its business plan and strategy of placing the shares in the open market, through a primary and/or secondary issue.

With regard to the analysis and adjustment of the company's internal structure, revision and enhancement of the internal processes and structures, systems and controls, formation of committees and councils, aspects of Corporate Governance, evaluation of tax considerations and contingencies and preparation of the Company to meet stock exchange requirements, among other items, are important.

In order for the transition to take place in the best way possible, it is ideal to have partners who can advise, diagnose and map management skills before filing for an IPO.

Mapping of the areas requiring improvements helps in preparing and executing an action plan to list the company. With the growing number of offerings, investors are looking for quality and reliability.

With respect to the commitment to the business plan and strategy for listing shares, a review of possible adjustments to the business plan is very important in order to be sure that the company will be able to implement its plan as described in the prospectus, under normal market conditions. The strategy to place the shares should be prepared very carefully, considering the quantity for issue, the quantity to be allotted in a primary and/or secondary issue, whether or not there are proper conditions for a secondary offer and definition of the target public to be contacted.

A complete diagnosis mapping the tasks before and during the IPO process, as a component of the IPO Readiness Assessment, is extremely valuable in anticipating the needs and to minimize the risks of an IPO, avoiding frustration both on the part of the selling shareholder and the potential investor.

A well executed IPO Placement Strategy takes ownership of the IPO Readiness function completing all tasks and reducing the costs of the transaction, as all the basic work will have been completed, leaving the underwriter with a greatly reduced scope of activity to focus efforts on the final coordination and executing the transaction on the stock exchange.



Underwriters which can coordinate an initial public offering (IPO)

Regulations require that a public distribution be coordinated by a duly qualified financial intermediary: multiple bank, investment bank, broker or distributor. Companies usually consult with their financial advisors, but it is recommended that the company sound out more than one institution to compare commissions and the way they operate.

The lead coordinating institution (also called the underwriter), bringing together the interests of all parties involved, will perform the role of coordinator of the CVM registration procedure, offering timing and structuring, price formation process, distribution plan and organization and presentation of the operation to the market, the latter known as the Roadshow. The Roadshow is the traveling presentation made by the Company, particularly to specialized institutional investors.

A certain standard can be observed in the market between the size of the underwriter and the volume of operations. In general, brokers and smaller investment banks coordinate small- and medium-sized issues while large banks coordinate large operations. In some cases, the Company may hire more than one financial intermediary to serve as coordinator. In the event the Company selects more than one institution, one institution will need to be designated as the lead coordinator. Proposals with basic conditions and costs are issued by candidates to coordinator after a visit by their respective professionals (known as the 'Beauty show').

Tip

Besides cost, there are several aspects which the company should consider in choosing an investment bank. Some institutions may be more appropriate for certain types of operations, whether due to their size or experience in the underwriting market. Verifying the appropriateness of the intermediary to the type of operation and target public is of fundamental importance. Another relevant aspect is the credibility of the intermediary, since an institution recognized by the market reinforces the quality of the operation with its image. The underwriter's remuneration will be realized when shares are offered in the IPO or immediately thereafter (Green Shoe and Hot Issue).

Costs involved in an IPO

The various costs in raising funds through placement of shares in the capital market can be separated into six main groups:

1. **Legal and Institutional Costs:** these are costs related to legal requirements, payment of fees, annual dues, services and related items.
2. **Publication, Advertising and Marketing Costs:** these are expenditures related to the Prospectus and marketing the operation to current shareholders and potential investors
3. **Financial Intermediation Costs:** these consist of payments made for work related to coordination, possible guarantees and distribution.
4. **Attorney and Auditor Costs:** these include hiring attorneys in Brazil and abroad (practically all issues include a portion (tranche) outside of Brazil) and auditors (issuing audit reports, comfort letters and bring-down letters of the preparation on the offering documentation).

5. **Internal Company Costs:** these refer to allocation of personnel to accompany the process and setting up the internal structure to support the going public process.
6. **Consultant Costs:** these are expenditures to hire specialized consultants to provide support for the IPO Readiness process (Processes, Controls, Financial Statements, Systems Structure, etc.).

These cost groups are present with greater or lesser intensity in the different stages of the going public process. It is important to point out that on-going maintenance costs, tend to be lower, either because of the dilution of certain fixed costs or the fact that a company which is already public will require less effort in distribution, as it is already known in the market.

Develop Budgets and Measure Performance

Throughout the IPO process, underwriters will ask for financial projections and will compare a company's historical performance to its past budgets. Accordingly, a company should establish a financial planning and analysis team, which should put a budget and forecasting process in place. The company should get into the habit of preparing realistic budgets, updated forecasts, and be able to explain why variances have occurred, as a Public Company's Board of Directors has the duty among other things, to supervise actions taken by company management.

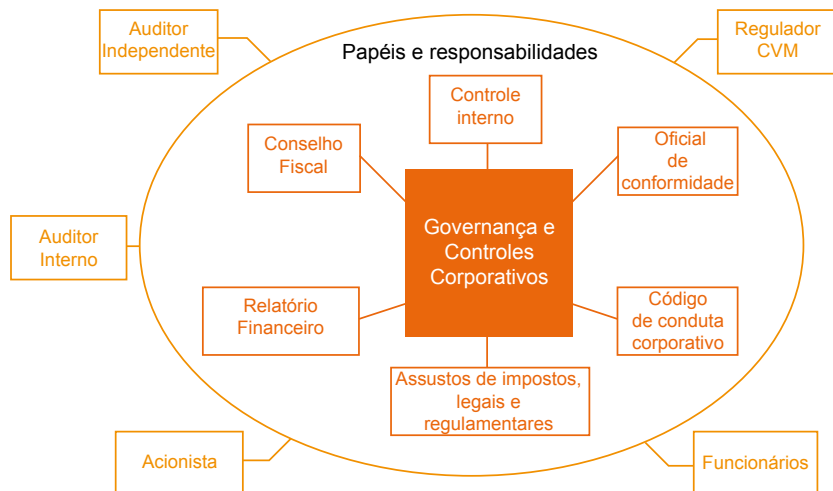
Evaluate Corporate Governance Principles and Practices

The requirements imposed by the CVM and the corporate governance aspects required by the BM&FBOVESPA in its different listing segments ("*Nível 1, Nível 2, Novo Mercado* and *BOVESPA MAIS*"), demand that companies planning an IPO make a detailed analysis of the aspects of governance related to the requirements of the different listing segments and regulatory aspects, such as the composition and structure of the Board of Directors, the need to establish other governance bodies and committees (Fiscal Council, Audit Committee), compensation practices and business with related parties and codes of ethics and conduct.

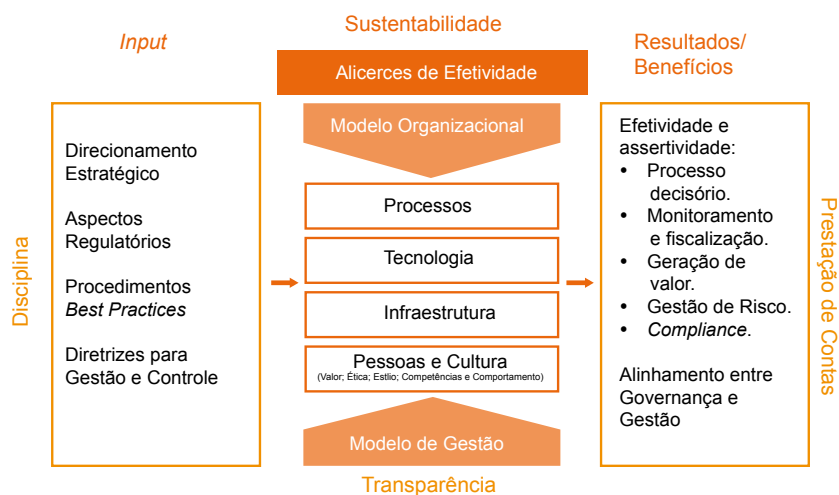
- What are the Corporate Governance issues which we have to deal with?
- Do we need to have independent members on the Board? How many?
- Are our financial statement issuance procedures and analyses sufficiently solid?
- Which Corporate Governance model minimizes conflicts and harmonizes interests?
- What representation should each shareholder have on the Board?
- Should we establish a Fiscal Council? Audit Committee? Disclosure and Remuneration Committee? Risk Management Committee?
- Who is entitled to be Chairman of the Board and Chief Executive Officer?
- What is the role of the holding company?
- Which subjects should require a special quorum to be voted on?
- Which subjects should or should not be left to be decided upon by a single shareholder in light of his or her authority?
- Should we adopt a Poison Pill?
- Do we need to adopt Proxy Voting rules?

Adequada Governança Corporativa define papéis e responsabilidades, a fim de evitar conflitos

Conselho de Administração



O que faz a diferença



Tip

Begin positioning your company early! Do not underestimate the investment required for accounting and internal controls.

If you wait until “crunch” time to have multiple-year audits, you may face two nasty surprises: the high costs of the reconstructed financial statements and figures showing the company may be performing at a level below expectations.

Assure you have audited annual financial statements, reviewed quarterly financial information, and a well documented and conservative business plan; cultivate relationships with the professionals who can and will help you, including underwriters, lawyers, and accountants.

Tip**Evaluate the process of making financial estimates**

Directors should comment on critical accounting policies which have been adopted in the Reference Form, especially accounting estimates on uncertain matters requiring subjective or complex judgments, such as: accruals, contingencies, revenue recognition, tax credits, long-term assets, useful life of non-current assets, pension plans, environmental recovery costs, criteria for recoverable costs of assets and valuation of financial instruments.

Have your Financial Statements Audited and Resolve Potential Disclosure and Accounting Issues

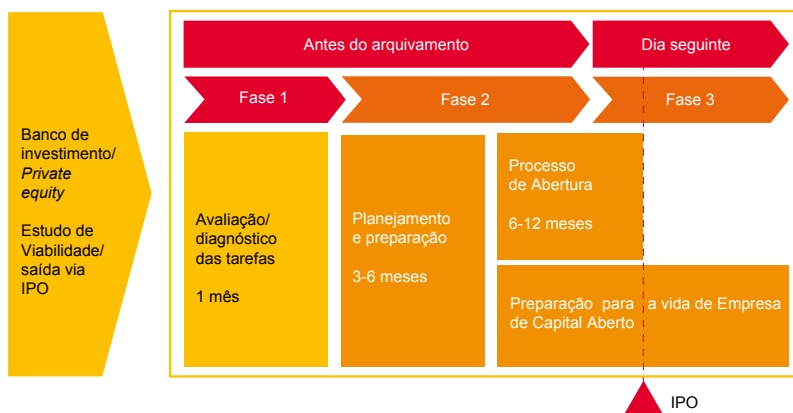
A company that wants to go public needs to have audited financial information (unqualified opinions for, at least, the last complete fiscal year and interim period, if presented), usually for the previous three fiscal years. It is easier and more cost efficient to perform audits of financial statements in the normal course of business, rather than shortly before going public. The existence of audited financial statements gives the company increased credibility. Normally, quarterly information (ITRs) (with comparative data) needs to be presented for all quarters in the current fiscal year until the application is filed. The ITRs should be reviewed by the auditors.

Tip

Develop a self-assessment or hire a specialized firm before initiating the going public process to evaluate:

- Do we have a well-constructed and attractive story?
- Do the Board of Directors and the management team have the necessary experience?
- Have we adopted high quality Corporate Governance standards?
- Do we have unqualified opinions from the independent auditors for the last three years?
- Does our accounting team have the agility and sophistication required by the CVM and the new CPC accounting standards?
- Do we need to adjust our capital and organizational structure?
- Is there need for any tax planning?
- Should we dispose of assets that will not be part of the new company to be placed on the market?
- Do we have an organization, processes and internal controls which can handle the legal aspects of compliance?
- Have we evaluated the incentive plans for management and employees?
- What should our dividends policy be?
- Have we spun-off the assets which belong only to the controlling shareholders?
- Will we have to present pro-forma information? Do the format/periods meet the regulator's requirements?
- Will we have to/can we present combined financial information?

Ciclo de lançamento de um IPO



Tip

It is critical to define the corporate structure to be listed on the market as early as possible. Restructuring operations required to separate assets, excluding partners, spinoff business or segments that will not be included in the IPO, or transfer business and segments (and the corresponding assets and liabilities) to the company before going public, in addition to segregating contingencies and optimizing tax structures, normally require a series of steps to be performed and obtaining and/or execution of evaluations, additional financial statements (with a report from the independent auditor), pro-forma financial information, etc. The time needed to finish these items can be lengthy and jeopardize the going public process if not analyzed in advance.

Identifying the Going-Public Team: The Working Group

The decision to go public can be one of the most important ones in a company's history, as it is a strategic decision which permanently changes its management process, internal controls and transparency, and one of the most challenging ones as well as its new gateway to growth and perpetuity. A company needs expert direction and assistance to stage a successful IPO.

As commented earlier, the going public process involves several agents outside the company, such as the auditors, lawyers, underwriters, and accounting advisors. However, the CVM and BM&FBOVESPA will also play a significant part in the IPO process. In choosing the advisors who will assist the company in its initial offering process, it is important to keep in mind the impact of the documentation requirements sent to the CVM and the BMF&FBOVESPA can have on the Company's registration process as a Public Company and listing of its shares for trading on the stock exchange.



Tip

Formation of a winning team based on the experience of its members in similar processes and industries is fundamental. The key people in the Working Group are:

- *The shareholders.*
- *Board of Directors and Senior Management (principally the CEO and the financial and legal areas).*
- *Company legal counsel, both Brazilian and foreign (the latter when there will also be a share offering abroad).*
- *Auditors (principal, predecessors, those of the subsidiaries).*
- *Financial intermediaries (underwriters or bookrunners), offering leaders and others.*
- *Legal counsel of the Brazilian and foreign underwriters (the latter when there is also a share offering abroad).*
- *Experts and reports.*
- *Printer.*

Sustainability

Dealing with all these items requires a significant amount of time and resources and increases the demand for necessary daily tasks for the company to continue operating.

The challenge is not over when the going public process is concluded. Once the company has listed its shares on a stock exchange, it will have to meet on-going reporting requirements. The real benefit of a properly planned process can be felt after the first 12 months from going public.

Diagnóstico - Assegurando que a empresa esteja preparada para listar na bolsa

Modelo de sustentabilidade



The Comissão de Valores Mobiliários (“CVM”)

The CVM is charged with ensuring a fair and level playing field for Public Companies and their investors. It has the authority to pursue civil and criminal prosecution against those who breach the law and regulations applicable to a Public Company.

It is a company's duty to potential shareholders to constantly monitor the drafting of the documents required for the IPO process. Companies should ensure that they completely understand all of its components and the assumptions behind those components. The outside professional companies hired to advise on your IPO should be experienced business advisors. They help companies make the final decisions; they do not make the decisions themselves. The CEO and Director of Investor Relations will be required to issue a statement as to the efficiency of the internal controls supporting preparation of the company's financial statements, as well as deficiencies and recommendations as to improvements needed to internal controls. This may result in adverse legal consequences in the event the information submitted is not accurate.

The CVM concerns itself with the thoroughness and clarity of the offering documentation ensuring that these documents are properly presented to potential investors. ANBIMA supports the CVM by reviewing compliance to norms and documentation presented in the event of subsequent primary or secondary public offerings of securities ('follow on'). Keep in mind that the CVM only regulates the vehicle used to offer a security. It evaluates neither the company nor the quality of the security. This process and the time required will be considered in the going public timetable. Nonetheless, in the event the CVM encounters errors or requests a substantial amount of explanations and/or missing information during the registration process, this could result in delays in the initial public offering.

Tip
Structure and planning in preparing the Reference Form can reduce the number of comments in the CVM review.

All information disclosed by the issuer should be written in simple, clear and concise language. Disclosure of information should be broad, equitable and simultaneous for all the market. The information should be useful for analyzing the securities the company is issuing. When the disclosed information is valid only for a specific period of time, this should be stated. Factual information should be separated from interpretations, opinions, projections and estimates. Factual information should be accompanied by reference to the sources used.



Company personnel

The degree of company personnel participation in the process of preparing the registration document frequently depends on their expertise, although outside counsel will typically play a large part in the drafting process. In any case, company personnel will have to provide the necessary information to prepare the document on a consistent basis and be actively involved in all aspects of the registration process and, principally in preparing the Prospectus.

A company should not underestimate the level of commitment a public offering will require of its staff. The process requires a great deal of a company's attention and will likely distract staff from the day-to-day operations of the business. It is important to recognize that this is common in an IPO and, in some instances, may require hiring additional staff. A team's commitment to the offering mean the difference between a successful IPO and delays due to lack of documents and/or inconsistent information.

It should be pointed out, that, to obtain a Public Company registration, the company should name one of its directors to exercise the function of Director of Investor Relations, who will be responsible for the company's entire relationship with its investors, with the CVM, with the BM&FBOVESPA and with the market in general, and be responsible for making timely and sufficient information disclosures and maintaining company registrations with the CVM and the BM&FBOVESPA as prescribed by law.

Tip

The going public process requires a considerable amount of dedication on the part of the company's principal executives, meaning that they will have less time to dedicate to their daily activities. This being the case, there is greater risk that the problems arising in the company are not solved or not enough time is spent on the going public process. Hiring experienced personnel to coordinate the process, reducing the amount of time required by Senior Management for this purpose, accounting-related tasks and preparation of Public Company registration documents and listing procedures is of fundamental importance.

Independent auditors

As strategic and technical advisors, a company's independent auditors will play a decisive role throughout the registration process. Therefore, at the start of the IPO process, a company will need to ensure that it has selected an audit firm that has:

- Experience in the process of going public in Brazil and abroad and registration with the CVM.
- Experience in the company's business segment.
- Reputation and experience with IPOs and other capital market transactions.
- Support team of technical offices abroad with experience in the Brazilian market.
- Ability to continue to service the company appropriately through its growth and global expansion.

Some of the specific services the independent auditor will provide include:

- Strategic advice in the planning stage of the process to establish a realistic plan to access the capital market.
- The necessary technical experience, both in accounting aspects as well as being able to advise the company on the IPO process.
- Guidance on identifying potentially sensitive or problematic accounting issues, financial disclosure issues, and the overall transparency of financial reporting.
- Audits of the financial statements. The process of auditing multiple year financial statements and related disclosure requirements for public offerings can be extensive. An established relationship with an auditor who knows a company's business well, coupled with thorough preparation on the company's part, should enable it to complete the process faster and more effectively, which can be crucial to the success of the offering.

- Issuing comfort letters related to the markets where the securities will be offered (Brazilian, international and U.S. models) to assist the underwriter in its due diligence efforts. This letter details certain procedures that the company's external auditor has performed at the request of the underwriter, along with other statements the auditor has made concerning the financial statements or other information contained in the Reference Form and Prospectus. Before putting together the outline for the comfort letters, the auditor needs to define the reference terms in an Arrangement Letter.
- Reading the Reference Form and Prospectus and assistance in responding to the letter with the CVM comments.

Tip

What is a Due Diligence?

It is an investigation that one would reasonably expect a diligent person to make in a target company not only in the context of a public offering of securities, but also for relevant corporate transactions such as acquiring a company.

What are the Benefits of a Due Diligence?

It assists in the preparation of the prospectus and other offering documents to clearly portray the real situation of the issuing Company and help identify possible points to be corrected in the company's structure.

What are the Purposes of the Due Diligence?

To allow for a proper disclosure and check information in the offering documents to avoid liabilities attributable under laws regulating capital markets, based on inaccurate, incomplete or false information and assist in identifying issues representing structural or substantial problems in the company to execute the operation.

Tip

By appointing key advisors early, management personnel are freed up to focus on the marketing phase of the IPO, where they can be most productive. Management will also be able to anticipate issues and avoid untimely delays, preserving the value of the IPO and enhancing the market's confidence in management, while at the same time protecting the company's brand equity.

The importance of engaging qualified, independent auditors long before the IPO cannot be overstated, particularly if a company has never had its financial statements audited before. The first audit of many emerging and expanding companies often discloses accounting and financial reporting problems that must be resolved before the registration statement can be filed.

Typically, large audit firms are structured as full-service professional firms, offering services in various lines of business (e.g., audit, tax consulting, and advice on human resources). A company's independent auditors, as well as individuals from these other lines of business, can play a valuable role as advisors in a variety of areas before, during, and after the going public process. Some of these roles include evaluating whether going public is the best alternative for a company, evaluating incentive compensation plans, addressing a company's accounting system needs and capabilities, reviewing the terms and conditions of acquisitions, and tax planning. A company may also consider consulting an accounting firm that can provide IPO Placement Strategy and financial reporting advisory services.

Professional Advisors

A professional consulting firm can offer advice and assistance to organizations with limited experience in IPOs and executing capital markets transactions by providing an objective view of the critical issues involved in accessing a particular capital market ('Which Markets?'). Some of the principal ways in which a consulting firm can assist a company going through a capital-raising transaction include:

- **Project management advice** - before beginning the IPO process, companies must define the transaction requirements and the roles and responsibilities of management and their advisors. Failure to do so could jeopardize control and the effective management of the transaction.
- **Advice on information and process management** - controls, processes, Corporate Governance, closing of accounts, disclosures, preparation of financial statements, etc.
- **Strategic advice** - companies must evaluate alternative approaches and establish a realistic plan to access the capital market.
- **Problem solving** - the consulting firm can advise and assist with complex financial reporting and deal execution matters.
- **Technical advice** - the consulting firm should have extensive experience with complex capital market transactions, as well as highly-complex accounting issues.

- **Post-transaction services** - a knowledgeable consulting firm can provide advisory assistance with respect to:
 - Implementing the new financial reporting protocols necessary to meet public company reporting requirements, along with ongoing technical advice related to these requirements:
 - Corporate Governance.
 - Investor relations.
 - Adoption of new accounting, reporting and disclosure standards.
 - Training accounting and finance staff.
 - Compliance.
 - Guidance in putting together pro-forma information, combined financial statements, carve outs, consolidations, currency translations and accounting practices and others.

Companies may hire transaction and advisory support services with a second audit firm, not restricted by independence norms.



Regulations

3

There are many issues related to regulation of the Brazilian capital market, ranging from aspects of Corporate Governance required by the BM&FBOVESPA to CVM regulatory questions and requirements, including disclosure of financial information which must be resolved in an initial public offering process or not, and complied with constantly and periodically while the Company's status is that of a Public Company.



The “Comissão de Valores Mobiliários” (Brazilian Securities Commission) or CVM

The CVM is an autonomous federal government body linked to the “Ministério da Fazenda” (Finance Ministry), whose purpose is to act as regulatory and supervisory agent of the Brazilian capital market, disciplining, supervising and developing the securities market. In order to achieve this objective, as part of its responsibilities, the CVM has the following functions:

- Ensure the efficient and normal trading of the shares and over-the-counter markets.
- Protect security holders against abuses and illegal acts by management and controlling shareholders of companies and security portfolio managers.
- Avoid or prevent fraud or manipulation designed to create artificial conditions of demand, supply or prices of securities traded in the market.
- Ensure access to information on traded securities and the companies issuing them.
- Ensure observance of equitable commercial practices in the securities market.
- Stimulate savings and investment in securities;
- Promote the growth of efficient trading operation in the stock market and stimulate permanent investments in capital of public companies.

Among the responsibilities of the CVM as a regulatory body, is to ensure that the investing public has access to information of companies which have issued (or are in the process of issuing) securities regulated by Instruction (“*Instrução*”) N° 480.

CVM Instruction N° 480 requires that the company prepare the “Formulário de Referência” (Reference Form), a document whose purpose is to furnish the information required by the regulatory body for companies in the process of going public and registering with the CVM. After the IPO, the listed company will continue with the obligation to file the Reference Form annually or more frequently, whenever any information on the form needs to be updated. Among the more relevant information required by CVM Instruction N° 480 is the following:

- Statement by the Company President and Director of Investor Relations that they have reviewed the Reference Form as to the exactness of the information and compliance with the requirements of Instruction N° 480.
- Information on the company’s independent auditor, including compensation and reasons in the event of any change in independent auditor.
- Selected financial information on the company’s net worth, assets, results and shareholder structure.
- If applicable, any non-accounting (non-GAAP) disclosures, reconciliation to the appropriate accounting measure of results and reasons why management believes that the non-GAAP measure presented better represent the company’s performance.
- Earnings distribution policy, including rules, frequency and possible restrictions on dividend distribution.
- Information on the company’s level of debt, including its debt ratio and management’s explanation as to why this index is appropriate to correctly understand the company’s financial situation.
- Information on guarantees given.
- Risk factors which could affect the decision to invest in the company, related to: (i) issuer (company), (ii) its controlling entity or controlling group, (iii) its shareholders, (iv) its subsidiaries and sister companies, (v) its suppliers, (vi) its customers, (vii) sectors of the economy in which the issuing company operates, (viii) regulations in the sectors in which the issuing company operates, and (ix) the countries where it operates.

- Information on pending legal, administrative and arbitration processes involving the issuer/company and its subsidiaries.
- Quantitative and qualitative information on market risks, including the issuer's market risk management policy, considering: (i) risks, (ii) strategy, (iii) organizational structure, (iv) instruments and parameters used and (v) appropriateness of the internal control structure.
- Information on the principal corporate events.
- Information on the issuer's/company's activities including products and services marketed and information by business segment.
- Information on the concentration of credit risk.
- Information on the relevant effects of government regulations on the issuer's/company's activities.
- Information on the business group in which the issuer is classified, including: (i) direct and indirect controlling entities, (ii) subsidiaries and sister companies, (iii) equity participation in other companies in the economic group, and (iv) jointly-held companies.
- Information on significant non-current assets for the issuer's/company's activities.
- Management comments on: (i) capital structure and economic and financial conditions, (ii) ability to honor financial commitments, levels of debt and sources of financing; (iii) operating results of the issuer/company (revenues and costs/expenses); (iv) key accounting practices and changes in accounting practices; (v) degree of efficiency, deficiencies and recommendations on the internal control structure supporting the preparation of the financial statements.



- Information on where the proceeds from the notes and securities will be applied ('use of proceeds').
- Information on the issuer's/company's business plan including quantitative and qualitative information about investments.
- Information on the issuer's/company's administrative structure, including the different bodies and committees which have been installed, their composition and how they operate.
- Personal information on members of management, Board of Directors and the Supervisory Board.
- Information on management compensation; the issuer's/company's human resources; the controlling entities, transactions with related parties.
- Information on the issuer's/company's capital shares and securities, including significant changes and repurchase and negotiation of securities policies.

In addition to this information, a company in the process of going public must present:

1. Audited financial statements for the last three fiscal years or audited financial statements of the company since it was formed, in the event that it has not been in existence for more than three years, as per the DFP Form (“*Demonstrações Financeiras Padronizadas*”- Standardized Financial Statements).
2. Audited financial statements prepared especially for the purpose of registration with the CVM if applicable, in the event of significant changes in the issuer’s asset and financial structure.
3. Interim financial statements subsequent to the closing of the last fiscal year, preferably coinciding with the closing of the most recent quarter of the current fiscal year, no more than 120 days before the registration request date, using the ITR Form (“*Informações Trimestrais*” – Quarterly Information).

After obtaining the CVM registration, every year within 90 days after the annual balance sheet date, Public Companies must submit the information required on the DFP Form, audited financial statements prepared in accordance with the accounting practices adopted in Brazil (individual financial statements) and prepared in accordance with the international accounting standards (“IFRS”), which are consistent with the accounting practices adopted in Brazil for consolidated financial statements as promulgated by the Comitê de Pronunciamentos Contábeis - CPC (DFM Form) and interim financial statements (ITR Form), the latter being within 30 days after the close of the quarter (starting with the first quarter of 2012*). In addition, the Reference Form must be submitted annually within five months after the close of the fiscal year.

Certain financial information may be included in the IPO process which, even if not required by the regulations, may become necessary to improve the quality of the information provided to potential investors, for the purpose of promoting the offering by giving the investor a better perception of the company’s position and track record of its operations.

(*) See page 12.

This information may include supplementary financial statements (combined, individual) and pro-forma financial information (which demonstrate the impact of a transaction using historical numbers and assumptions directly related to the transaction or to transactions covered in the pro-forma information). Although defining the need to disclose this information necessarily involves issues in the investment market, often the definition of the form and preparation requirements depends on comprehensive analyses which require expertise in complex accounting questions and information disclosure strict CVM rules apply.

In this context, an independent auditor or consultant with experience in complex capital market transactions can be of great value to support the company in analyzing the requirements and implications related to the preparation of this information.

The BM&FBOVESPA

The BM&FBOVESPA S.A. – “*Bolsa de Valores, Mercadorias e Futuros*” (Stock, Mercantile and Futures Exchange) was created in 2008 upon the merger between the “*Bolsa de Mercadorias & Futuros* (BM&F)” (Mercantile and Futures Exchange) and BOVESPA Holding (BOVESPA). Together, the companies form one of the world’s largest exchanges in terms of market value, the second largest in the Americas, and the leader in Latin America.

As the only significant stock exchange operating in Brazil, it is the BM&FBOVESPA’s responsibility to establish requirements to admit companies’ securities (preferred or common shares, debentures, etc.) for trading on the exchange. In fulfillment of this responsibility, in 2000 BM&FBOVESPA established four different shares listing segments, with gradually increasing Corporate Governance requirements without eliminating the other obligations and rights established by current legislation. Currently the “*Regulamento de Registro de Emissores e de Valores Mobiliários*” (Regulation for Registration of Issuers and Securities) of the BM&FBOVESPA determines that companies making a public distribution of stock for the first time (IPO) and listing on a stock exchange should at least meet the 1st Level (*Nível 1*) of Corporate Governance rules.

	BOVESPA Mais	Novo mercado	Nível 2	Nível 1	Tradicional
Minimum Percentage of Shares Traded on the Market (free float)	25% free float by the seventh year listed or minimum liquidity conditions	At least 25% free float	At least 25% free float	At least 25% free float	No specific rule
Characteristics of the Shares Issued	Only ON (common) shares may be traded and issued, but the existence of PN (preferred) shares is permitted	Only ON shares are allowed	ON and PN shares (with additional rights are allowed	ON and PN shares are allowed	ON and PN shares are allowed
Board of Directors	Minimum of three members (as prescribed by law)	Minimum of five members, at least 20% of which must be independent	Minimum of five members, at least 20% of which must be independent	Minimum of three members (as prescribed by law)	Minimum of three members (as prescribed by law)
Concession of Tag Along rights	100% for ON shares	100% for ON shares	100% for ON shares 80% for PN shares	80% for ON shares (as prescribed by law)	80% for ON shares (as prescribed by law)
Adoption of the Market Arbitration Chamber	Mandatory	Mandatory	Mandatory	Optional	Optional

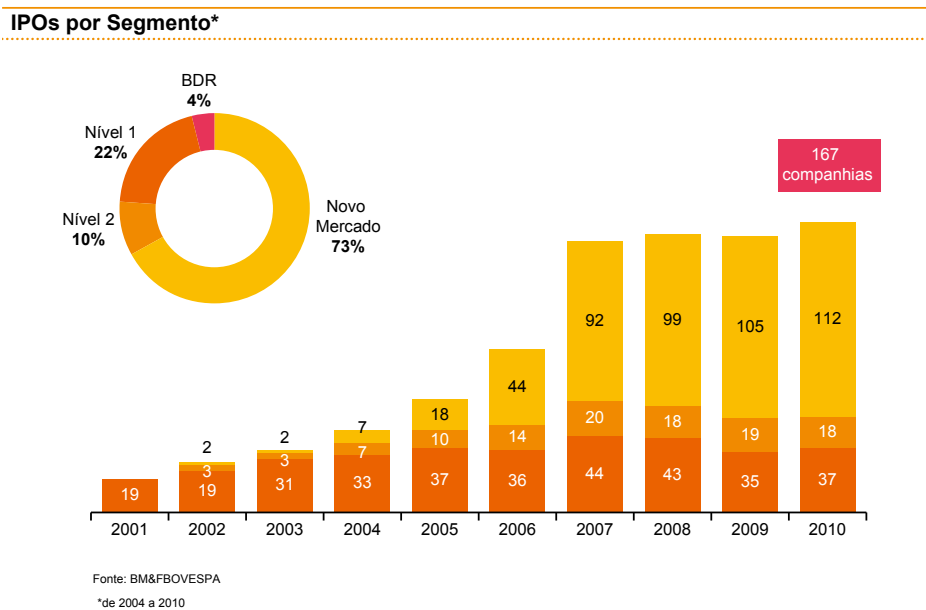
The *Novo Mercado* segment was implemented by the BM&FBOVESPA with the objective of increasing the confidence and to encourage investors to purchase shares in companies respecting their rights. On the Stock Exchange, the “*Novo Mercado*” is a special segment in which only shares of companies committed to the Corporate Governance practices that increase companies’ transparency and provide for greater alignment among the interest of all shareholders (majority and minority). These commitments are established in a contract signed with the BM&FBOVESPA.

Among the obligations assumed by companies listed on the “*Novo Mercado*” segment, we highlight the following:

- Extending the same conditions obtained by the controlling shareholders when control of a company is sold (Tag Along rights) to all shareholders.
- Issuing only common shares, giving all shareholders voting rights.
- Holding a public tender to acquire all outstanding shares, at least at book value, in the event the company goes private or cancels its trading registration in the *Novo Mercado* segment.
- Board of Directors with at least five members and uniform two-year terms, with possibility of reelection. At least 20% of the Board of Directors must be independent, as defined in the Regulations for listing in the “*Novo Mercado*” (“*Regulamento de Listagem do Novo Mercado*”).
- Improved corporate disclosures, including: the number and characteristics of the securities issued by the Company and held by the Controlling Entity, Management (Board of Directors and Senior Management) and Fiscal Council, as well as monthly changes in these positions.
- Holding of a public meeting, at least once a year, with investment analysts and anyone interested in discussing company performance and prospects with its executives.
- Presentation of an annual calendar, containing the schedule of corporate events, such as shareholder meetings, disclosure of results, etc.
- Disclosure of the terms of the contracts signed between the Company and related parties.
- Maintenance of a minimum percentage of shares outstanding, representing 25% of the Company’s capital shares.
- Adoption of mechanisms favoring capital structure dispersion whenever there are public distributions of shares.
- Joining the Market Arbitration Chamber to settle corporate disputes.

In the “*Novo Mercado*” segment, in addition to potentially being better received, there is a clear tendency for an investor to give a higher value to the company’s shares. Thus, the cost of raising capital is lower and it is easier to bring closer the price current partners are willing to sell their shares in a public offering to that which the market is willing to pay for them. Several theoretical and empirical studies confirm that the cost of capital for companies with good Corporate Governance practices is lower.

The following graph shows that the great majority of the IPO’s taking place on the BM&FBOVESPA exchange between 2004 and 2010 were listed in the “*Novo Mercado*”. A good number of companies that listed their shares in the “*Nível 2*” (“*Level 2*”) segment of Corporate Governance, do so for regulatory reasons and attributed similar rights as those required by the *Novo Mercado* segment.



The Process of Going Public

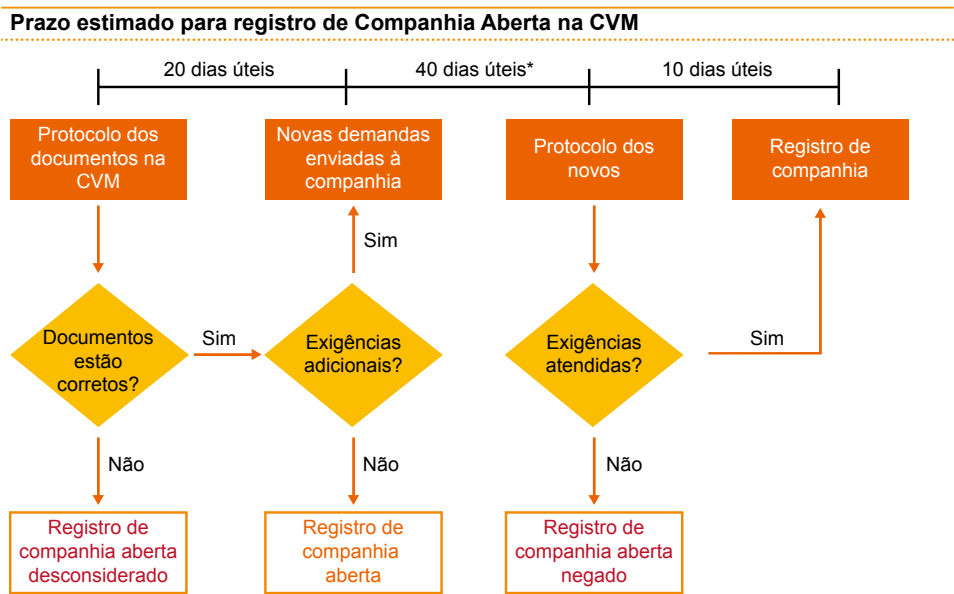
4

The most successful IPOs are launched by businesses that use good Corporate Governance practices well in advance of the actual IPO and are able to take advantage of the so-called “market windows”. These businesses have a relatively smooth process of going public, and they quickly transition to life as public companies.

Besides the preparation aspects discussed earlier, the going public process itself involves the following steps:

- **CVM Public Company Registration Process**

The first formal procedure for a company to go public is the request to register the company with the CVM as a “Public Company” pursuant to CVM Instruction Nº 480 covered earlier. The following table illustrates the phases and estimated time required to obtain registration as a Public Company with the CVM.



*O prazo pode ser prorrogado por mais 20 dias úteis mediante solicitação.
Observação: A CVM poderá interromper a análise do pedido de registro uma única vez, a pedido do emissor, por até 60 dias úteis.
Fonte: Apresentação BM&FBOVESPA

- **The Public Share Offering Process**

Together with the Public Company registration request, it is common for companies to also request the CVM to authorize sale of shares to the public, technically known as a public distribution of shares, which will result in the initial public share offering. This registration request is regulated by CVM Instruction N° 480 and, after preparing the required documentation, such as the public distribution prospectus, and passes through several stages.

In preparing the documentation required for Public Company and public offering registration, both the (underwriters) - and legal counsel have responsibilities to the CVM and the capital market regarding the information provided. In order to certify that the information in the documentation is consistent, before formal submission of the documents, a Due Diligence is performed by the underwriters and their legal counsel involved in the process.

An important consideration concerning the offering process is that, despite the fact that the registration and listing occur in the Brazilian market, the great majority of IPOs include the offering

of securities in international markets, normally the United States and Europe, however, without the corresponding registrations and listings of the securities with the regulatory bodies and exchanges in those markets, due to the waiver of registration of security offerings by non-U.S. issuers occurring with limited placement efforts.

Offerings not registered in the international markets are done using Rule 144 A, in the case of the U.S. market and Regulation S, in the case of other international markets. Differently from an offering in the Brazilian market, the securities are offered only to “Qualified Institutional Buyers” (or QIBs). Considering that the majority (historically close to two-thirds) of the proceeds obtained in IPOs come from foreign investors, it is critical to give due attention not only to preparing a document in English, equivalent to the Reference Form and Public Distribution Prospectus (“*Prospecto de Distribuição Pública*” (the “Offering Memorandum” or “Offering Circular”), as well as the roadshows directed to foreign investors abroad.

- **Listing Process with the BM&FBOVESPA**

At the same time a company files a request to register with the CVM, it may request to list its shares for trading on the BM&FBOVESPA exchange. Only registered companies may have their shares traded on the stock exchange. All documents officially submitted to the regulatory body (CVM) must be officially submitted to the BM&FBOVESPA, and this information is reviewed both by CVM and BM&FBOVESPA.

When companies are listing their shares for trading on the BM&FBOVESPA they should define which of the special Corporate Governance segments to join: “*Nível 1*, *Nível 2*, *Novo Mercado* or *BOVESPA Mais*”, with the requirement for new companies of at least “*Nível 1*”.

The choice of listing segment is associated with the type of asset to be offered, for example, companies choosing the “*Novo Mercado*” segment, can issue only common shares, thus companies of regulated sectors with restrictions on shareholder control and preferred shares may opt to list on “*Nível 2*”.

The change in the Company’s by-laws and modification to the Board of Directors are important steps in this process. All privately-held companies, whether limited liability or corporation, must change their by-laws to include share rights, the authority granted at shareholders’ meetings and the Board of Directors. In the event the company chooses to list in the “*Novo Mercado*” segment, the by-law changes will reflect capital shares composed only of common shares, Tag Along rights in the event of sale of controlling interest and the Board of Directors made up of five members, 20% of which must be independent, to meet the rules required for listing in the “*Novo Mercado*” segment. With regard to the composition up of a Board of Directors, corporate legislation only requires that a Public Company have a Board of Directors composing three members, with no requirement for any independent member.

Execution timeline

It is recommended that businesses begin their preparations for becoming public companies well before they launch the IPO process. After deciding to go public, preparation of the company is probably the longest stage. A typical process including both preparation and the IPO process itself can take, on average, between eight months and three years. Advance preparation is a key success factor that allows for a smooth and efficient execution process.

If the company does not have audited financial statements, the process may take three years (in the event it is not practical to audit prior years), as the market requires three years of audited statements. In this case, the simplified process would be as follows:

Prazo “ideal” para contratação - antecedência em relação ao IPO



The Underwriter, together with the Company, defines the characteristics of the IPO, such as the amount of funds to be raised, the split between primary and secondary distributions, definition of the price range (share offering price), marketing the offering, roadshow and bookbuilding (precification and placement of the shares in the offering).

An IPO Placement Strategy can assist the company in negotiating with the Underwriter the terms and timing of the IPO.

Once a company reaches a preliminary understanding with its underwriters, the IPO process starts in full force, and the marketing of the offering begins. This is the period during which a company is subject to CVM guidelines regarding the publication of information not in the Public distribution prospectus. The so-called “quiet period” is required by CVM Instruction N° 482 and begins 60 days before the offering registration request, with the purpose of making sure information on the company reaching potential investors is consistent.

During this phase of process execution, company management and employees need to pay attention to four tasks, which have to be executed:

1. Preparing the Reference Form and other documents required in the offering (Prospectus, financial statements, etc.).
2. Investigation of the company's affairs, in light of the Due Diligence procedures on the part of Underwriters' counsel.
3. Monitoring of market conditions for pricing purposes.
4. Preparation of marketing materials for the road show.

Tip

Though you may be enthusiastic about your IPO, do not disclose any information about it that is not included in the public distribution prospectus during the “quiet period”.

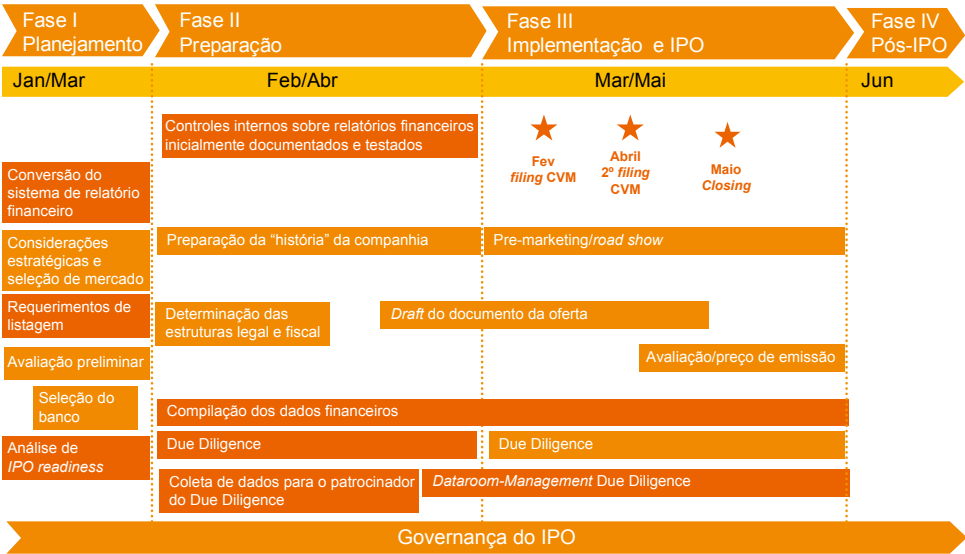
The CVM may penalize the company in the event information not contained in the prospectus and which could have a positive effect on the company's price is disclosed. Keep confidential company information confidential. Spreading news about the company to friends, family, and even in casual conversation to the person next to you on an airplane can be a real temptation - and can spell real trouble.

In general, excluding the company's preparation phase before formally beginning the going public process (formal submission of the offering request to the CVM and BM&FBOVESPA), from the time the company decides to go public until it receives the proceeds from an offering is from three to six months. This period depends, among other things, on how prepared the company is relative to its internal controls needed to generate consistent information, the availability of the information that must be disclosed in the offering documentation, and market conditions.

Tip
Of course, you are not the only source of information. Keep in mind that the financial press, will time its articles according to its interests, which may not be in the best interest of your offering. Excessive attention during the quiet period can only hurt, and managing public relations should not be left to chance.

Work with your experienced public relations firm and the CVM if necessary.

Indicativo IPO - cronograma



Preparing the Reference Form

Preparing and filing the Reference Form is a relatively complicated, time-consuming, technical process requiring substantial planning and coordination. It involves providing the information specified in the Reference Form and complying with the applicable CVM rules and requires a great deal of effort by the management team, lawyers, and independent auditors to position a company as accurately and positively as possible.

It is important to point out that disclosure of negative news regarding the company, to the market in which the company operates is necessary as well as any other factors which could affect the Company's activities, as well as the actions taken to mitigate the effects of these risks on the Company's results. These factors, as well as any possible positive points, should be expressed clearly and completely, so as to give investors the most accurate scenario possible of the risks which could reasonably be expected when investing in the Company.

Tip

Be realistic

The Risk Factors section should portray in detail and realistically all that could go wrong with the economy, the business segment and the company specifically.

Careful disclosure of these risks without addressing mitigating factors (but also without exaggeration!) represents an "insurance policy" (without guarantees) for the company and its Directors. Unrestricted disclosure of the risks to investors provides a defence against charges that they were not properly informed about the risks of the Company and of the offering.

Tip

Structure and planning in preparing the Reference Form can reduce the number of comments from the CVM, ANIBIMA and BM&FBOVESPA review. All information disclosed by the issuer should be written in simple, clear, objective and concise language. Disclosure of information should be broad, equitable and simultaneous for the whole market. The information should be useful to evaluate the securities issued by the company. Whenever the information disclosed by the issuer has a limited shelf-life, such period should be indicated. Factual information should be distinguished from interpretations, opinions, projections and estimates. Factual information should be accompanied by the respective sources.

The company should provide its complete profile in the Reference Form, covering aspects such as the strategy of its business, products, processes, customers, risks, contingencies, financial and economic situation, etc. Section 10 of the Reference Form also includes the Management Discussion and Analysis (MD&A) section and line-by-line analysis of the company's Income Statement and Balance Sheet.

It is relatively common for problems encountered in the process of preparing documents and required information to jeopardize the timeline for going public, due to delays to the scheduled date to complete the Reference Form and other offering documents. For this reason, it is fundamentally important that the whole team is very familiar with the requirements related to the going public process and informed as to the agreed deadlines, that the different areas of the company are engaged in the process and make the non-accounting information available and that the accounting department is prepared to generate the required information on time.

O que você precisa apresentar?

IFRS/CPC Demonstrações Financeiras	Dois balanços consolidados (três anos no caso de primeira adoção de IFRS/CPC)	Três anos da demonstração do resultado
	Três anos de fluxo de caixa e DVA	Opinião dos auditores sem ressalva
Prospecto/ Formulário de Referência	Descrição do negócio	Liquidez e Recursos de capital
	Procedimentos legais	Detalhes da emissão
	MD&A	Administração

Performing Due-Diligence Procedures

The Due Diligence procedures involves an investigation of the company and its management by the underwriter and their legal counsel, including a visit to company installations, analysis of significant agreements and contracts, financial statements, income tax returns, minutes of meetings of Senior Management, Board of Directors and Shareholders' Meetings and performance of several KPIs of the company and the business segment in which it operates, among others.

The Due Diligence procedures also include a complete review of the Reference Form by all parties involved in its preparation to ensure that there are no errors, omissions or inconsistencies.

During the Drafting Sessions of the Reference Form, the entire IPO team carries out procedures to provide a reasonable basis for believing that, as of the effective date the Public Company registration, the Registration Form and Prospectus contains no significant untrue or misleading information and no material information has been omitted. Participants in the IPO process may be held responsible for any significant errors or omissions in the registration statement. The Due Diligence serves as the primary defense in any actions brought against the parties, other than the issuer.

A company's attorneys and its underwriter's attorneys will also distribute questionnaires to the directors and officers, asking them to analyze, confirm and comment on the information contained in the Reference Form draft.

In addition, as part of their due diligence procedures, the underwriters will request comfort letters from the company's independent auditors related to information that appears in the Reference Form and Prospectus and on events subsequent to the audit opinion date. It is common for underwriters, through their legal advisors, to request comfort on as much information as possible. Auditing standards allow auditors to provide comfort on information extracted from accounting records that are subject to the company's internal control. Generally, the more information the underwriters seek comfort on, the more expensive the process becomes. For information not subject to a comfort letter from the auditors, the underwriter will request "Back up" documents. For this reason, and to avoid any misunderstandings and undue time delays, it is important that the company, the auditors, and underwriters agree, in the early stages of the registration process, on the information on which the auditors will be giving comfort.

The comfort letters (prepared individually for the Brazilian, international and American markets) are required on the date of the Pricing, and Closing, and on the date of the supplementary offerings (“Green Shoe” or “Hot Issue”), if that is the case.

Generally, two comfort letters are issued to the underwriters, one at the time the underwriting agreement is signed (generally the date on which the pricing was determined) and the others (an updated letter or Closing or Bring-down letter) at the closing date. After the Reference Form is filed, before it becomes effective at which time the principal underwriter holds a due diligence meeting (or conference call), the so-called “Bring Down Call”. The due diligence meeting is attended by the principal underwriter and often by members of the underwriting group, as well as by the company’s principal officers and legal advisors, the underwriter’s legal advisors, and the independent auditors. At this meeting, the members of the underwriting group are afforded the opportunity to update aspects of the due diligence on the proposed offering in that they may ask any questions concerning the company and its business, products, competitive position, recent developments in finance, marketing, operations, and future prospects, as well as asking if there has been any relevant change affecting the company between the Pricing date and the meeting date.

Tip

There are numerous risks for slippage to occur during the IPO process. Some of it may be unavoidable, but strive to maintain your timetable as closely as possible. For each unscheduled delay, your management team must balance potential costs (new required interim financial information and comparative periods required, a missed market window, or a less enthusiastic underwriter) against the costs of hasty decisions (expenses or problems with the CVM).

Filing and CVM Review

When the Reference Form and other offering documents, including appendices have been completed, they are submitted to the CVM by electronic data transmission and in printed form.

Once filed with the CVM and BM&FBOVESPA, the registration forms are processed and reviewed by the Staff of the CVM's "*Superintendência de Relações com Empresas*" (Company Relations) and by the "*Superintendência de Relacionamento com Emissores*" (Issuer Relations) at the BM&FBOVESPA. This group has 20 working days to perform the initial analysis and issue comments on the offering documents (registration request, Reference Form, Prospectus and principally the DFP and ITR). The CVM and BM&FBOVESPA review the documents to determine whether there is full and fair disclosure, particularly to determine whether or not the document contains misstatements or omissions of material facts. However, the review made by the CVM and BM&FBOVESPA cannot be relied upon to assure the accuracy or completeness of the data.

The review of the financial data is performed by an analyst from the CVM and another from the BM&FBOVESPA, who read the entire Reference Form, Prospectus and the DFP and ITR forms and other data contained in the offering documents to verify if the information is consistent and clear. These analysts may also refer to publicly available annual and interim reports, the company's website, newspaper articles, and the Internet for information regarding the company and its industry. This review is primarily directed at the financial statements, other financial data, and the independent auditor's report. This analysis focuses on aspects of the documental and legal requirements, required disclosures, financial statements, other financial data and the independent auditor's report. Its purpose is to determine whether the data complies with CVM and BM&FBOVESPA regulations and with applicable accounting standards, as well as with the various CVM interpretations and policies, information disclosure and rules for listing assets on the BM&FBOVESPA.



Maintaining open communication with the CVM and BM&FBOVESPA helps to speed up the registration process. To save time, the company's legal advisors generally request a preliminary meeting with the CVM at the beginning of the process and maintain close telephone contact with the CVM Staff while the registration statement is being reviewed. As a general rule, the company's legal advisors, management and other members of the team normally ask for a meeting with the BM&FBOVESPA Board to present the company and the planned timeline, before listing.

The offering documents must be complete, and opinions and reports signed at the time they are submitted in their final versions, except for information which depends on implementation of the offering (number of shares and issue price, for example) and the requirements related to the financial statement periods should be met. At times, the CVM has received a number of incomplete registration statements in an attempt to "get in line" for the review process. Normally the CVM will not review registration requests with incomplete documentation. If a registrant believes there are extenuating circumstances and the CVM should review an incomplete filing, the matter should be approved by the CVM prior to submission.

Tip

The norms of conduct (quiet period and waiting period) are also to be applied to subsidiaries, controlling entities, jointly-held companies and other companies. Periodic or special information should be provided during the quiet period. The period for abstaining from making declarations in the media should begin 60 days before the formal submission of the registration request to the CVM (please consult your legal advisor).

The Quiet Period and the Waiting Period

With the purpose of creating an active market for the company's securities, the CVM, through its Instruction N° 400, established the so-called quiet period which runs from the date of the first meetings for the offering project are held until the closing announcement is submitted to the CVM. During this period, the company, its management, as well as controlling shareholders and other offering participants, are prevented or restricted from disclosing information about themselves and also about the offering, except information that is necessary and required by law.

After formal submission of the registration request and other offering documents, the waiting period takes effect and remains in force until the closing announcement of the offering is submitted to the CVM. During this period, the Company, its controlling shareholders, management and other offering participants are not permitted to trade any securities issued by the Company or other instruments derived from them. There are certain exceptions to these rules, related to activities needed to conclude the offering, such as price stabilization operations and also operations involving sale of assets which are the object of a firm liquidation guarantee, and other cases described in CVM Instruction N° 400. During the waiting period, the underwriters may accept "indications of interest" from potential purchasers, but no actual sales can be made until after the effective date.

Responding to the CVM Comment Letter and Preparing the Response and Amended Reference Form

After review of the registration form, the CVM typically issues a letter that sets forth questions, possible deficiencies, and suggested revisions. The BM&FBOVESPA also analyzes the documents and makes its suggested revision in a meeting with the company's attorneys.

Submission of a carefully prepared Reference Form usually limits the number of comments included in the comment letter. While differences of opinion sometimes exist as to the propriety of a particular comment or request, the objective of the CVM is to add credibility to the process focusing on protecting the investor and the market in general.

Each comment in the CVM's letter needs to be addressed in a response letter which must accompany the amended Reference Form. If revisions are necessary, they are made on a corrected Reference Form that is also filed electronically.

The CVM may issue further comment letters which should also be resolved and answered in writing before the registration request can be considered as final.

In addition, significant developments often occur during the period subsequent to filing the initial Reference Form and prior to final CVM approval, and these must be reported. If a development is materially adverse, for example, it could obviously affect negatively the offering. Conversely, a positive development, such as the favorable settlement of a major pending lawsuit, might have a positive impact on the offering. In other words, any interim developments that materially affect a company and its prospects must be disclosed via amendments to the initial Reference Form.

The Preliminary Document

The preliminary documents, normally the final draft of the Prospectus and the Reference Form and, in the event of an international tranche, the Offering Memorandum or Offering Circular, may be sent to interested institutions or persons prior to the effective date of the offering. In the case of the Offering Memorandum or Offering Circular this document (which has a red stripe on the side of the cover) is known as the Red Herring. These preliminary documents are a key tool in the lead underwriter's ability to form an underwriting syndicate, the forming of various brokerage companies that will distribute the shares, and set prices (Book Building). Although companies may occasionally print and distribute the preliminary prospectus prior to receipt of the comments from the CVM, the Red Herring is generally not printed until the CVM comments have been received, reviewed, and incorporated into the Prospectus and the Reference Form.



Tombstone ads

Companies may place tombstone ads in periodicals announcing the offering and its amount, identifying certain members of the underwriting syndicate, and noting where and from whom a copy of the company's prospectus may be obtained. Tombstone ads are not intended to be a selling document; their main purpose is to assist in locating potential buyers who are sufficiently interested in the security being advertised to obtain a copy of the Prospectus and Reference Form. Tombstone ads may be published once the Registration Request has been filed.

Nonetheless, it is recommended that the tombstone ad be published after the CVM has issued its comments on the Prospectus and the Reference Form.

Tip

When it comes to “roadshows”, form may matter almost as much as substance. Roadshows allow you to tell your corporate story, but they also enable you to showcase the talent, caliber, and integrity of your management team through an organized, orchestrated, smooth presentation. It can be one of the most important elements of a successful offering. Maximize the value of your road show through proper planning techniques, good preparation and many rehearsals! The Company’s legal counsel and auditors normally do not participate in roadshows.

Meetings with Financial Analysts (Roadshows)

For potential investors to learn about the company, an underwriter arranges meetings with financial analysts, brokers, and potential institutional investors. These meetings are generally attended by the company’s president and key management such as the chief financial officer and may take place in many different locations throughout the country or the world, if the company is performing an international offering.

It is vital that the management team be well prepared for these meetings. The company should not assume that the prospectus is able to “stand on its own” and that the underwriter will help to anticipate the questions to be made related to specifics of the business so that the executives will be ready to answer them. The credibility projected by a management team in its presentation and its ability to respond to potential investor’s questions will be a major influence in the success of the offering.

The “roadshows” represent a critical part of a company’s selling efforts, since it is here that a management team promotes interest in the offering with the institutional investors in general. This can be a very grueling process since the time span can last up to two weeks with a number of presentations a day. In addition, a company cannot ignore the fact that in an active market it becomes more difficult to catch institutional investors’ interest if they are going through three to five “dog and pony” shows a day.

Undoubtedly, underwriters play a significant role in preparing the management team for these presentations. Additionally, some companies have sought assistance from professional investor relations organizations. Although a company may have a good “story” to tell, these advisors can help tailor it to investors.

Tip

EBITDA (or LAJIDA as it is known in Brazil) represents an imperfect shortcut to estimate a company's cash generating capacity. As the figure arrived at does not consider the effects of accruals on the opening and closing balance sheets, operating cash flow are more appropriately displayed in the Cash Flow Statement.

The new Brazilian accounting practices used in preparing consolidated financial statements (CPC/IFRS) frequently use concepts of fair value in arriving at amounts reflected in earnings. These adjustments include determination and adjustment of biological assets and financial instruments to market values. These non-cash effects impact EBITDA and normally are adjusted to arrive at the adjusted EBITDA. Thus the CVM requires publication of a caveat warning about possible distortions and establishing rules for calculation.

How an investor analyses a company in the IPO process

Investors can profit with a company's shares through appreciation in the value of these shares and/or by receiving dividends or a portion of the earnings. Thus, the new investor partners do not receive a fixed income and the return on their investment depends, basically, on the company's performance. If the company does well, investors will see their shares appreciate in value and/or receive dividends. However, if the Company does not do well, in addition to not receiving dividends,

shareholders will see their shares lose value. As they are subject to the risks of the business, equity investors are much more concerned in accompanying, supervising and participating in company decisions, to ensure that it will be profitable and sustainable in the long- term. Thus, the decision to purchase or not purchase shares in the company which is going public is based on an analysis of several factors affecting its progress.

For a certain group of investors, the prospect of receiving dividends, which represents the portion of earnings distributed to shareholders, can be important. These investors consider that dividends represent income on their investments and, thus, the greater the dividends, the better their income will be. But, in situations where the company has good projects, it is probable that investors would prefer that the company's cash be used to finance needed investments as, in light of the good prospects for the projects, they can earn more on appreciation in the value of their shares than by receiving dividends.

The most common evaluation methods are comparative multiples and discounted cash flow. In general, the preference is to use future projections as a basis for evaluation, although some investors use historical data, under the assumption that the company's future performance will be similar to its past.

Multiples (historical and projected) used include:

- Share Price/Earnings (P/L).
- Share Price/EBITDA (LAJIDA).
- Market Price/Book Price ratio (P/VPA).
- Enterprise Value/EBITDA (LAJIDA).
- Share Price/Net Revenue per share.
- Share Price/a KPI.

Investors calculate the multiples of companies listed on the shares market in the same business segment here in Brazil and/or abroad, and use them as a basis of comparison to estimate the reference share price of the company that is going public.

¹ LAJIDA1 is equivalent to EBITDA - Earnings before Interest, Tax, Depreciation and Amortization.

² Enterprise Value represents loans plus the market capitalization value of the Company. Market capitalization is the total number of shares issued by the company multiplied by the price of the share on the stock market, or market price.

As the company does not have any prior history on the stock market, the market is not familiar with it and, thus, setting its price is always more difficult and involves much more uncertainty. In other words, from an investors' perspective, it represents a greater degree of risk than that of already listed companies, affecting the price they are willing to pay in the initial offering.

These are just some examples which investors analyze when purchasing a company's shares, but there are others such as the experience of its executives, prospects of the company and business segment, the country's macroeconomic situation, etc.

Tip

Although it is impossible to totally eliminate this additional level of uncertainty (and the corresponding discount applied by the investor), the company can work to reduce it. To do that, it is crucial that the company start to make itself known to the market as soon as possible as it is important to create this history and confidence to help in obtaining a better price on the initial shares offering and perform proper planning.

Negotiating and Signing the Underwriting Agreement

By the time the registration request has been filed, a company and its underwriter have generally agreed on the securities — both in number of shares and amount — to be sold. However, the final price at which to offer the securities to the public, the exact amount of the underwriter's commission and the net proceeds due to the registrant have not yet been determined. The negotiation and final determination of these amounts depend on a number of factors, including the company's past and present performance, current conditions in the securities markets, and indications of interest received during the road show.

For example, in establishing an offering price, underwriters will look at a multiple of earnings or cash flow comparing these to similar companies. These multiples may be applied to the company's most recent operating results or projected future earnings based on the company's projected growth. The underwriter will also examine the current share market price of comparable companies.

Timing also plays as important a part as any other factor in determining the final offering price of the shares. In addition to cyclical market factors, particular industries go through “hot” and “cold” periods. Unlike the private sale of shares, where negotiations can be in the form of face-to-face meetings, shares sold through the public market are often priced to meet market demand.

In other words, the initial offering price should allow for a small appreciation of the price per share in the aftermarket immediately subsequent to the IPO. An offering at the high end of a range may not provide adequate investor return, resulting in a weak or depressed aftermarket, while pricing at the low end may result in a rally up immediately following the offering (thus lost opportunity for the company or selling shareholders).

In addition to the price, the number of shares offered should be sufficient to ensure broad distribution and liquidity.

Upon completion of negotiations with the underwriter — usually about the time the registration request is ready to become effective and the road show is over — the underwriting agreement is signed by authorized representatives of the company and the underwriter. Also at this time, the final amendment to the Reference Form and the Offer Memorandum is prepared, including (as applicable) the agreed-upon offering price, the underwriter’s commission, and the net proceeds due to the company.

In an effort to simplify the filing requirements associated with the final pricing amendment, the CVM allows companies to omit information concerning the public offering price, price-related information, and the underwriting syndicate commission on the Reference Form. In these cases, the omitted information is included on a Reference Form or included in the form of an amendment to the Reference Form, submitted after the CVM registration has been granted.

Additional and supplementary tranches

In the event of unsatisfied demand, the company may increase the number of shares to be distributed by up to 20% without the need for a new registration request or having to change the prospectus (in the market this mechanism is known as a “Hot Issue”).

The company may also grant the underwriter the option of distributing a supplemental lot of up to 15% of the initially-offered amount, if there is demand to justify it, and on the same conditions as the initial offering. This procedure is already quite widespread in the international market and popularly known as “Green Shoe”.

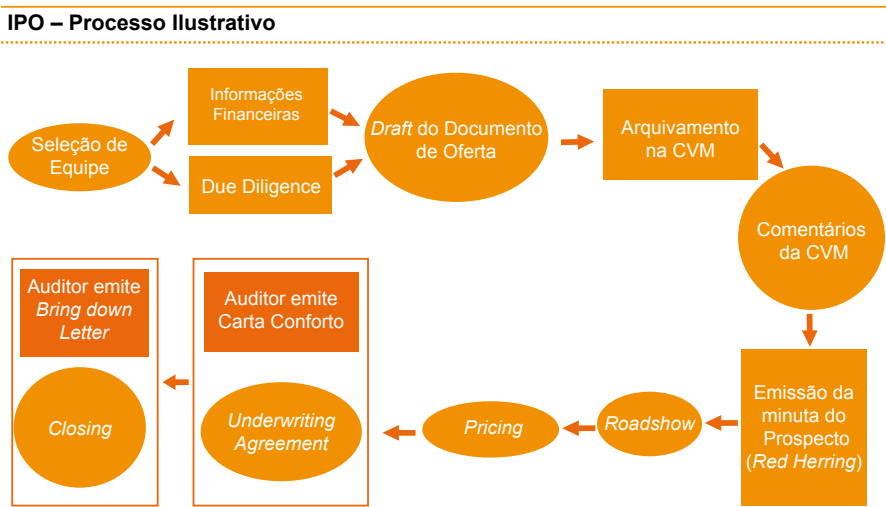
To utilize the option of distributing a supplemental lot (Green Shoe), the following requirements should be respected:

- Informing in the registration request the intention of using this procedure.
- Presenting this information in the Prospectus.
- The financial intermediary must inform the exercise date and number of shares involved by the day following the exercise of the option to the CVM.

In practice, the company can distribute an amount 35% greater than originally planned, 20% at its discretion and 15% at the discretion of the lead coordinator, if the latter has been granted the option of distributing a supplementary lot, but placement of these lots is not mandatory.

Closing meeting

The Closing Date, in general, specified in the underwriting contract, normally takes places within three business days after the offering Pricing has been determined. At Closing, the company delivers the registered securities to the underwriter and receives payment for the issue. Several other documents, including the bring-down comfort letter prepared by the independent auditors are also submitted.



Life as a Public Company listed on the BM&FBOVESPA

5

Public companies must proactively manage their reputations by communicating regularly with investors, analysts, and the financial media to maintain a positive image and make sure their story is being told accurately. After the IPO, the relationship with the market, which includes investors, analysts and shareholders, becomes a constant and a daily affair. Some companies hire consulting firms specialized in relations with the CVM and BM&FBOVESPA, to assist the Investor Relations area at the beginning of its activities as a Public Company. The public's perception of a company has a direct effect on the value of its shares. Do not underestimate it. Life as a public company also means getting comfortable with the rhythm of quarterly and annual reporting requirements, their content, and costs.

Maintaining Investor Enthusiasm

Once a company is public, considerable effort must be expended to maintain its market position. If investor enthusiasm for a company is not maintained, trading will decline. If a company's shares are thinly traded, the benefits sought from the IPO (such as liquidity through a future secondary offering) will not be realized. Thus, effective distribution and support of the shares, as well as continuing security analyst interest, is necessary after the IPO. The work of the Director of Investor Relations and his team will be fundamental.

A public company's performance, as perceived by the market, is reflected in the value of its shares. Management faces the pressure of balancing short-term productivity with long-term goals. Negative developments, such as a lower-than-expected distribution of earnings, may adversely affect the shares value. Management will need to ensure that all communications with external parties fully explain the company's results. This transparency in reporting will in turn create greater confidence in the market regarding the company.



Tip

Earnings are not the only factor that affects the public's perception of a company. Even after a company goes public, it should strive to maintain (or improve) the characteristics that it desired to possess prior to going public. After the IPO, ask yourself:

- *Is your company demonstrating a sustained or increasing growth rate that is high enough to attract/satisfy investors? Your company must continue to grow at a rate satisfactory to investors; its share value will be determined to a large extent by the earnings potential of your company.*
- *Are your company's products or services highly visible and of interest to the consuming and investing public? Your company should project a positive image to its investors, customers, and community. This is important, since the attitude of the public may influence the share price. There is growing interest regarding corporate social responsibility, including sustainability and climate change issues. Companies should have a strategy to address such concerns.*
- *Is management capable and committed? Management plays a key role in the way a company performs; therefore, it is essential that management remains innovative, committed, and capable.*

Preparation for Life as a Public Company

The IPO is not the end of the story — it is only the beginning. Once listed, a company will be under far greater public scrutiny and will have a range of continuing obligations with which to comply. Any weakness in systems or failure to comply with regulations could cause management public embarrassment, reputational damage, and the potential for company and personal fines. The benefits of careful preparation and planning are realized within the first year after the IPO.

Public companies are required to comply with a host of reporting and other requirements. The most significant change for many companies is the need to disclose and report publicly on their financial results and other information on an accelerated timeline. This is a process the company will need to be fully prepared to meet; inability to meet these requirements will shake investor confidence or expose the company to the risk of having to cease trading on the stock exchange or being fined for not submitting documents within the established deadlines.

Preparing for life as a public company should happen in parallel with the process the company undertakes for its IPO. The company should evaluate its processes and infrastructure so it can make any necessary changes in advance of the IPO date. Key questions to ask include:

- Do we have the ability to close our books accurately each quarter and report the results (consolidated) to the public in accordance with CVM guidelines? The ITR deadlines will be reduced in 2012 from 45 to 30 days*. Do we have a closing process that repeats itself monthly and quarterly? Should we hire a consulting firm to reengineer the closing process?
- Does our finance department have the expertise with CVM accounting and reporting requirements to allow us to comply with regulations we did not need to consider before as a private company?

(*) See page 12.

- Does our planning and analysis function have the ability to accurately forecast our results to allow for more effective interaction with the investor community and to assist in analysis of the current period results for financial reporting purposes?
- Are all our processes and internal control structure adequately documented and tested?
- Does our technology infrastructure adequately support our compliance efforts?
- Have we established an ethics and compliance process and communicated it throughout the organization?
- Do we have a formal methodology to identify, monitor and mitigate risks, for example Enterprise Risk Management?
- Do we have a new structured Investor Relations area, with clear definition of the information disclosure and Company share trading policies?

Meeting the requirements for disclosure of periodic financial information

Public companies are required by the CVM to file certain periodic reports to keep the investing public informed. As noted previously, preparing to meet these requirements should be a focus for a company as it prepares to register. From the very beginning, companies should discuss their obligations with their legal advisors and auditors, in light of the several sets of regulations they are subject to, to be aware of what they represent and make sure they can comply with these obligations.

The legal advisors and auditors should also be consulted to confirm the CVM requirements pertaining to the form, content, and timing of specific reports. A market relations consulting firm can assist companies by supplying annual reports to shareholders. The table below presents an overview of the basic CVM reporting requirements for public companies.

Form	Description	Presentation/Disclosure Date (*)
Reference Form	See Section 3 - "Regulations"	Annually, within five months after the close of the fiscal year
DFP Form	Annual financial statements in accordance with the accounting practices adopted in Brazil (CPC) (individual) and with the international accounting standards(IFRS) and Brazilian standards (CPC) (consolidated), accompanied by an audit report by the independent auditor, annual management report and the information for the Company's file.	Annually, within 90 days after the close of the fiscal year
ITR Form	Interim financial statements in accordance with the accounting practices adopted in Brazil (CPC) (individual) and with the international accounting standards(IFRS) and Brazilian standards (CPC) (consolidated), for the first three quarters of the year, compared with the prior fiscal year/financial statements and accompanied by a limited review report from the independent auditor.	Quarterly, within 30 days of the close of the quarter (starting with the first quarter of 2012)*

To comply with the various requirements related to issuing reports, Public Companies should have sufficient staff, supported by legal advisors and qualified independent auditors.

(*) See page 12.

Timely Disclosure of Material Information

Information that is generally considered material includes: significant financial transactions, new products or services, acquisitions or dispositions of assets, dividend changes, and top management or control changes.

The disclosure of such information should be made as soon as: 1) it is reasonably accurate, and 2) full details are available to the company. This information should be disclosed in the form of press releases (*Fato Relevante*); however, companies may decide to also send announcements directly to their shareholders.

Generally, the need to disclose information should be discussed with the company's legal advisors.

Restrictions on Trading Based on Private Information

Until important information is made public, CVM rules prohibit company insiders from personally trading the company's securities or passing this information onto others. Within the company, material information should be kept confidential. Persons privileged to this information must treat it as confidential until it is released to the public.



Transactions with Related Parties

For reasons of Corporate Governance, transactions between a company and any of its officers, directors, or large shareholders must be fair to the company. These laws apply to both privately and publicly-held companies. However, since the officers and directors of a privately held company are usually its only shareholders, the ramifications of fiduciary laws are less than what they might be for a publicly held company.

Governance aspects on transactions with related parties must be carefully observed after a public offering due to the interests of the new shareholders. Whenever there is a potential conflict of interest between the company and its fiduciaries, management should obtain independent appraisals or bids and independent director approval (or even shareholder approval), depending on the nature and significance of the transaction.

Costs

As mentioned previously, a further consequence of a company being publicly held is the expense it entails. If not well planned, significant costs and executive time are often incurred when periodic reports are prepared and then filed with the CVM. Board and shareholder meetings and communications may also be costly.

Because of its responsibilities to the public shareholders, the board of directors and the audit committee are significantly more important in a public company. If the board were previously composed entirely of insiders, a number of outside independent directors would need to be added (which will likely result in incurring additional costs) to satisfy the BM&FBOVESPA governance requirements, depending on the company's listing segment.

Other Considerations

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You already have all the information you really need to make a well-based decision.

However, in the final analysis, the decision depends on your consideration and evaluation of the reasons for your company to go public. How will your decision affect the company itself? Is your intention in going public just to raise funds? Leave the business? Expand the company's operations? Gain status and prestige? Is going public necessary to attract and retain key people? Are you in a stage where you are seeking more personal liquidity or a planned exit strategy?

An IPO can work as an answer to any one of the questions above. But remember that an initial public offering requires careful preparation.

2011 – The dawn of a new decade of growth

No one can deny that Brazil's time has arrived.

With all the good news about the Brazilian economy, some business sectors have been working to consolidate their operations, especially education, health care (Hospitals, clinics, laboratories and pharmacies), civil construction, internet and the retail trade. If these mergers and acquisitions are not handled properly, feasibility studies may be frustrated; financial losses, negative cash flows and defaults may be the result. It is absolutely essential that these consolidations are managed by multidisciplinary teams, seeking to maximize tax benefits, operating synergies and uniformize the levels of internal controls, among other initiatives.

Increasingly, Brazil will be an important player in the world market. But it will have to raise its levels of business excellence, including transparency, to attract in the vast range of foreign investments that circulates in mature markets.

In the previous pages we described aspects involved with a company going public: preparation, execution, compliance and permanent commitment. You already know how long it will take and have thought through the costs and benefits involved. From a practical standpoint, you have begun the process starting from strategic planning and analysis. You know what is needed for your company to look like and act as a Public Company.

About the BM&FBOVESPA Exchange

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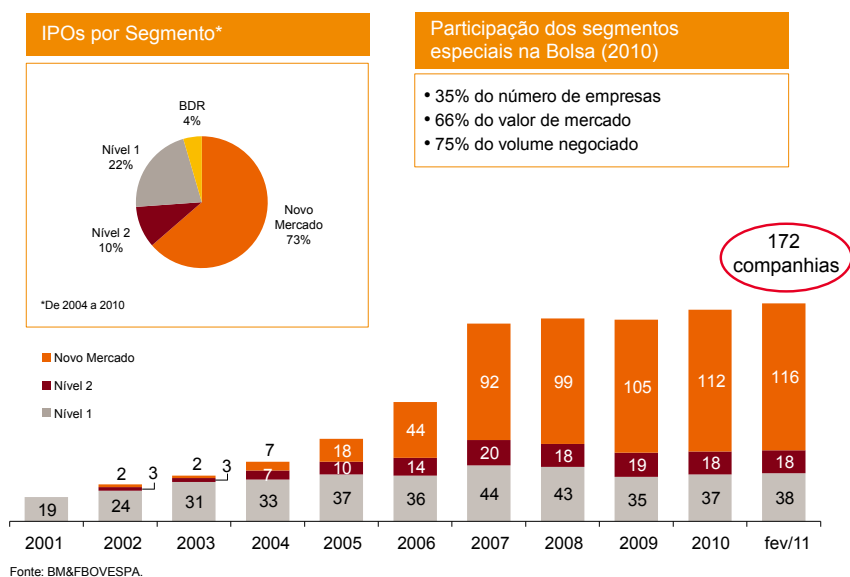


The BM&FBOVESPA is the company resulting from the merger of the “Bolsa de Mercadorias & Futuros (BM&F)” (Mercantile and Futures Exchange) and BOVESPA Holding, approved in the general shareholders’ meetings on May 8, 2008. Its main objectives are to manage organized debt and equity securities and derivative contracts, in addition to providing registration, settlement and clearance services, acting chiefly as the central counterparty to guarantee financial liquidity in the operations performed in the markets under its responsibilities.

The BM&FBOVESPA offers a wide range of products and services such as: trading shares, fixed-income securities, spot foreign exchange and derivative contracts based on equity securities, indices, financial assets, commodities, currencies and others; listing of companies and other issuers of securities; asset depository services; security lending; and software licensing. This range of products and services allows its business model to be vertically integrated. In addition, it participates in the “BOVESPA *Supervisão de Mercados* (BSM)” (BOVESPA Market Supervision), an association which supervises the activities of the BM&FBOVESPA itself and participants in the market, as well as the operations performed by them.

In 2000 the BM&FBOVESPA created the special listing segments (“*Novo Mercado*, *Nível 2* and *Nível 1*”) which were extremely important in making the Brazilian capital market once again a source of funding for companies. The result was the growth in the number of IPO’s starting in 2004, when 7 companies held Initial Public Offerings and raised R\$ 4.3 billion. The peak in the number of IPOs on the BM&FBOVESPA Exchange was in 2007, when 64 companies raised R\$ 55 billion through IPOs. Below is the progression in the number of companies going public between 2004 and 2010.

Consolidação dos segmentos de bolsa



About PwC

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Like any other major strategic undertaking, taking a company public requires careful planning to ensure success. The process requires thought around two main facets of operating as a public company. First, the company must prepare its management team and business units to begin acting and functioning as a public company, both internally and externally, in advance of accessing the capital markets. Second, it must identify qualified advisors and key managers to form the going-public team.



Auditors and consultants play a vital role in advising a company as it navigates the complex lifecycle of a capital market transaction, from the identification of an entry strategy to the public registration and offering processes and subsequent management of ongoing public company financial reporting obligations. In addition, the regulatory environment has raised the bar on the amount of advance preparation and careful planning necessary to complete a successful IPO. The risks and consequences of encountering material weaknesses or a breakdown of internal controls are significant. For these reasons, companies often seek advice and assistance from auditors who specialize in such transactions.

Created in 1993, PwC's Capital Markets Group in Brazil provides advice to a company as it moves through the life cycle of the IPO process and the post-IPO financial reporting obligations. The firm's IPO advisors work closely with the company's management as they go through the all-consuming process that is the IPO. Management can leverage PwC's extensive experience in capital-raising activities combined with its profound technical accounting knowledge and focus on bigger picture issues and the deal. Your PwC engagement team will focus on your specific needs and will be supported by resources that bring the technical, industry, private and public company, and IPO transaction expertise required to keep you ahead of the curve and prepared for potential issues you could face as a Public Company.

Whether acting in the capacity of your auditor, tax service provider, or non-audit accounting advisor, PwC will play an active part during the process.

Readiness Assessment

Evaluate your Readiness to Go Public

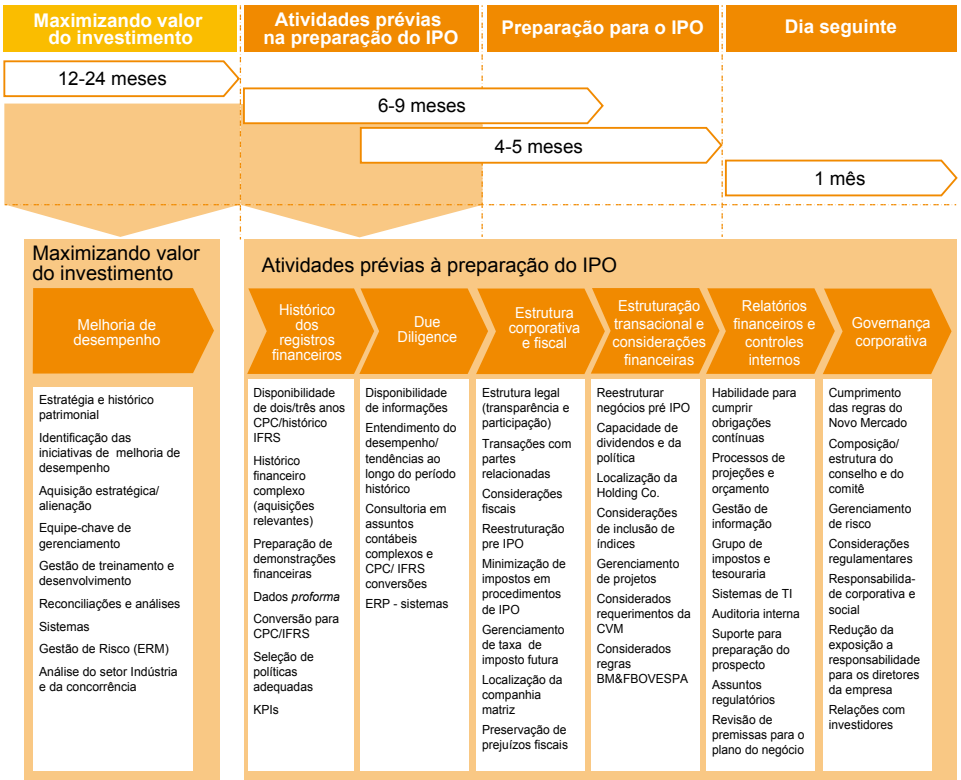
By undertaking a structured exercise to analyze a company's state of preparedness for going public, PwC can give management a full understanding of key IPO issues as they apply to the company. From the results of this assessment, PwC can help you develop a project plan to address issues and identify resources. A typical IPO readiness assessment addresses the questions: What additional information is needed for the prospectus, such as additional financial statements of acquired and to-be-acquired businesses? Are the accounting policies suitable for a listed company? Are they similar to those adopted by other companies in the group? What is the supplementary information which should be disclosed by the Public Company?

A readiness evaluation can address deal-structuring, including tax planning, and assess:

- Corporate structure.
- Structure of the Board and its subcommittees.
- Board and senior management capabilities.
- Corporate governance arrangements.
- Stock exchange listing eligibility issues.

PwC will review your objectives and capital needs; advise you of the advantages and disadvantages of going public; identify the options available; offer insights on stock exchanges; provide insight into costs that will be involved; and work with you to establish a reasonable timetable. The assessment process allows a company to identify and resolve issues at an early stage, thereby saving time and money. Advance planning helps you minimize the impact of potentially unpleasant surprises and be prepared to benefit from any market openings. In our experience, businesses that have undertaken a full pre-IPO readiness exercise are those that are best prepared to handle the complexities of the IPO transaction.

Preparação para o IPO



No mundo ideal, a Administração deve buscar gerenciar/operar a companhia como se já fosse uma companhia aberta, seis meses antes do IPO.

Action Plan Advice and Assistance

A PwC team will work closely with you as you develop a plan to begin to “get your house in order” and make the transition from a private enterprise to a public company. The team will advise you during your financial statement preparation, advise on necessary management restructuring changes, assist in establishing an IPO advisory team, and provide guidance on professional relationships for an IPO.

The PwC IPO Placement Strategy solution provides an all-encompassing wall-to-wall setting answer to address all aspects of an IPO Readiness Project and preparing the shareholder/management to discuss the IPO plans on a ‘level playing field’ with the underwriter.

The solution is intended to not only upgrade the company's internal systems, controls, and governance but also facilitate the task of the underwriter by 'delivering' a well-prepared company ready to be presented to the market. This will allow the company to negotiate a more favorable underwriting commission. The IPO Placement Strategy solution recognizes that emerging private companies are frequently 'cash-challenged' and is, therefore, priced on a retain/success fee basis.

Internal Controls Review

PwC can provide the understanding you need about system controls requirements and corporate governance to be ready for the reporting demands of a public company, including compliance with Sarbanes-Oxley requirements (full or 'light'). We can help you assess your internal controls, highlight areas of potential risk, and provide recommendations for improvement.

A Corporate Governance Gap Analysis

This step prepares you for the requirements of managing a public company. PwC can benchmark your actual or planned corporate governance practices and policies against securities regulations and stock exchange listing guidelines, identify potential weaknesses, and recommend remedial action.



Tax Check-up

This process helps you understand the tax advantages and the tax costs of going public. The review will look at the tax consequences of going public, the potential risks, contingency management and planning opportunities, and the proactive measures you need to take.

Compliance with Tax Requirements

PwC will help you develop policies and procedures to provide appropriate monitoring of compliance requirements.



Going public

Drawing upon extensive experience, there are many ways in which PwC can help clients during the IPO process. PwC can provide a variety of services including assurance on historical financial information, participating in due diligence with investment banks, and providing comfort on financial information included in the Reference Form.

PwC can advise you in connection with the drafting of the Reference Form including the critical Management

Discussion and Analysis (MD&A) section in your prospectus. Advice on the presentation of your financial statements, including pro forma financial statements that may be required, advice on your selection of key accounting policies, and provide advice on tax structure are critical. PwC's prior experience will give you invaluable insights on current CVM views and how other registrants are dealing with common IPO issues. PwC can help you anticipate and respond to issues raised by regulators. These insights will help streamline the IPO process. PwC can also advise you on a wide variety of infrastructure issues, including process alternatives for designing key controls and outsourcing issues. PwC have helped many small and mid-sized companies do just that in connection with their IPOs.

IPO transactions can be complex, time-consuming and a distraction for management from the day-to-day needs of running the business. Effective project management is critical. The PwC project management specialists can provide advice and recommendations on an appropriate project governance framework and project plans, and assess project deliverables, interdependencies, risks, and resources.

Being a Public Company

Systems and Internal Controls

PwC professionals can help you establish and document an effective internal control environment so the right processes and systems are in place to support the business. Specifically, PwC can provide the following services for each area:

Internal controls

- Internal controls services assess the current environment and establish a rationalized controls framework. A risk-based approach is used, aimed at optimizing the internal control structure.
- Provide a readiness assessment of controls effectiveness in advance of the external auditor review. Provide management insights into the controls environment and have the ability to remediate possible controls deficiencies.
- Provide access to existing libraries of controls to streamline the process of developing a framework, and leverage industry leading practices.
- Provide a review of operations and control quality for an external service provider assisting the Company.

Assistance in Defining Needs and Selecting New Systems

PwC have industry and technology-focused professionals who have controls-related experience across most major technology platforms (ERPs).

Advice includes the selection process for key accounting, management and investor reporting technology platforms, and provides consolidation applications for business needs. PwC will work with you to document a list of key requirements that can be used to evaluate each option to enable you to determine the best fit. PwC works closely with you throughout this process, as a trusted advisor, with management driving the process and owning the final deliverables. As part of this process PwC can:

- Assess the effectiveness of internal systems, processes, and personnel to establish the appropriate baseline for public company operations.
- Assist in defining the business requirements for the systems, based on internal stakeholder interviews and leverage of industry leading practices.
- Support management through the selection process, including identification of a streamlined set of vendors, preparation of a proposal request and participation in vendor demonstrations and analysis.
- Provide insights into the ongoing operating model and the potential benefits and risks of the use of a third-party service provider to support the technology.

Governance and Leadership

PwC can assist clients with performing governance diagnostic and benchmark studies and advise management on:

- Designing corporate governance structures to comply with relevant regulatory requirements.
- Developing approaches for planning and embedding governance, risk management, and compliance into the organization.
- Delivering training on various aspects of corporate governance.
- Advising management on enhancing board charters, by-laws, committee mandates, and corporate governance.
- Developing corporate policies and procedures.

Media and Investor Relations

Private companies frequently have little to no experience in communicating with the investor community. They need to create the appropriate infrastructure to support the IPO process and the regular earnings release schedule. PwC can help a company understand the challenges with investors and media relations firms. This includes benchmarking key performance indicators, non-GAAP measures and reporting timetables of public peer companies.

Treasury and Risk Management

In an IPO environment, a company may be exposed to significant risks related to treasury activities. PwC can assist with developing appropriate best practice treasury management and recommendations linked to the finance function and wider business. For example, in certain circumstances, PwC can help design and implement policies and procedures, cash flow forecasting, and systems and risk management processes.

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