

Doing business in Brazil

A decorative graphic consisting of a series of vertical white lines of varying heights, creating a sense of depth and movement, located on the left side of the image.A large, solid yellow triangle pointing towards the center of the image, located on the right side.

 **ERNST & YOUNG TERCO**
Quality In Everything We Do

Investment Climate

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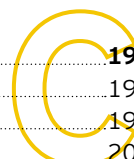
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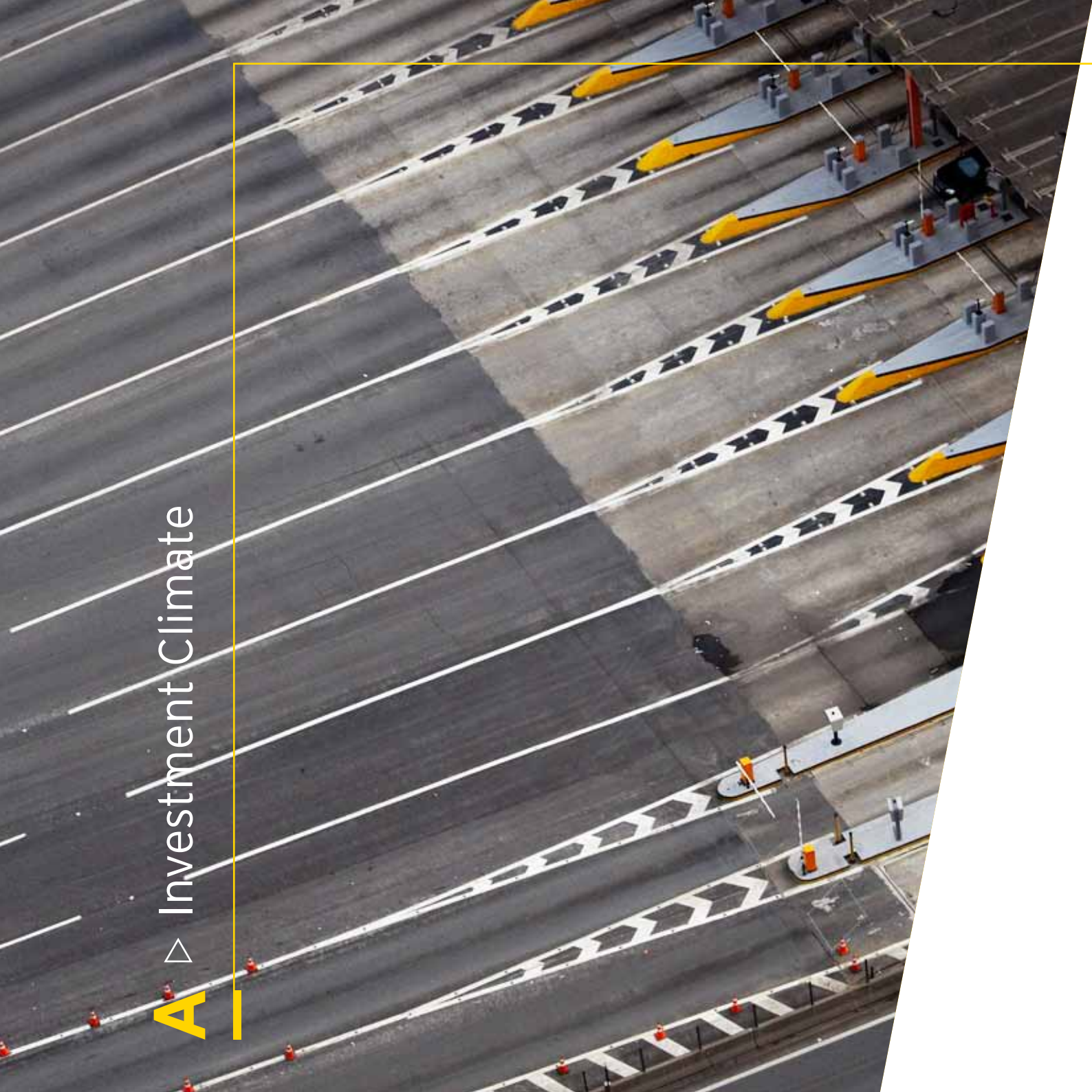
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A ▽ Investment Climate



A1

Regulatory Constraints and Relief

Exchange Background

Brazil is among the ten largest economies in the world and the country remains very attractive to foreign investors due to its growth potential, large and competitive market and political stability. This investment climate has been aided by measures adopted by the Brazilian government in recent decades aimed at promoting economic competitiveness by controlling inflation through the open exchange of the Brazilian currency and through strict monetary policies.

The current political and economical stability is largely a result of the Real Plan adopted in 1994 to control the high inflation that Brazil historically suffered and the strong foreign exchange policy based on a gradual depreciation of the local currency, the Real (R\$), against the US dollar (US\$) until 2002. Since 2003, the Brazilian currency has been appreciating against the US dollar due to an increase in the trade surplus.

To attract foreign capital, Brazil has also adopted a policy of high annual interest rates to make the country attractive to financial investors. However, recent measures have been adopted that seek to attract more permanent investments, even in the financial markets, and to focus on investment in Brazilian companies.

Exchange Controls

Brazil has historically imposed strict controls over cross border currency transactions through a foreign exchange policy that required the registration of transactions and placed controls mainly on transactions involving outflows of funds from the country.

Changes were introduced in early 2005 in an attempt to make Brazil's foreign exchange regulations more flexible and simpler for Brazilian, foreign companies and individuals alike. The overall

goal was to facilitate cross border transactions, especially the maintenance of funds held in foreign currency abroad by Brazilian residents. Recent changes have also introduced a deferral to the requirement to internalize foreign funds associated with export receipt. However, regulations remain in force that requires the registration of most inbound transactions with the Brazilian Central Bank (BACEN) in addition to strict controls on the repatriation of capital in foreign currency.

As a general rule, investment flows, in either share or debt capital, must be registered with the BACEN within 30 days to allow subsequent repatriation or remittances in foreign currency (including dividends, capital repatriation, interest payments or remittance of principal on loans). Failure to register an inflow of funds may not only jeopardize a subsequent outflow of the funds, but it may also result in high penalties being imposed by BACEN.

Foreign Ownership of Business

Generally, few limitations are imposed on the foreign ownership of Brazilian enterprises. The restrictions that are imposed are intended to control foreign investment rather than to prohibit it altogether. For example, controls limit foreign ownership of businesses in certain sectors such as communications, news media, public utilities and transportation. In recent years, however, the Brazilian government has chartered the exploitation of certain Brazilian businesses, including telecommunications and electricity companies, to foreign investors as part of a privatization process.

Foreign Ownership of Real Estate

Foreigners may own buildings in Brazil without restriction. However, limitations are imposed on the acquisition of rural real estate by resident foreigners or by Brazilian companies controlled by resident foreigners. Nonresident foreigners and foreign companies generally are prohibited from the direct acquisition of rural real estate located near national borders.

A2

Government Attitude and Incentives

Government Attitude to Foreign Investment

The Brazilian government is making efforts to improve the climate for foreign investment as it seeks to develop a more market-oriented economy. Import barriers have been reduced and many state-owned enterprises have been privatized. Tax reforms have been proposed but are still pending approval. Their main goal is to simplify the current tax system especially for the country's value added tax (VAT) taxes (mainly ICMS).

Government Financial Incentives

Foreign investors that operate through branches or subsidiaries in Brazil generally have access to the same sources of finance that are available to Brazilian companies. However, the financial instruments offered by banks and other financial institutions are unavailable to individual nonresident investors.

Incentives are available for export production and for the local production of capital assets. Most incentives apply to new investments and are offered by State or Municipal governments. They generally include substantial reductions in taxes (mainly State VAT, ICMS), utility charges and other expenses. Federal incentives (generally income tax reductions) are available for investments in less developed areas.

A3

Tax System

Companies domiciled in Brazil, as well as branch offices, agencies and representative offices in Brazil of companies domiciled abroad, are subject to Brazilian corporate taxation as independent entities. Income derived from foreign subsidiaries

and foreign branches of Brazilian companies is also subject to corporate income and social contribution taxes in Brazil.

Corporate Income Tax Rates

Brazilian corporate income tax is charged at a 15% rate, with a surtax of 10% applicable to profits exceeding R\$240,000 a year. In addition, Brazil imposes a social contribution tax on corporate profits. The social contribution tax works similarly to income tax and it is charged at a 9% rate. Ordinary tax losses may be carried forward with no time limit; however, loss utilization is limited to 30% of taxable income.

Capital gains recognized by Brazilian residents are included as ordinary income and taxed at the standard corporate tax rates. In general, capital losses incurred in a calendar year may offset operating profits derived in that same year. Excess capital losses may be carried forward without a time limit, but they may only be used to offset future capital gains (with a 30% limitation).


Capital gains recognized by nonresidents as a result of the disposal of assets located in Brazil (including shares in a Brazilian company) are also subject to taxation in Brazil at a general 15% rate (or 25% for a resident of a low-tax jurisdiction).

Dividends paid out of profits accrued with effect from January 1, 1996 are not subject to withholding tax in Brazil, regardless of whether the beneficiary is a resident or nonresident shareholder. Profits recognized before 1996 are subject either to a 15% or a 25% withholding tax when distributed to nonresident shareholders.

Individual Rates and Expatriate Taxation

Residents of Brazil are taxed on their worldwide income. Nonresidents are taxed on their Brazilian-source income only.

The rates of personal income tax are 0%, 7.5%, 15% and 27.5%. Capital gains are taxable at a rate of 15%. A taxable gain arising



from the sale of real estate is reduced for real estate acquired between 1969 and 1988. Special exemptions are granted to the following transactions:

- ▷ A sale by an individual selling his or her sole property, provided that the individual did not sell any other real estate in a period of five years, and the sale price does not exceed a specific cap (R\$440,000); and
- ▷ A sale of assets or rights, if the sale price does not exceed R\$35,000 within the same month.
- ▷ Transactions performed in the Brazilian Stock Market, if their total value does not exceed R\$ 20,000 within the same month.

Nonresident taxpayers should be subject to income taxation at 25% flat on employment-related income paid via local payroll.

A4 | Financial Reporting and Audit Requirements

Companies and individuals engaged in commercial activities must comply with legal requirements governing the maintenance of accounting records. Official records must be written in Portuguese and amounts must be specified in Brazilian currency (Reais). Other currencies and languages may be used for management purposes.

Companies must prepare annual financial statements that include a balance sheet, an income statement and a statement of retained earnings, which is generally included in a statement of shareholders' equity. In addition, the financial statements of corporations (sociedades anônimas or SAs) must include a statement of the source and application of funds and notes to the financial statements. Companies subject to control of the Brazilian Securities Commission (Comissão de Valores Mobiliários or CVM) must have their financial statements audited. Publicly traded companies with investments in

subsidiaries must also prepare and publish audited consolidated financial statements in addition to their own financial statements.

These audited statements must be submitted annually to the CVM and, for companies engaged in regulated activities, to other government agencies as well. For example, financial institutions and leasing companies must submit audited statements to the BACEN, and insurance companies must submit their statements to the Superintendence of Private Insurance (Superintendência de Seguros Privados or SUSEP). Companies in these sectors must also present semi-annual audited financial statements.

Corporations must publish two year comparative financial statements in the Official Gazette and in at least one well known newspaper. Although there is a discussion regarding the obligation to publish the financial statements of large limited liabilities companies (with assets greater than R\$ 240 million or turnover greater than R\$ 300 million), we understand that there is no obligation to announce the financial results,

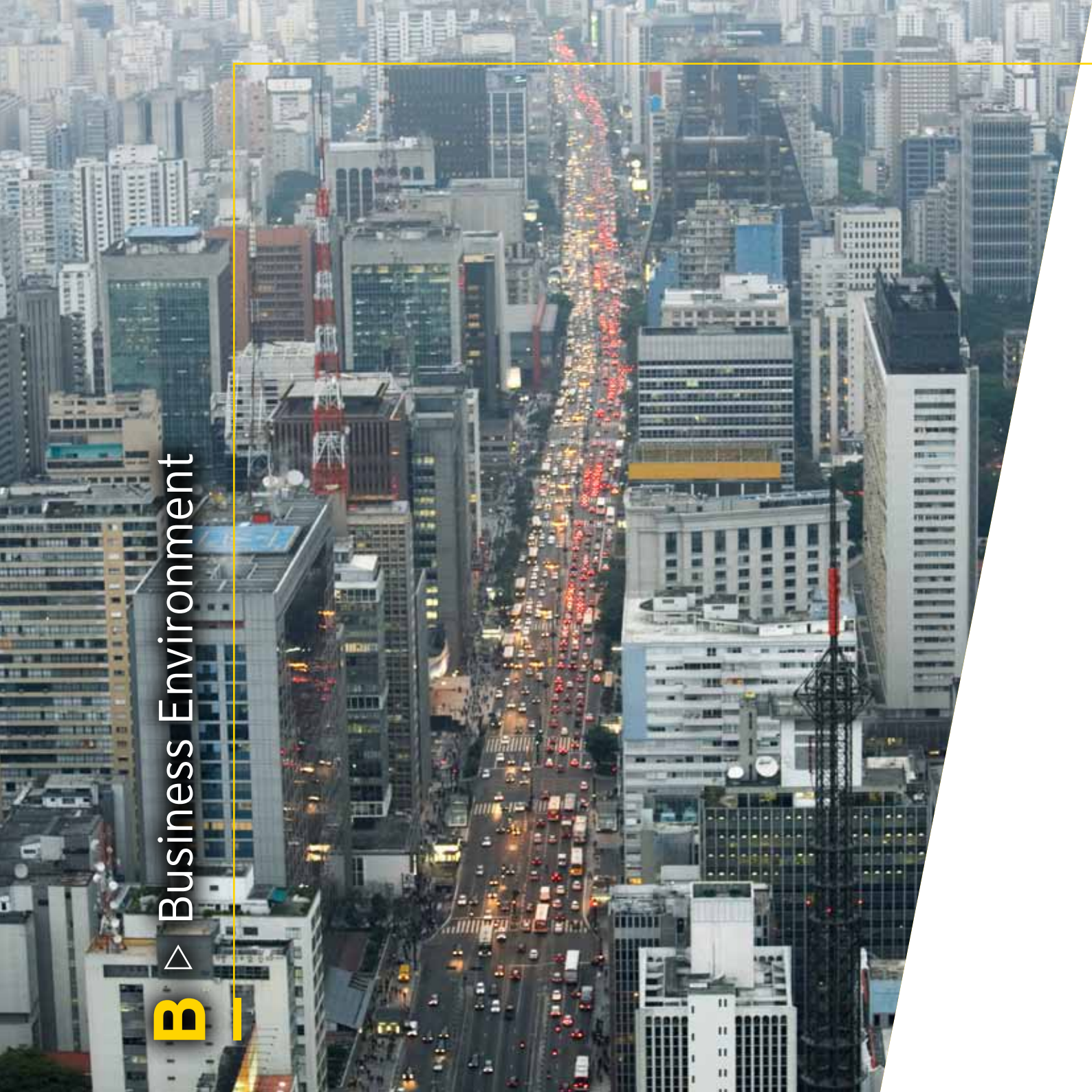
However, large limited liability companies or large corporations must be audited by independent auditors.

A5 | Other Matters of Concern to Foreign Investors

The Brazilian tax system is very complex and imposes a variety of taxes charged at the federal, state and municipal levels. Considering the complexity of the system, as well as the ever-changing legislative environment, foreign investors are advised to seek professional tax advice before structuring investments in Brazil.

The Brazilian government is making efforts to reduce the bureaucracy associated with tax obligations to facilitate tax compliance. However, although public administration has improved in recent years, inefficiency and significant bureaucratic procedures are still a reality in Brazil. ■

B ▷ Business Environment



B1 | Investment and Business Environment

Brazil has historically experienced strong economic growth. In the 1970s, real gross domestic product (GDP) grew by approximately 8% annually. However, due to high inflation, large public sector deficits and the debt crisis, annual growth fell to approximately 3% throughout most of the 1980s. Forced to take strong anti-inflationary measures to curb hyperinflation (with rates running at 1,800% in 1989 and 1,500% in 1990), the government has introduced eight economic stabilization plans since the 1980s. The most recent of these plans, the Real Plan, was launched in 1994. It introduced a new currency (the Real) and reduced the annual inflation rate to 6% to 8%, which has resulted in political and economical stability after the deep recession of 1990.

Brazil's nominal GDP is the 8th largest in the world and the first in Latin America. In 2009, the growth rate was approximately 0.1% with a GDP of approximately US\$1.481 trillion

To develop a market economy, Brazil has been reducing import barriers and privatizing state-owned enterprises. The Real Plan has created excellent conditions for the rapid growth of foreign investment, and substantial amounts of new funds have flowed into the country. The Real Plan maintained the Brazilian currency's equivalence to the US dollar until January 1999 when the Real underwent its first devaluation.

According to the Central Bank of Brazil, up to 2009, the balance of the total foreign direct investment in Brazil was US\$ 25.949 billion an estimated US\$ 38 billion in 2010 related to foreign direct investment in Brazil.

B2 | Trends and Performance

Brazil's population is estimated at approximately 194 million according to the Brazilian Institute for Geography and Statistics (Instituto Brasileiro de Geografia e Estatística or IBGE). Per capita income in May 2009 was estimated at R\$ 854.69. The annual inflation rate (IGPM) was approximately -1,71% in 2009 and it is expected to be around 4.35% in 2010. Interest rates in Brazil are generally higher than in international market rates.

In October 2009 foreign debt was US\$ 203.860 billion, which comprised medium- and long-term debts of US\$ 171.613 billion and short-term debts of US\$ 32.247 billion.

For a table of key indicators for the Brazilian economy for the period 2003 to 2006, see Appendix 1.

B3 | Currency

The currency in Brazil is the Real (R\$), adopted in June 1994 as a measure to curb hyperinflation.

The BACEN administrates foreign exchange transactions (see Section C.1). Various mechanisms have been established to hedge movements in foreign currency exchange rates.

The exchange rates of the Real against major foreign currencies in the period from 2006 to 2008 are given in Appendix 2.

B4 | Economic Structure

Brazil has a large and dynamic private sector, which includes sizable foreign investments. In 2009, the manufacturing sector accounted for approximately 28% of GDP, the services sector

accounted for approximately 65.3% and agriculture accounted for approximately 6.7%. In 2009, Brazil's work force consisted of approximately 21 million people (according to IBGE, considering the six main Brazilian cities). Since last IBGE employment survey in May 2009, 8.8% of the Brazilian work force is not officially employed, that is, it is made up of workers that do not hold work cards.

B5 | Relationship of Government and Business

In the four decades preceding the 1990s, government investment played a leading role in financing the country's economic development. Government bodies invested heavily in steel plants, oil exploration, petrochemicals and mining, as well as in infrastructure such as, hydroelectric projects, ports, railways and telecommunications. However, the foreign debt crisis in the late 1980s, and the resulting scarcity of public financing, combined with the chronic overall deficit in the public industrial sector, spurred the government to implement a privatization program. Although political pressure hindered privatization initially, the Federal government took significant steps to break down resistance in the Brazilian Congress and the privatization program accelerated and became a source of finance for the significant public deficit.

The decision in the 1990s to privatize state-owned companies was also a key factor in improving Brazilian industry and in triggering significant foreign direct investment. Privatizations focused mainly on the steel, petrochemical and certain chemical industries, mining, telecommunications and energy, as well as state-owned banks. The government's privatization agent was the National Bank for Economic and Social Development (Banco Nacional de Desenvolvimento Econômico e Social or BNDES). BNDES was also responsible for determining the minimum price

at which companies were sold for improving national economic development and for strengthening the national business sector.

Formerly state-owned companies that have been privatized include Companhia Vale do Rio Doce (a mining company), Companhia Siderurgica Nacional and Usiminas (the national steel mills), Rede Ferroviária Federal S.A. (the national railway line), Mafersa (a manufacturer of railroad equipment), regional state banks such as Credreal, Banerj, Banespa, Meridional and Bemge and energy companies and utilities including Comgás, Elektro, CPFL, Gerasul, Cerj, Coelba, Coelce, Metropolitana, Enersul and Riogás.

Regulatory Environment

The state in Brazil has traditionally exercised considerable control over private businesses through extensive, and constantly changing, regulations, most notably exchange controls, price controls, import barriers, licensing requirements and a complex labor code. However, the government has been committed to economic reform and has moved to develop an economy driven by market forces. The government conducts open discussions on the cost of doing business in Brazil (the "Brazil Cost"). Price controls are no longer in place, and import barriers, including import duties, have largely been reduced. The government has begun deregulation of industries such as energy, mining, telecommunication and transportation, and has privatized state-owned companies.

Since 2002, an amendment to the Federal Constitution has also permitted foreign companies and individuals to invest in Brazilian media entities. Foreign investments must not exceed 30% of an entity's voting capital. The investment must be done through a company duly incorporated under Brazilian law, since the foreign participation may not be directly held by the foreign investor.

Federal government agencies regulate certain industries. The BACEN regulates banking; the SUSEP regulates insurance;

and various regulatory agencies supervise the utilities. The CVM regulates all publicly traded companies listed on the Brazilian stock exchanges. Limitations on foreign equity are also imposed in sectors such as banking and insurance.

State-owned companies are regulated by the Ministry of the Economy and the Ministry of Planning, as well as by the governing regulatory authorities.

Federal labor law regulates the minimum wage and conditions of employment, including hours and vacations, and the union rights of employees.

The federal, state and municipal governments have their own regulations relating to environmental law. The Federal government has established an environmental protection agency, the Brazilian Environment and Natural Resources Institute (Instituto Brasileiro do Meio Ambiente or IBAMA), which is charged with establishing and enforcing anti-pollution standards. Industrial zoning is required in many cities and regions that have actual, or potential, pollution problems.

In the late 1990s, the Brazilian Federal government created federal regulatory agencies to regulate specific sectors, such as energy, communications and petroleum (ANEEL, ANATEL, ANP, respectively.) with the purpose of establishing a regulatory framework that would boost investment in these sectors.

The consumer protection code regulates product safety and protects the interests of consumers with regard to goods and services.

B6

Financial Sector

Banking System

The National Monetary Council (Conselho Monetário Nacional or CMN), formulates monetary and credit policy and it includes representatives from both the government and the private sector.

The Central Bank of Brazil (Banco Central do Brasil or BACEN) administers monetary policy through the following mechanisms:

- ▷ Establishing reserve requirements (compulsory deposits) for the commercial banking system;
- ▷ Purchasing or selling government securities on the open market;
- ▷ Determining the BACEN rediscount rate on loans to banks; and
- ▷ Setting the primary interest rates for the economy.

Brazil's banking system includes commercial and investment banks; multiple banks (that is, banks that provide both commercial and investment banking services, consumer financing and other services, such as fund management and real estate financing); savings and loan institutions; and leasing activities. Some banks are state-owned institutions, while others are privately owned.

Significant pressures were brought to bear on the banking system following the introduction of the Real Plan in 1994, therefore, the Federal government, created certain lending mechanisms to assist private banks in the absorption of other private banks that were experiencing difficulties. In fact, the difficulties of some state-owned financial institutions were among the major causes of the public deficit.

The Brazilian banking system is sophisticated and highly automated. Approximately 180 banks and their 16,800 branches are the primary sources of short-term credit (that is, credit for less than 180 days). However, the availability of medium-term and long-term financing is hindered by the memory of high inflation and the relatively low level of domestic savings. Loans for longer terms are granted by the following entities

- ▷ Government financial entities;
- ▷ Foreign private banks, in foreign currency equivalents; and
- ▷ Multinationals to their subsidiaries.

Under Brazilian law, cross border leasing is permitted. Financial leases are available for minimum terms of two or three years depending on the useful life of the goods. Operational leases require a minimum term of 90 days.

According to the Brazilian legislation¹ foreign loans are subject to registration with the BACEN.

With more than 4,928 branches and total assets of R\$ 685.684 billion, Banco do Brasil is the largest state-owned commercial bank as of September 2009. The bank sometimes co-directs monetary and credit policy with the BACEN. The largest private commercial bank, Itaú/Unibanco has more than 3,715 branches and total assets of approximately R\$612.399 billion as for 2009. The largest savings institution, Caixa Econômica Federal, is controlled by the Federal government. Due to privatization, most Brazilian states no longer control commercial banks, but they do control certain development banks.

Foreign banks operate in Brazil either through branches or through minority investments in local banks. They generally enjoy the same rights, and are governed by the same regulations, as domestic banks. The operation of banks and other entities in the financial services industry is highly regulated by the BACEN.

Some foreign banks have acquired Brazilian commercial banks and increased their positions in the local financial market. These acquisitions raised the participation of international banks in Brazil banks' assets from 5.67% in 1996 to 25.79% in December 2001 (according to the Brazilian Central Bank website). The most important acquisitions of Brazilian banks were the purchase of Real by ABN/AMRO Bank from the Netherlands, Banespa and Bozano/Meridional by Santander from Spain and Bamerindus by HSBC from the United Kingdom.

Considering total assets, the three biggest private commercial

banks in Brazil are: Itaú/Unibanco with assets of R\$612.399 billion; Bradesco with assets of R\$ 485.6 billion and Santander with assets of R\$ 305 billion;

Securities Markets

Until 2003, initial public offerings (IPOs) were not a customary source of corporate finance in Brazil. However, in recent years, Brazil has seen a significant increase in IPOs, both in the volume of transactions and in the amounts involved.

In terms of the volume of deals, Latin American IPOs are probably on their way to having one of their strongest years on record and Brazil has consistently led the region in this regard - with 26 IPOs implemented in 2006. The expectation is that at least 60 IPOs will be implemented in 2007.

Most of the shares traded in Brazil are preferred shares that do not carry voting powers. The stock exchange is generally fairly volatile. Shares of companies registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários or CVM) are traded on nine regional stock exchanges. Approximately 97% of transactions are carried out on the São Paulo and Rio de Janeiro exchanges, both of which have their own listing requirements (the Rio de Janeiro stock exchange is currently used only for special negotiations, therefore, most transactions are carried out on the São Paulo stock exchange). In the past few years, trading volume has risen substantially because of the increased activity of large institutional investors such as pension funds, insurance companies and mutual funds. In addition, the government allows foreign investment funds to operate in Brazil, if they register with the CVM and BACEN. Brazilian tax law offers favorable treatment for foreign investment in securities listed on the stock exchange.

1 - Circular 3,027/01

The stock markets also trade stock futures and options. Companies increasingly obtain funds through the issuance of bonds, which must be registered with the CVM.

Commodities Exchanges

Brazil has commodities exchanges where futures and options are traded in commodities such as metals, grains and currencies. The following six types of futures markets operate in Brazil:

- ▷ **Futures** - the parties undertake put and call commitments for physical or financial settlement at a future date.
The cornerstone of the futures market is the system of administering contract value positions, which translate into daily gains or losses, and margin guarantees.
- ▷ **Spot Options** - one party acquires from the other the right to purchase or sell the commodity being traded, up to or on a specific date, at a pre-set price.
- ▷ **Future Options** - one party acquires from the other the right to purchase or sell future contracts in a commodity, up to or on a specific date, at a pre-set price.
- ▷ **Forwards** - the parties commit to buy or sell for future settlement. No daily adjustment or exchange of position is possible on the forward market because it is based on the future options market. The parties remain bound to each other until settlement of the contract.
- ▷ **Spot Contracts** - these contracts are traded for immediate settlement. Trade is limited to certain commodities.
- ▷ **Swaps** - a financial strategy whereby the two parties agree to exchange future payment flows, with no exchange of the principal. In practice, settlement is handled through payment of the amount corresponding to the

difference between the agreed basic referential prices. These operations may be carried out on stock exchanges or directly between financial institutions.

B7 | Essential Industries

Every major industry is represented in the Brazilian economy. Brazil's main industries consist of production of aluminum, cement, fuel, machinery, paper, plastics and steel; the consumer and food industries, consisting of manufacturing cleaning supplies, food production and hygiene, medicine and textile manufacturing; and the durable goods industry, consisting of manufacturing domestic appliances and vehicles. Financial services represent the principal service industry. Brazil is also a major world producer of various agricultural products such as bananas, coffee, corn, orange juice concentrate, rice, soybeans, alcohol and sugarcane.

B8 | Energy and Natural Resources

Brazil is one of the leading producers of hydroelectric power. Brazil's Itaipú Dam is one of the largest hydroelectric power plants in the world. Domestic demand is about 347 gigawatts per hour.

Oil production is nearly 1.978 million barrels per day, accounting for 100% of domestic demand in 2009 (according to Petrobras). In 2009 Brazil was considered as the possible 4th largest oil producer on a worldwide basis, with the new deepwater pre-salt layer reserves (PFC Energy - January/2010). Brazil has also developed alcohol fuel (ethanol) derived from sugarcane, which serves as a substitute for combustible oil.

Brazil is one of the world's largest producers and exporters of iron ore. Other principal mining industries include bauxite, copper, gold, lead, manganese, nickel and zinc.

B9 | Foreign Trade

Trade Balance

In recent years, Brazil has had a trade surplus as a result of several factors including the devaluation of the Real and high foreign demand for many of its products. The Brazilian Trade Balance in 2008 consisted of exports of US\$1197.953 million while imports reached US\$173.148 million, resulting in a trade surplus of US\$24.805 million for the year.

To boost exports and balance foreign trade, the BNDES finances provides financing for Brazilian companies' export operations at interest rates lower than market rates.

Exports and Imports

In 2006, exports of iron minerals and extracts,, passenger vehicles, crude petroleum, frozen chicken, aircraft, soy, bran and residues of soy as well as transmitters and receiving instruments amounted to approximately US\$39 billion. Brazil's principal imports were crude petroleum oil, electric engines and parts, automotive and tractor equipment, drugs for human and veterinary medicine, bran mineral coals and heterocyclic compounds, their salts and sulphonamides.

Trading Partners

Brazil's principal trading partners are the United States, Argentina and other Latin American countries, the members of the European Union (EU), Japan, Saudi Arabia, South Korea and China.

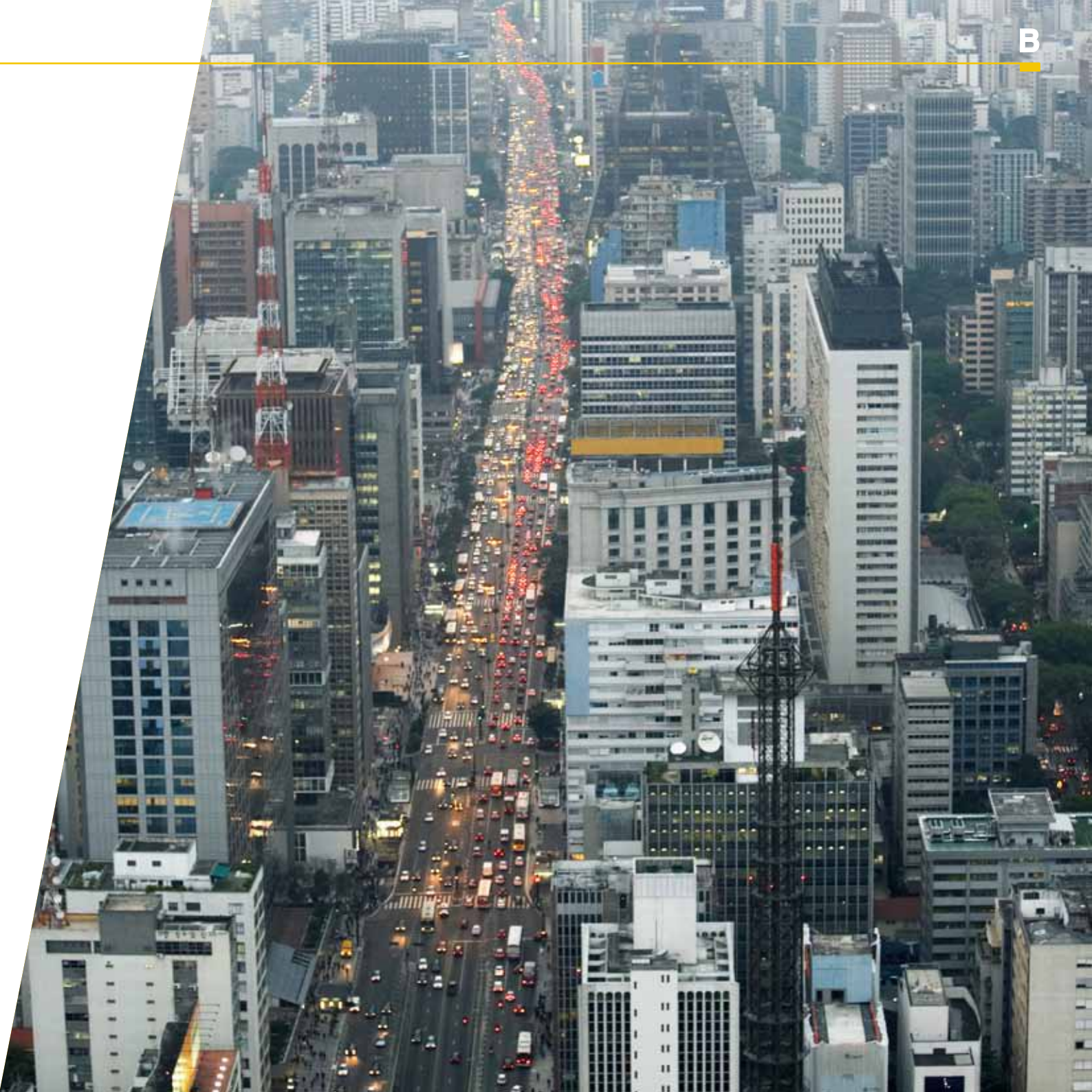
For further information on Brazil's leading trade partners see Appendix 4.

Regional and International Trading Associations

After decades of seeking to integrate their markets through trade liberalization, Brazil, Argentina, Paraguay and Uruguay formed the common market of the South called Mercosul. Mercosul represents a market of more than 200 million potential consumers and a combined GDP of approximately US\$796.7 billion. Mercosul potentially offers many opportunities to entrepreneurs and international investors alike. It currently provides for a common external import tax rate for imports from non-member countries, while imports from trade members are generally tax exempt. Mercosul also allows the free movement of goods and people among member countries.

In addition to Mercosul, Brazil belongs to the Latin American Integration Association (LAIA, Associação Latino-Americana de Integração). LAIA provides reduced duties and other benefits to member countries. LAIA includes Argentina, Bolivia, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

Brazil is also a member of the World Trade Organization (WTO) and has trade agreements with various other countries, including Portugal. ■



C ▷ Foreign Investment



C1

Exchange Controls

Despite the intention to make its regulations more flexible, the Brazilian Central Bank still imposes strict controls over cross border currency transactions. This is a significant issue for foreign and domestic investors that seek to invest abroad or in Brazil. In principle, prior approval from the Brazilian Central Bank is not an issue to the extent that the transactions are supported by appropriate documentation. The intention is to make procedures less bureaucratic and stimulate the inflow and outflow of funds to and from Brazil

However, in practice, the control over inbound and outbound transactions has been passed to Brazilian private banks that are responsible for ensuring compliance with the Brazilian foreign exchange rules. In general, foreign investments are still subject to controls requiring their registration with the Brazilian Central Bank electronic system (called RDE-IED/SISBACEN) while remittances of funds out of the country must be made using specific routes or codes, regulated by the Brazilian Central Bank through International Capital and Foreign Exchange Market Regulation (RMCCI).

Failure to comply with the foreign exchange regulations and associated requirements is still subject to significant penalties - this is especially true in the case of evasion, making false statements and for private offsetting transactions.

Remittance of Dividends and Profits

No restrictions are imposed on the amount of dividends distributed to shareholders domiciled abroad, provided the foreign investment is properly registered with the Brazilian Central Bank.

A corporation (SA) is required to allocate 5% of its annual net income to a reserve (reserva legal) before distribution

to shareholders. This annual allocation is required until the reserve equals 20% of total capital. It is under discussion if this requirement applies to limited liability companies (LTDA).

Dividends paid out of profits generated on or after January 1, 1996 are not subject to withholding tax. Dividends paid out of profits generated on or before December 31, 1995 are subject to withholding tax at a rate of 15% or 25%, unless otherwise provided by an applicable tax treaty.

Remittance of Interest

No restrictions apply to interest paid to a foreign lender (related or unrelated) to the extent that the loan contract is entered into under market conditions and it is properly registered with BACEN.

Interest paid or credited for loan agreements signed with related parties abroad and not registered with the BACEN must comply with Brazilian transfer pricing rules.

Regarding deductibility of interest expenses, please note the following:

The Brazilian Government on 16 December 2009 introduced Provisory Measure 472 (MP472) which introduced significant changes to the Brazilian income tax rules, i.e. thin cap rules.

Prior to MP472, interest expenses arising from intercompany borrowing were deductible as long as they were compliant with the general rules governing deductions of expenses (i.e. necessary and ordinary for the business).

With the introduction of MP472, thin cap rules were introduced and, according to article 24 of said MP, irrespective of whether intercompany loans are compliant with the general rules governing the deduction of expenses and transfer pricing rules, interest expenses arising from any financing arrangement executed with related party are only deductible if the related Brazilian borrower does not have a debt:equity ratio greater than 2:1, any excess therefore will not be deductible for income

tax purposes. Some questions remain unanswered, such as: how to compute the debt:equity ratio and how the rules apply to intercompany loans concluded with related parties with no equity interest in the Brazilian borrower. Moreover, MP472 also sets up back-to-back provisions by means of which if the guarantor of a third-party financing is related to the Brazilian company, the thin cap rules will also apply.

Additionally, article 25 of MP472 provides that any interest expense deriving from a financing arrangement executed with a contracting party established in a low-tax jurisdiction (LTJ) or benefiting from a privileged tax regime (PTR), irrespective whether related or not to the Brazilian borrower will only be deductible if the debt:equity ratio of the Brazilian borrower does not exceed 0.3:1, back-to-back rule described above also applies here.

Moreover, any payment made to residents of LTJ or PTR are not deductible for income tax purposes, unless the following requirements are met: (i) identification of the effective beneficiary of the income; (ii) evidence of the operating capacity of the recipient in the LTJ or PTR; (iii) supporting documentation regarding the price paid for rights, goods and services.

The effective date of the new rules established by MP472 is uncertain. As the MP was not passed into law before the end of 2009, it would unlikely be effective for 2010. The Brazilian Congress has up to a 120-day period to convert MP into law, including proposing amendments to the existing provisions of MP472.

Remittance of Royalties and Fees

Royalty payments are allowed and deductible provided the underlying intangible is duly registered in both the country of origin and in Brazil. Remittances of royalties abroad for trademarks, patents and technical assistance that involve the transfer of know-how are subject to prior registration with and approval from the Brazilian Industrial Property Agency (Instituto

Nacional de Propriedade Industrial or INPI). They must be also registered with the BACEN.

The deduction of royalty expenses is generally limited to an amount between 1% and 5% of the net receipts derived from the product manufactured or sold (excluding software and similar copyrights). The same limitation may also be imposed on the amount of the royalty that may be effectively remitted abroad.

The payment of royalties and technical assistance fees is generally subject to 15% withholding tax (or 25% of payments made to a low-tax jurisdictions) and a 10% special contribution called CIDE. CIDE is charged on royalty payments including fees for technical assistance and technical services and it is imposed on the Brazilian company. A CIDE credit system is available for trademark payments only.

Repatriation of Capital

The repatriation of share capital is not generally restricted if the investor registers the original investment and any capital increases or capitalized earnings with the BACEN. Generally, repatriation is accomplished after the sale of the shares to a local resident, by a capital reduction or liquidation of the company. Commercial law contains specific rules on share redemptions and on companies re-acquiring their own shares.

Capital is most commonly repatriated through the sale or redemption of shares. Any capital gain recognized as the result of a sale transaction is subject to withholding tax in Brazil at a general 15% rate (25% if the seller is located in a low-tax jurisdiction) unless otherwise provided by the tax treaties signed with Brazil. Capital gains are generally computed as the positive difference between the sales price and the cost of acquisition of the investment. If the seller is a non resident entity, some controversy exists as to whether the cost basis should be the original investment in foreign currency (as registered with the Brazilian Central Bank) or the original investment in local

currency plus inflationary adjustments (up to 1995). In practice, the election for one or the other method results in different amounts of capital gain.

Share capital may also be repatriated through a capital reduction, which may also trigger withholding tax provided certain conditions are met. If a Brazilian company has accumulated losses, it may be required to first offset such losses before implementing the capital reduction. A limited liability company must observe, a 90 day waiting period before implementing a capital reduction to allow creditors the opportunity to approve the reduction. For a corporation, the waiting period is 60 days.

Liquidations are audited by the tax authorities and they may take a long time to be finalized. They are taxed similarly to a sale of shares. Repatriated funds in excess of the amount of foreign capital registered with the BACEN are subject to a 15% withholding tax (or 25% if paid to a low-tax jurisdiction).

Foreign Currency Accounts

Brazilian resident individuals/companies are permitted to maintain bank accounts denominated in foreign currency. However, the funds must be declared on an individual's personal income tax return and on a special report for BACEN (under certain conditions).

Patrimony

Individuals are allowed to remit money out of the country.

Salaries and Wages

Brazilian companies are authorized to remit salaries and wages captured and taxed via local payroll to a foreign bank account held by the employee. Such a possibility used to be limited only to the engineering companies and is now authorized to all industries.

Share Plans

Individuals and legal entities are allowed to remit funds to abroad to enable local employees to participate from Corporate Share Plans sponsored by the parent company. These remittances should be supported by documentation associated with the plans and it is important to note that the local agent closing the foreign exchange transaction may require as many additional documents as they understand necessary to support the remittances

Structure of Business Entities

Laws governing the organization of business entities in Brazil are the same for Brazilian residents and for foreigners.

C2 | Restrictions on Foreign Investment

In general, Brazil does not restrict foreign ownership of domestic enterprises. However, foreign individuals and companies are not permitted to control investments in certain sectors, including the news media, where participation of foreign investors is allowed only up to the limit of 30% of a company's capital. Other sectors, such as transportation, are subject to specific operational restrictions. In addition, exploration of atomic energy projects is restricted to national concerns controlled by Brazilian citizens.

Nonresident individuals and companies incorporated abroad are not permitted to acquire directly rural real estate located near the Brazilian borders. The direct acquisition of rural real estate by resident foreigners and locally incorporated companies controlled by non resident foreigners may also be restricted. No restrictions are imposed on foreign ownership of urban real estate.

C3

Taxpayer Identification Numbers for Foreign Entities

The Brazilian Federal Revenue Service has introduced a requirement that certain foreign entities must obtain a taxpayer identification number to carry out any of the following activities: owning real estate; owning a vehicle, vessel or airplane; holding an interest in a Brazilian company; holding a bank account; holding investments in the Brazilian financial market or the Brazilian capital market; purchasing intangible assets with payment terms exceeding 360 days; executing a loan operation; executing an import finance transaction; executing a leasing operation or leasing or renting of equipment or undertaking a vessel freightage transaction; importing assets for capitalization in a Brazilian company; and lending funds to a Brazilian resident or investing funds in Brazil.

With effect from October 1, 2002, foreign resident entities are required to obtain a Federal Taxpayer identification number (called CNPJ). A local resident attorney must be appointed for this purpose. The mandate should also include powers to manage or otherwise administer the foreign entity's assets in Brazil. Furthermore, copies of the foreign entity's bylaws or articles of incorporation or equivalent, notarized and certified at the consulate, must be filed with the Federal Revenue Service at the same time.

Recent regulations do not stipulate a monetary penalty for failure to obtain a taxpayer identification number. However, a foreign entity that does not comply with this requirement could be subject to administrative penalties, including denial of approval of its corporate documentation (filed with the State Board of Registration of Companies or the Central Bank of Brazil). In practice, this type of sanction could lead to other difficulties such as the inability to repatriate earnings, participate in public bids, or create or liquidate entities in Brazil.

C4

Investment Incentives

Over the last fifteen years, the Federal government has increased foreign investment and export incentives. State and municipal governments also continue to provide tax and other incentives for investments in their regions. Many local governments, especially those in the North and Northeast of Brazil, offer significant incentives to attract businesses to their regions. Incentives include deferment or reduction of the state based value-added tax (VAT), free land or free building leases, and exemption from municipal service tax (ISS).

In addition to the regional or industry-specific incentives described below, legal entities may reduce their income tax due if they qualify for the Workers Nourishment Program (Programa de Alimentação do Trabalhador or PAT), a program aimed at enhancing the nutrition of employees. The combined maximum amount that may be deducted from the corporate income tax related to the PAT is 4% of the income tax due.

Legal entities may also reduce income tax by investing in cultural or artistic projects approved by the National Committee of Culture Development (CNIC), or by investing in the film industry (this incentive also had specific requirements and was only valid until the end of 2006). The combined maximum amount that may be deducted from the corporate income tax related to these incentives is 4% of the income tax due. Legal entities investing in sporting projects approved by the Ministry of Sports may deduct 1% of the income tax due.

Tax Incentives in the Northeast States and the States of Amazonas and Espírito Santo

Brazil offers a variety of tax incentives intended to attract businesses of particular importance and foster the development

of certain underdeveloped regions in the country.

The following incentives are offered by the Superintency for the Development of the Northeastern States (Superintendência de Desenvolvimento do Nordeste or SUDENE) and by the Superintency for the Development of the Amazon (Superintendência de Desenvolvimento da Amazônia or SUDAM):

- ▷ A 75% reduction on the corporate income tax due, calculated on income generated by a company's operations (lucro da exploração), is granted to companies that obtain approval for the implementation of new projects considered to be vital for development of SUDAM and SUDENE regions or to companies that obtain approval for modernization, expansion or diversification of existing projects considered to be vital for the development of SUDAM and SUDENE regions. The minimum increase of production capacity achieved with the modernization or expansion of an existing project in SUDAM and SUDENE region is:

- ▷ 20% for investments in infrastructure and
- ▷ 50% for other type of investment.

This incentive is granted until December 31, 2013, and companies may only benefit from it for a maximum period of ten years².

- ▷ The following corporate income tax reduction is granted to companies carrying on ventures considered to be a priority for the development of the regions covered by the SUDAM and the SUDENE that have already benefited from the income tax exemption. It is calculated on income generated by a company's operations (lucro da exploração):
- ▷ 25% from January 1, 2004 to December 31, 2008; and
- ▷ 12.5% from January 1, 2009 to December 31, 2013.

This incentive will be abolished with effect from January 1, 2014.

- ▷ Until 2013, companies undertaking projects of particular importance for the development of the region are entitled to deposit up to 30% of the income tax due on their SUDENE and SUDAM projects for reinvestment³.

With the enactment of Provisional Measure 2146-1 on May 4 2001 and the succeeding legislation⁴, the following fiscal funds for investments were abolished and replaced by new projects: FINOR (Northeast States Investment Fund - Fundo de Investimento do Nordeste); FINAM (Amazon States Investment Fund - Fundo de Investimento da Amazônia); and FUNRES (Espírito Santo State Investment Fund - Fundo de Recuperação Econômica do Estado do Espírito Santo).

These funds allowed companies to allocate a portion of their income tax payments to acquire investment quotas in the FINOR and the FINAM (up to a maximum of 30% of the total amount of the income due for FINOR and FINAM and 25% of the total amount of the income due for FUNRES). These funds were managed by government-owned banks. The quotas, represented by investment certificates, could be exchanged at special auctions for shares from the portfolio of investment funds. The market value of the quotas generally has been a fraction of their nominal value. From January 1, 2014, the FINOR and FINAM will be eliminated.

Decrees 4253 and 4254, issued on May 31, 2002, approved the rules for the new funds. The FDNE (Fundo de Desenvolvimento do Nordeste - Northeast Development Fund) and the FDA (Fundo de Desenvolvimento da Amazônia - Amazon Development Fund) were created by Provisional Measures 2156-5 and 2157-5 dated August 24, 2001⁵. Government-owned banks are responsible for managing these funds. They must be used for local development

2 - These incentives apply only to projects filed and approved after August 24, 2000. Different types of incentives may be granted to projects filed and approved before this date.

3 - Article 115, IN 267

4 - Provisional Measures 2156-5 and 2157-5

5 - Amended by Complementary Laws 124 and 125 dated January 3 2007

(implementation, modernization and diversification). At least 3% of the total resources of the FDNE must be used for the development of the Southeastern State of Espírito Santo.

The fund participation in the project may not exceed 60% of the total invested or must be limited to 80% of the fixed investment (preliminary construction, infrastructure, adjustments and training). The debentures issued on behalf of the fund are convertible into shares issued by the companies in charge of the project. The total amount of debentures must respect different limits of the company's capital, according to the Corporate Law⁶. The debentures must have their maturity date within a period of 12 years, with a grace period depending on the project's payment conditions.

Industrial and Agricultural Technology Programs

Projects that operate under the Industrial and Agricultural Technology Development Programs (Programa de Desenvolvimento Tecnológico Industrial e Agropecuário or PDTI and PDTA) and that are approved by the Industrial Development Council (Conselho de Desenvolvimento Industrial or CDI) are entitled to a withholding tax credit on the cross border remittance of royalties, technical assistance and specialized services fees. These credits are equivalent to the following decreasing percentages:

- ▷ 20% from January 1, 2006 to December 31, 2008;
- ▷ 10% from January 1, 2009 to December 31, 2013.

This credit must be refunded within 30 days, with effect from the date of the request. This credit is available under agreements dealing with transfer of technology registered with the INPI and will be eliminated from January 1, 2014. Generally, it is not available in conjunction with the 4% income tax incentive deduction described below. To benefit from referred withholding

tax credits, the company must commit itself to investing twice the value of the withholding tax credits granted under this incentive, in research and development in Brazil.

The following additional benefits are currently available under the PDTI and PDTA:

- ▷ Deduction of research and development expenses (except royalty expenses paid to nonresidents) invested in research and development for industrial and agriculture technology during the fiscal year. This deduction is an incentive calculated on the total income tax due limited to 4%; it is granted in addition to the regular deduction of these expenses from the income tax basis.
- ▷ Accelerated depreciation (twice the applicable depreciation rate, without jeopardizing the normal depreciation) for machinery, equipment, gears and new instruments used in research and development of industrial and agricultural technology.
- ▷ Accelerated amortization, for income tax purposes, of the expenses incurred with the acquisition of intangibles related to research and development of industrial and agriculture technology, which may be recorded in the company's books as a deferred asset for tax purposes. The amortization must be effected during the period in which the intangibles were acquired.
- ▷ Deduction of royalties and technical or scientific assistance fees as operational expenses. The deduction is limited to 10% of the net income derived from the sale of goods produced with the related technology percentage (as opposed to the 5% maximum limit under non-incentive legislation). To benefit from the 10% deduction limit for corporate income tax purposes, the company must commit itself to invest twice the value of the benefit in research and development in Brazil.

Projects operating under the PDTI and PDTA must stimulate the development of industrial and agro-industrial technology.

REPES and RECAP - Tax Incentives on Exports

The Special Tax Regime for Technology Information Services Export (Regime Especial de Tributação para a Plataforma de Exportação de Serviços de Tecnologia da Informação or REPES) benefits Brazilian legal entities engaged in the development of software and in supplying information technology services if they have equal or higher than 60% of their annual gross sales income derived from exports.

The tax benefits associated with the REPES comprise the suspension of PIS and COFINS charged on imports of goods and services destined for the development of software and technology information services, provided the import is directly made by the beneficiary of the REPES. The suspension is converted to zero-rate tax after three years from the date of the import transaction. REPES also grants PIS and COFINS suspension on local sales of goods to be incorporated in the fixed asset of companies benefited from REPES.

Besides, REPES grants IPI suspension on the importation of certain goods listed in Law which will be incorporated in the fixed asset of the beneficiary of the REPES. The suspension is converted to exemption after three years from the date of the import transaction.

Another special tax regime for Brazilian exporters is the Special Regime for the Acquisition of Capital Goods by Export Companies (Regime Especial de Aquisição de Bens de Capital para Empresas Exportadoras or RECAP). To benefit from the RECAP, a company must have recognized gross revenue derived from exports in the prior year equal to or higher than 70% of its total annual gross income and it must maintain a minimum of 70% export revenue for the following two calendar years (or the

following three years, if the company does not comply with the first requirement).

RECAP applies to certain equipment, instruments and machinery imported directly by the RECAP beneficiary to be incorporated as fixed assets. Under RECAP, PIS and COFINS taxes triggered on the import are suspended and converted into a zero tax rate upon compliance with the requirements of the scheme. The regime also provides for the suspension of PIS and COFINS on local acquisitions made by the beneficiary of the RECAP.

The RECAP does not apply to Brazilian companies subject to the PIS and COFINS under the cumulative regime.

In addition to the conditions outlined above, to benefit from both REPES and RECAP, a Brazilian legal entity must not have any debts with the Brazilian Federal Revenue Service.

The benefits are cancelled if the legal entity does not comply with the minimum export revenue of 70%; if the beneficiary does not comply with the requirements for REPES and/or RECAP; or at the beneficiary's request. A legal entity excluded from REPES or RECAP must pay interest and penalties on the taxes suspended, calculated from the date of acquisition of the imported products and services or the registration of the import transaction with the electronic Customs system (SISCOMEX).

REPETRO - Tax Incentives for the Oil and Gas Sector

REPETRO (Regime Aduaneiro Especial de Exportação e Importação de Bens Destinados às Atividades de Pesquisa e de Lavra das Jazidas de Petróleo e de Gás Natural) is a Brazilian special customs regime which applies to the importation and exportation of goods destined to foster the growth of the oil and gas industry. REPETRO is applicable to a determined set of products listed in the Law, allowing the exportation of goods without the physical exit of the Brazilian Territory with subsequent importation into Brazil through the temporary

admission regime (see item C6). REPETRO also allows the importation of raw material to be used in the industrialization process with import duty, PIS, COFINS and IPI suspension through the drawback suspension special customs regime (see item C6). REPETRO also grants import duty, PIS, COFINS and IPI suspension upon importation of finished goods under the temporary admission regime.

Notwithstanding, please observe that REPETRO is not applicable to the importation of goods originated from abroad under a leasing agreement with a foreign entity.

REIDI- Special Regime for Investments in the Infrastructure Sector

REIDI (Regime Especial de Incentivos para o Desenvolvimento da Infra-Estrutura) is a special regime aimed to foster the investments in the infrastructure sector by private entities, specifically to, companies interested in investing in the transport, port facilities, energy, sanitary and irrigation sectors. In order to be able to be granted by REIDI, the company shall apply within the Federal Government. .

The benefits of the REIDI mainly constitute of the suspension of PIS and COFINS charged on local acquisition and importation of new machinery, tools and equipment to be used in or integrated to infrastructure investments destined to be incorporated in the fixed asset of the beneficiary. Furthermore, also the material used in the construction of infrastructure is granted with the suspension of PIS and COFINS under the REIDI regime. Upon the use or incorporation of such goods to the infrastructure investments the suspension of the PIS and COFINS social contributions will be converted into zero rates.

Moreover, the benefits of the REIDI will be valid by a period of five years, counted as from the approval of the infrastructure project by the competent tax authorities.

REPORTO - Special Regime for Investments in the Port Facilities

REPORTO (Regime Tributário para Incentivo à Modernização e à Ampliação da Estrutura Portuária) is a special regime aimed to foster the investments in the modernization and enlargement of Port Facilities by port operators, port concessionaries, public use port lessees, companies authorized to operate port facilities of private and public use and dredging companies.

REPORTO regime grants the suspension of the Import Duty, IPI, PIS and COFINS upon the acquisition of certain machinery, equipment and spare parts, among other goods, destined to be incorporated to the fixed asset for use in the port facilities operation. The Import Duty is only suspended when the imported goods do not have any similares in Brazil. The IPI and Import Duty are converted into exemption after five years from the purchase of goods. The suspended PIS and COFINS are converted into zero rates after five years of the purchase of goods.

In addition, the benefits of the REPORTO regime were extended to certain goods to be used in the execution of transport of merchandises through railway means, where the beneficiary will be the railway transportation concessionary.

PADIS and PATVD - Programs for the Development of the Semiconductors and Digital Transmission Industries

Aiming at the development of the semiconductors industry, the PADIS (Programa de Apoio ao Desenvolvimento Tecnológico da Indústria de Semicondutores) is a program developed to foster investments in this sector through the concession of zero rates to the IPI, PIS and COFINS, incident on local acquisitions and importations of goods destined to be used in the manufacture of a specific list of products enacted by the Brazilian Ministry of Science and Technology. PADIS also grants CIDE zero rate upon

the remittance of payments to abroad for royalties, as well as for the payment for the rendering of technology services from abroad.

Further, PADIS grants reduction of corporate income tax due upon the revenue obtained by the PADIS beneficiary with the sale of the manufactured products to zero.

Notwithstanding, the PADIS program requires the beneficiary companies to provide investments in R&D of at least 5% of its gross revenues obtained from local transactions.

The PATVD (Programa de Apoio ao Desenvolvimento Tecnológico da Indústria de Equipamentos para TV Digital) program grants the reduction to zero of the rates of the IPI, PIS and COFINS upon the local acquisition and the importation of raw materials, fixed assets and software to be used at the manufacture of digital transmission devices listed by the Federal Government. The PATVD also grants zero rate to CIDE due upon the remittance of payments abroad for royalties, as well as for the payment for the rendering of technology services from abroad. In addition, PIS, COFINS and IPI charged on the sales transactions with products manufactured under the PATVD are also zero rated.

The R&D obligation under the PATVD program is of at least 2.5% over the gross revenue obtained from local transactions. The non-compliance with the conditions established to operate the PATVD may implicate in the suspension of its benefits, with the application of penalties and interests over the taxes originally due. If the irregularities persist, the concession of the regime shall be cancelled by the Tax Authorities.

The approval of projects under the PADIS and PATVD programs is conditioned to the regularity of the interested company with the payment of the Federal taxes and contributions.

Manaus Free Trade Zone (MFTZ)⁷

The Manaus Free Trade Zone (MFTZ) is a free trade area offering special tax incentives to attract businesses to the underdeveloped Amazon region. Foreign goods used in the Manaus Free Trade Zone for consumption, manufacture or assembly, and goods imported for storage and re-export, are exempt from import duties, PIS and COFINS and federal VAT (IPI). The local government of the State of Amazonas may also grant an exemption and/or a reduction on the state VAT (ICMS). In order to enjoy these benefits, a company must obtain prior approval from the relevant Brazilian authorities (SUFRAMA). Approval is generally granted for projects that involve a minimum manufacturing process, and that meet other requirements set out in the relevant Brazilian tax legislation.

The following lists sets out the available tax incentives for investments in the MFTZ :

Taxes on Import - II

- ▷ Import Duty exemption for products destined for internal consumption in the MFTZ;
- ▷ Import Duty exemption for certain products destined for the Western Amazon (Amazônia Ocidental) region; and
- ▷ Import Duty reduction of up to 88% for raw materials that are imported via the MFTZ and subsequently used in the manufacturing process of products that are destined for the Brazilian market. The reduction percentage depends on the value added to the products manufactured;

Federal VAT - IPI

- ▷ IPI Suspension for goods entering the MFTZ plus a suspension of Import Duties. The payment is deferred until the moment that the imported goods leave the MFTZ;

⁷ - According to the summary on the Suframa Website - www.suframa.gov.br

- ▷ IPI exemption for goods leaving the MFTZ, for products that have undergone the minimum basic production process as determined in the Federal Law dealing with the MFTZ incentive, called Basic Productive Process (PPB). However, special requirements must be satisfied in order to benefit from this incentive, such as the products are being listed in the law. If a specific product is not mentioned in the PPB list, the company interested in manufacturing in the MFTZ may file a request with the governing body SUFRAMA requesting its inclusion in the PPB list.
- ▷ Exemption of IPI for products manufactured outside the MFTZ and destined for the MFTZ;
- ▷ Exemption of IPI for manufactured goods destined for internal consumption, either in the MFTZ or in the Occidental Amazon region (only certain products benefit from this latter provision).

Income Tax - IR

- ▷ An income tax reduction of up to 75% on certain income

Social Contributions on Turnover - PIS and COFINS

- ▷ Special rates of PIS and COFINS ranging from combined rates of 0%, to 3.65% and 7.3%, depending on the activity and the transaction⁸.
- ▷ PIS and COFINS suspension upon the acquisition from outside the MFTZ and importation of goods to be consumed in a manufacturing process approved by SUFRAMA.
- ▷ Reduction of the PIS and COFINS rate to zero upon supply of goods within MFTZ, if such goods are destined to a manufacturing process approved by SUFRAMA.

State Incentives - State VAT - ICMS

- ▷ ICMS credit equal to the amount that would generally

be charged on the interstate sale to the MFTZ of industrial products, were it not for the exemption;

- ▷ Other ICMS credits may be available depending on where goods are sold (that is, an ICMS credit may be obtained even in relation to a sales transaction);
- ▷ ICMS deferment for certain imported raw materials;
- ▷ ICMS exemption on goods destined for the MFTZ.

Municipal Incentives

- ▷ Exemption for ten years from IPTU - Tax on Urban Real Estate;
- ▷ Exemption for ten years from the public cleaning and conservation tax; and
- ▷ Exemption for ten years from the fee charged on business licenses.

Special Free Trade Zones

Foreign companies that invest in plants manufacturing goods for export may establish industrial ventures in Export Processing Zones (Zonas de Processamento de Exportação or ZPEs), which are created by Federal decree. ZPEs are special free trade zones that are not considered to be Brazilian territory for the purposes of customs control. A maximum of 20% of the products manufactured in ZPEs may be destined to the Brazilian market.

The following tax and customs exemptions are offered for a period of 20 years to companies operating in ZPEs:

- ▷ Suspension of the Import duty, IPI, PIS, PIS-import, COFINS, COFINS-import and AFRMM;
- ▷ Exemption from customs and administrative restrictions and controls (for example, export and import licenses) for certain goods imported or exported;

⁸ - Article 2 of Instrução Normativa nº 546/2005.

- ▷ Exemption from withholding tax due on payments for services rendered by foreign entities; and
- ▷ Exemption of the corporate income tax during a period of 5 years.

It is important to note, however, that no ZPEs are currently operating in Brazil.

Other Special Benefits for Export Companies

Companies that have at least 70% of its revenues originated from exportations qualify for the incentives granted to “preponderantly exporter companies”. Preponderantly exporter companies are granted with the suspension of the IPI, and to the contributions to PIS and COFINS, upon the importation of raw material, intermediate products and packing materials. In addition, producers of certain goods defined in Law (i.e. leather wallets, shoes and harvesting equipment) may obtain the same benefits as per the obtainment of 60% of its revenues originated from exportations.

C5 | Sources of Funding for Foreign Investors

Foreign investors that operate in Brazil through a subsidiary or a branch generally have access to the funding sources that are available to Brazilian companies. Generally, the instruments available are similar to those used in most developed countries. Suitable hard currency hedges against inflation are available at reasonable cost.

As a result of Brazil's historically inflationary economic environment, most credit instruments are repayable in the short- or medium-term. The structure of financial instruments changes frequently because of constantly changing market conditions that cause banks to change their sources of funding. The BACEN

regulations also change from time to time. Depending on specific monetary policy needs, the BACEN may issue treasury bonds denominated in dollars. Because of the rapidly changing nature of financial instruments, prospective investors should try to obtain the most up-to-date information available before investing in Brazil.

Contracts between Brazilian residents may not be denominated in foreign currency. A hedge against inflation is generally provided by investments that have a clause for monetary correction based on an official inflation index or by acquiring a specific commodity within the Futures and Commodities Market (Bolsa Mercantil e Futuros or BM&F).

In April 2009, the National Monetary Council (CMN) passed Resolution 3.719, that repeals Resolution 3.389 and allows Brazilian exporters to maintain up to 100% of their revenue offshore.

The export proceeds may be used for new investments, for financial transactions and for the settlement of obligations abroad.

The following forms of financing are available to foreign investors:

- ▷ Lines of credit from Brazilian banks;
- ▷ Factoring of short-term receivables;
- ▷ Placement of notes, bonds and commercial papers abroad;
- ▷ Leasing;
- ▷ Issue of stock and debentures; and
- ▷ Advances against foreign exchange export contracts and receivables.

Medium-term loans are generally funded through certificates of deposit that compensate investors for inflation plus interest.

Long-term financing is generally available through repass loans; these are long-term loans made to local banks by foreign banks in foreign currency, which the local bank passes on to final borrowers for shorter terms (generally one year). The

final borrower assumes the foreign currency risk and pays the interest, the withholding tax and a repass fee. Another long-term financing source is the Special Agency for Industrial Financing (Agencia Especial de Financiamento Industrial), which makes funds available for the purchase of capital equipment produced in Brazil.

Export financing may be available from the following additional sources:

- ▷ ACC (Adiantamento sobre Contrato de Câmbio) - an advance on export transactions which allows a Brazilian company to receive an advance payment equal to the export transaction to be effected. This export financing may be obtained from any private bank duly authorized to operate in the foreign currency exchange market.
- ▷ ACE (Adiantamento Sobre Cambiais Entregues) - an advance on previously-made export transactions which are generally used after an ACC transaction and after the shipment of the goods. This financing may also be obtained from a private bank duly authorized to operate in the foreign currency exchange market.
- ▷ Bonus bonds issued in the international financial market for long-term financing of export contracts.
- ▷ Long-term financing for export transactions available under the Export Finance Program (Programa de financiamento às exportações or PROEX). Managed by Banco do Brasil, this financing is divided into two main programs:
 - ▷ PROEX Financing, which is a direct financing program available to the Brazilian exporter with resources from the Brazilian National Treasury; and
 - ▷ PROEX Equalization, under which Brazilian exports are financed by local or foreign financial institutions, while financial expenses charged by private banks are equalized

by the Brazilian government to bring them into line with international market conditions.

- ▷ Long-term financing for exports of manufactured products, granted by the National Bank of Social and Economic Development (BNDES), which comprises the financing of the entire export chain (the manufacturing, shipment and trade of the finished products abroad) and aims to improve the competitiveness of Brazilian products exported and traded abroad.

C6 | Importing and Exporting

Brazil has continuously recognized trade surpluses in the last couple of years and the country still plays an important role in worldwide trade as one of the largest exporters of agricultural products. The trade surplus has arisen from several economic and political factors, mainly associated with the devaluation of the local currency against the US dollar and the measures introduced by the Brazilian government to improve exports (such as the increase in the financial and tax incentives for exporters).

Brazil has attempted to make import and export transactions less bureaucratic from the regulatory and foreign exchange perspectives. For example, imports and exports generally do not require the importer or exporter to obtain prior licenses and exports are generally tax free. On the other hand, the Brazilian foreign exchange rules might present an issue for importers because of the registration requirements relating to financing import transactions (if payments exceed a 360 day period).

Restrictions and Controls

Import and export transactions are subject to control by the Chamber of Foreign Trade (Secretaria de Comércio Exterior or

SECEX), an agency of the Ministry of Development, Industry and Foreign Trade. Brazilian importers and exporters are required to register with the SECEX to obtain an Exporter and Importer Registration (Registro de Importadores e Exportadores or REI), before they may enter into cross border trade transactions. Enrollment is granted automatically at the time of the first import or export transaction.

In order to import goods into and export goods out of Brazil, it is also necessary to register with RADAR, an electronic system operated by the Brazilian Federal Revenue Service. This registration requires a specific application form and the presentation of a list of documents to the Brazilian customs authorities. Once registered with RADAR, Brazilian importers and exporters must be qualified by the Federal Revenue Services to operate through the SISCOMEX electronic system that deals with all customs operations (imports and exports of goods). Provided a Brazilian company is properly registered with the federal, state and local tax authorities, the registration with RADAR may generally be obtained within three to six months from the date of application.

To the extent that both import and export transactions represent outflows and inflows of funds from and into Brazil, all exchange contracts must be registered in the electronic system maintained by the Brazilian Central Bank (RDE-ROF).

Few imports and exports are forbidden or restricted. Imports of certain products are subject to a quota control rule, while exports of certain types of products require special procedures such as obtaining prior approval from the Brazilian government (this procedure applies to products of animal origin, oil, gas and other products). Prior license may also be required for transactions involving used goods (including capital goods) and for products related to human and animal health. In general, the importation of used consumer goods for commercial purposes is forbidden.

Imports

Generally, no prior import licenses are required to enter into an import transaction. The transaction must be registered in the SISCOMEX electronic system to obtain an import declaration (DI) for the goods to clear through customs.

If a prior import license is required, this must be obtained before the shipment of the goods to Brazil; the license is generally valid for 90 days after shipment of the goods to Brazil. The need for a prior license must be verified based on the tariff code of the goods to be imported. Importers may also obtain an import license for drawback operations or import operations destined for the Manaus Free Trade Zone.

Certain products, such as human blood, drugs, weapons and ammunition, nuclear material, petrochemicals, herbicides and pesticides, also require authorization from special agencies as a condition for the issue of an import license.

After obtaining the import license, the importer must complete an Import Declaration (Declaração de Importação - DI) and register the import in the SISCOMEX electronic system to get customs clearance.

Exports

Export transactions must also be registered in the SISCOMEX electronic system. An Export Registration (Registro de Exportação - RE) must be obtained for the goods to clear customs. Export transactions must occur within 60 days after the RE is obtained, which may be postponed if the RE is not used; otherwise, it is automatically canceled.

The following export operations require special procedures:

- ▷ Transactions involving a non-convertible currency;
- ▷ Transactions without currency coverage;
- ▷ Consignment of goods;

- ▷ Goods that are scarce on the internal market; and
- ▷ Goods containing nuclear and radioactive materials, weapons and ammunition.

Exports of raw lumber, animals and certain other products are either specifically prohibited or severely restricted.

The Ministry of Agriculture regulates the export of certain goods of animal origin and certain vegetables (including beans, coffee and potatoes). The Ministry of Health regulates the export of medicine, and the Ministry of Defense controls the export of weapons and ammunition. A license must be obtained prior to the exportation of any of these goods.

Customs Duties

Import duty (Imposto de Importação - II) is levied on imported goods based on the customs value of the goods. The customs value is generally based on the cost plus insurance and freight (CIF) value of the goods plus others costs specified by the customs valuation rules. The applicable customs duty rate may vary depending on the tariff classification code of the goods, according to the Common External Tariff for non-Mercosur members (External Tariff Code or TEC), but the average rate is 15%. Import duty is a non-recoverable tax, thus, a cost for the importer.

Import transactions are also subject to federal and state value added taxes (IPI and ICMS respectively). IPI is calculated on the CIF value of the goods, plus import duty and is charged at an average rate of 15%. ICMS is charged on the CIF value of the goods plus import duty, IPI, ICMS itself and PIS-Import and COFINS-Import (federal social contributions), plus other customs charges. Generally, the ICMS rate is 17% or 18% but lower rates may apply, depending on factors such as the state where the importer is located, the nature of the product imported and benefits granted because of special customs regimes. If the imported goods are used in a manufacturing process in Brazil

or if they are resold, the Brazilian importer may recover these import taxes.

PIS-Import and COFINS-Import are both social contribution taxes charged on the importation of goods and services, generally they are charged at a combined rate of 9.25%. The tax base for PIS-Import and COFINS-Import on imported products is the customs value plus ICMS and PIS and COFINS, which leads to an effective tax rate of around 13.45%. The Brazilian Importer may compute a PIS and COFINS tax credit for inputs acquired under the non-cumulative PIS and COFINS regime (similar to a VAT type of tax). This credit may be used to offset local PIS and COFINS tax liabilities. PIS and COFINS exemptions may apply to certain imports.

The Additional Freight for the Renovation of the Merchant Navy (AFRMM) is a federal fee created to fund the improvement of Brazil's aquatic transportation system; therefore, this fee does not apply to imports made by land or air. AFRMM is charged at a rate of 25% based on the international freight value on entry of the shipment into the national harbors. An exemption from AFRMM may apply to shipments made through ports located in the North and Northeast of Brazil, to allow for development, modernization, enlargement or diversification of these ports. Exemption may be obtained following a specific request made to either the Superintendence for the Development of the Amazon (Sudam) or to the Superintendence for the Development of Northeast (Sudene), depending on the project's location.

Duty reductions may be available based on recently issued tax incentive programs or depending on the nature of the goods to be imported, their destination, origin and value. Optimization of import duties may also be achieved through structuring the supply chain to benefit from applicable free trade agreements.

Anti-dumping Regulations

Imports are also subject to anti-dumping regulations in Brazil. In practice, the Brazilian customs authorities verify import

prices based on information gathered from international commodities exchanges, specialized publications, price lists of foreign producers, prices declared by importers and by other means used to evaluate prices of both imports and exports. The Brazilian authorities exercise control over import and export prices and investigate cases in which they suspect dumping may have occurred. If this is the case, the Brazilian importer must prove the price adopted in the import transaction through the use of one of the methods provided under the Brazilian customs valuation rules, which tends to be a very bureaucratic process.

Special Customs Regimes

Ex-tarifário

This regime consists of a reduction of the import duty charged on the importation of machinery or equipment if there is no similar machinery or equipment available in Brazil. The tax benefit is granted after the importer has proved the non-existence of similar machinery or equipment and has obtained prior approval from the Brazilian trade authorities.

Temporary Admission

Under certain circumstances, goods may be temporarily imported with suspension of import duties, IPI, PIS and COFINS-imports and ICMS for a maximum period of one year (with a possible one year extension) if the goods are subsequently exported. Under special circumstances, the admission period may be extended to a total of three years. For goods imported under operational leases or rentals and goods imported for the rendering of services, import duties, IPI, PIS and COFINS-imports and ICMS must be paid proportionally to the period the goods remain in Brazil - 1% per month - and will be paid at the moment of the customs clearance of the goods. This rule also applies to contract manufacturing structures that involve low manufacturing levels mainly for exported finished products.

Temporary Export

In accordance with Brazilian legislation, goods may be temporarily exported and re-imported free of import duties and ICMS, even if the goods undergo some industrial process. The temporary export regime must be approved by the Brazilian tax and customs authorities following special request. For goods exported for repair or to be used in the manufacture of a finished product that is to be imported into Brazil, import duty and ICMS are charged only on the value added to the product.

Certified Bonded Warehouse Regime

Under the Certified Bonded Warehouse (Depósito Alfandegado Certificado or DAC) regime, goods are fictitiously exported but they remain physically stored in a bonded warehouse in Brazil under the name of the nonresident awaiting a subsequent transaction.

Bonded Warehouse Regime

A bonded warehouse allows a foreign company to maintain goods stored in Brazil under customs coverage by deferring payment of import duties and other taxes for a certain period.

RECOF Regime

Under the RECOF Regime (Regime Aduaneiro Especial de Entrepósito Industrial sob Controle Informatizado or RECOF), companies are permitted to import raw materials and other goods without paying import duty, PIS and COFINS-import, IPI and ICMS, as long as the goods are used in an industrial process for manufacturing of goods to be exported. The imported goods may remain stored inside the Brazilian company's facilities under the tax authority's control. This regime is available only for certain manufacturing sectors (including computers, automobiles and airplanes among others defined by legislation) and it is subject to specific requirements.

Goods manufactured under this industrial warehouse regime are subject to all the export benefits provided under Brazilian tax law. If the finished products are not exported but are sold locally, import duty, PIS and COFINS-imports, IPI and ICMS will be charged on the value of the imported parts applied to the goods. The goods may remain in the bonded warehouse for one year. This period may be extended for one additional year, and under special circumstances (as in cases where the productive process is considered long), the bonded warehouse storage period may be extended to a total of five years.

Drawback Regimes

The Brazilian customs legislation has five types of drawback regime:

- ▷ Drawback suspension: under this regime, raw materials and goods imported and exported after an industrial process are free of import duty, PIS and COFINS-imports, IPI and ICMS (depending on each state's legislation). This regime is regulated by DECEX and the Brazilian company must comply with certain requirements to obtain approval.
- ▷ Drawback exemption: this regime involves an exemption from import duty, IPI, PIS and COFINS-imports, and ICMS (depending on each state's legislation) on the importation of raw materials and goods for the inventory of a company, provided the goods were used in the manufacturing process of an exported final product. Subsequent imports of the same raw materials and goods previously imported in equal quantity and quality benefit from an exemption of import taxes. To obtain the exemption the Brazilian company must prove its export transactions using export documentation.
- ▷ Drawback refund: under this regime, a Brazilian importer may obtain a refund of the import taxes (import duty, IPI and PIS-Import and COFINS-Import) paid within 90 days after the export of finished products manufactured locally with raw materials that were previously imported under this drawback

regime. Import and export transactions must be proved using the import and export documentation and the tax payment forms. If the request is approved, the importer obtains a tax credit certificate to be used against its next import transaction.

- ▷ Drawback "verde-amarelo": this special regime allows the acquisition within the local market of raw materials and goods to be manufactured and subsequently exported, with the suspension of IPI, PIS and COFINS and ICMS (depending on each state's legislation). However, the manufacturer must use at least part of imported goods in the manufacturing process in order to comply with the regime's requirements. This regime does not apply for agricultural products.
- ▷ Integrated Drawback: this special customs regime allows local purchases and imports of goods to be used in the manufacturing process of products destined to export transactions with suspension of PIS and COFINS (gross revenues), PIS and COFINS-imports, IPI and ICMS (depending on each state's legislation). Differing from the abovementioned regime, importing of goods is not mandatory.

Blue Line Regime

The Express Customs Clearance regime (or Blue Line) is a special customs regime that enables certain companies to benefit from a preferential treatment for exports, imports and transactions under customs transit. To use the Blue Line clearance procedure, companies must obtain a prior, voluntary qualification, which is granted to companies that satisfy a number of requirements to indicate that their internal controls enable full compliance with their tax and customs liabilities and allow ongoing monitoring by the Brazilian customs authorities. The regime aims to speed up the customs clearance of imports and exports made by approved companies, thus reducing costs and timing.

Blue Line benefits include priority for loading and unloading goods at ports and airports, accelerated customs clearance without physical or documentary inspection, lower customs clearance charges, priority clearance of the goods if they are selected for customs inspection, and mitigation of risks arising from extended storage periods and strikes.

C7 | Registration of Intellectual Property

Patents

Patents are regulated by the Industrial Property Code⁹ (Código de Propriedade Industrial). The holder of a patent possesses ownership rights to the patented item under Brazilian legislation and international conventions. Titles to patents are transferable.

Eligible Property

The INPI issues patents for inventions, utility models and industrial designs. Protection is also granted to medicines of any kind, to chemical and pharmaceutical products or preparations and to processes for research or alteration of substances. To be eligible for patent protection, inventions, utility models and industrial designs must meet the following requirements, they must be:

- ▷ Novel and not patented, known by or used in Brazil or abroad;
- ▷ Of industrial use, that is, capable of being produced or applied in an industrial process; and
- ▷ Not obvious from a technical development perspective.

Duration, Fees and Procedures

Patents are granted for the following periods, commencing on the day that the registration is filed with the INPI:

- ▷ Inventions - 20 years;
- ▷ Utility models -15 years; and
- ▷ Industrial design rights: 10 years, extendable for 3 consecutive periods of 5 years each.

Fees vary for the initial filing, request for examination, issuance and maintenance.

Trademarks and Trade Names

Trademarks are words, names, letters, symbols or devices that are adopted and used by manufacturers or merchants to identify their goods and distinguish them from those manufactured by others. In contrast, trade names identify particular manufacturers or dealers.

Trademarks are registered with the INPI according to the Industrial Property Code. Trade names are registered with the local Commercial Register (Junta Comercial) upon incorporation of a company.

Eligible Marks

The following kinds of marks are legally protected in Brazil:

- ▷ Industrial marks used by manufacturers to distinguish their products;
- ▷ Trademarks used by merchants to identify their merchandise;
- ▷ Service marks used to protect services or activities; and
- ▷ General marks used to identify the origin of a series of products or services that are individually distinguished by specific marks.

Duration, Fees and Procedures

Owners of trademarks have the exclusive right to use particular names, symbols, devices or any combination thereof in

⁹ - Law 9,279, dated May 14, 1996.

connection with products or services for a period of ten years. Extensions are available for successive periods of the same duration. Owners may dispose of trademarks or license them to others, but the resulting royalties may be paid only during the first ten-year period and only if the license application is made within the priority term of the Paris Convention.

C8 | Licensing Arrangements

In the past, some companies encountered difficulties in transferring technology to Brazil from abroad because of strict registration requirements for licensing agreements and limitations on the remittance of royalty payments abroad (especially between related companies). However, these restrictions were partially minimized when the Brazilian legislation was modified in 1991 to come into line with international standards.

Royalty payments may not be remitted abroad unless the underlying contracts for the transfer of technology are approved by the INPI and registered with the BACEN.

The INPI observes the following guidelines for approval of contracts for the transfer of technology:

- ▷ Generally, contracts that concern transfers of technology aimed at encouraging technological innovation are approved.
- ▷ The contract must clearly state its objective, specify in detail the process for transferring the technology and indicate the industrial property rights involved.
- ▷ Contracts for technical and scientific assistance must state the conditions for obtaining the technique, planning and programming methods, as well as research, study and project activities aimed at the rendering of specialized services.
- ▷ The patent license agreement must stipulate the conditions

for the effective exploitation of the patent, which must be registered in Brazil.

- ▷ Technical and scientific assistance contracts must define the period during which services will be rendered, specifying the technical activities and training programs involved and the terms of remuneration.
- ▷ The contract should specify the following details, which concern the payment of technicians abroad in foreign currency:
 - ▷ The number of technicians;
 - ▷ The amount of daily remuneration, which should conform to normal standards in the home countries of the contracting parties, considering the specialty and level of each technician and the type of service to be rendered;
 - ▷ An estimate of the time necessary to carry out the technical assistance and training programs;
 - ▷ The expenses to be incurred by foreign technicians when present in Brazil, such as transportation, daily expenses and allowances, must be specified for each individual and must be paid directly to each technician in local currency; and
 - ▷ The remuneration must be stated as a fixed price.
- ▷ The patent license agreement must define the possible rights to exclusive use as well as possible subcontracting rights. The period of the license agreement may not exceed the period of the patent's validity.
- ▷ In the contract, the licensor must specify to the licensee all data and technical information involved, as well as the technical assistance necessary for the implementation and updating of the objective to facilitate local implementation of the technology.
- ▷ The technology transfer contract must state the responsibility

of each party to the contract concerning financial and tax obligations.

The remuneration of the licensor may be calculated in the following ways: as a fixed price; as a percentage of the licensee's net sale price or profit; or as a fixed price for each unit produced. For this purpose, net sale price is defined as the sales price, less taxes, duties and other charges as agreed between the parties. In determining the remuneration, the contracting parties must consider compensation provided in similar contracts in Brazil and abroad.

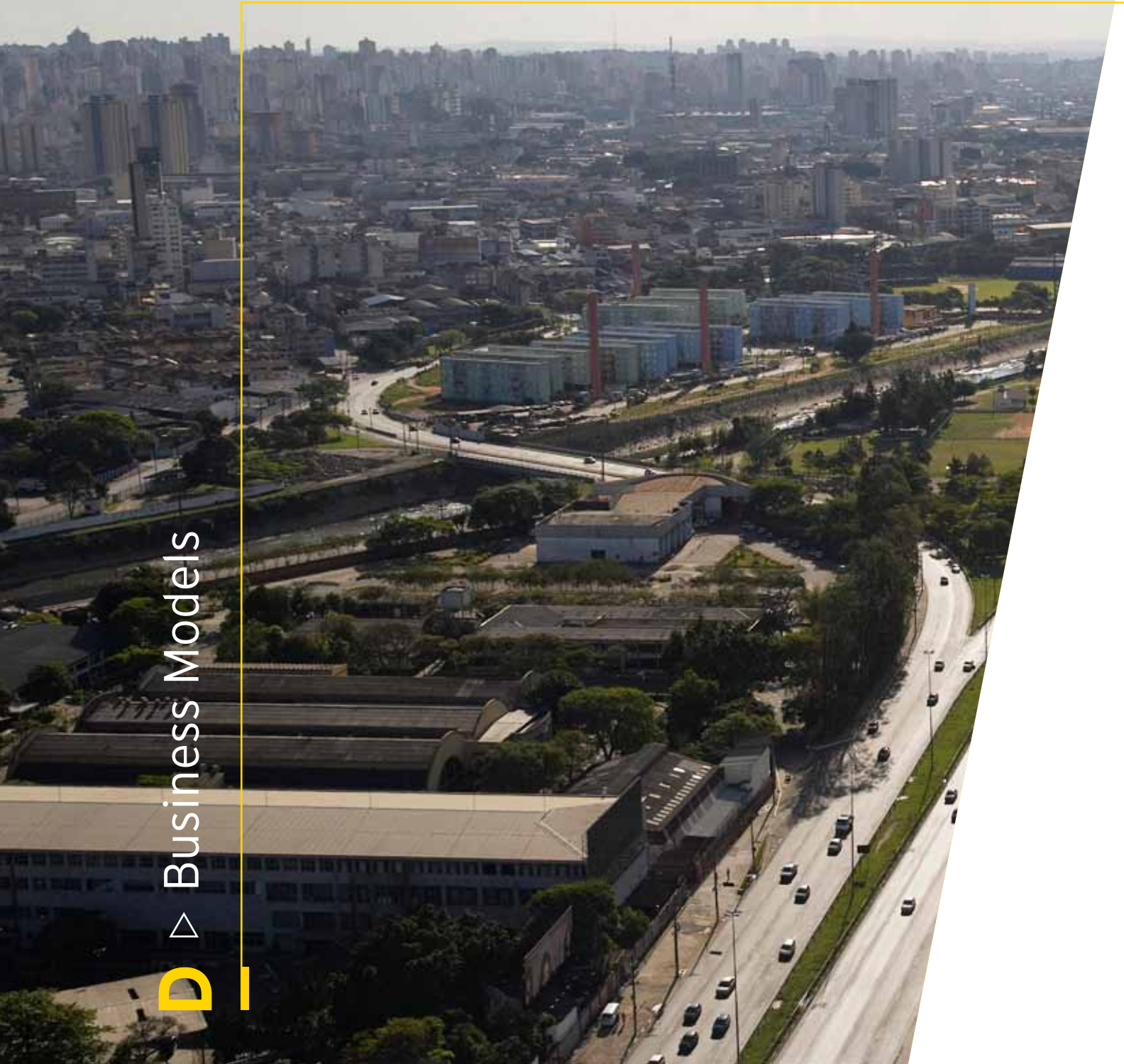
A request for approval of a licensor contract must be made on a separate form and submitted with the original license contract or a substitute document. The INPI has the power to request additional documentation. A justification letter is also required, explaining the objectives of the technology transfer contract and stating any possible share ownership arrangement between the parties to the contract.

If the parties do not satisfy an INPI request for additional information, the approval request is suspended. Rejected approval requests may be submitted for reconsideration if the parties can prove that the INPI's decision was unlawful.

Deductibility of royalties paid in connection with licensing agreements approved by both the BACEN and the INPI is limited to between 1% and 5% of the net sales of the products manufactured with the use of the licensed technology (the limitation of 1% applies to royalties associated with trade names or trademarks). Generally, the same limitations that apply to the deductibility of the royalty payments for corporate tax purposes are adopted to determine the maximum amount that may effectively be remitted abroad. ■



D ▷ Business Models



D1 | Companies

The most common business entities in Brazil are the corporation (sociedade anônima or SA) and the limited liability company (sociedade limitada or limitada). The main difference to consider when electing for one or the other form of business is that only corporations are entitled to issue shares to be publicly traded in the stock exchange, while a limited liability company tends to be a more appropriate vehicle for structuring foreign direct investments in Brazil as the management and other requirements are simpler than for a corporation. With respect to responsibility of the investors, a corporation is limited to the amount subscribed by the individual or company, while in a limited liability company the quota holders are liable for the full amount of the company's legal capital until it has been paid in.

Corporations are similar in form to both US and European corporations. Limitadas are similar in form to European limited liability companies (such as French SARLs and German GmbHs).

Corporations

The main requirements for the constitution of a corporation are as follows:

- ▷ The share capital must be subscribed by at least two original subscribers. The subscribers may be Brazilian or foreign individuals or legal entities. Foreign subscribers who are not resident in Brazil, must be represented by a Brazilian citizen empowered to receive subpoenas.
- ▷ A nonresident shareholder must obtain a tax identification number from the Brazilian Internal Revenue Services (CNPJ or CPF).
- ▷ For publicly traded corporations, at least 10% of the issue price of shares subscribed for in cash must be paid in and deposited in a bank authorized by the CVM. The 10% rule also

applies to subscriptions in kind (for example, machinery and products.). In this situation, an evaluation prepared by three experts or a specialist firm is required.

- ▷ An application for registration and the bylaws of the company must be filed with the local Board of Trade.
- ▷ Depending on the corporation's intended activities, other registrations might be required.
- ▷ A corporation must publish its documents and certificate of registration in the Official Gazette (Diário Oficial) and in another wide circulation newspaper within 30 days of registration. This requirement must be complied with, before the corporation commences business.
- ▷ Publicly traded corporations are required to be audited every year for CVM purposes. Privately held corporations do not face the same requirements.

Capital of a Corporation

In addition to the information mentioned above, the bylaws must state the value of the share capital in local currency, which may contain a provision authorizing capital increases independently of any amendment to the bylaws after the initial shares have been subscribed, up to a limit expressed as a number of shares or an amount of capital (the authorized capital).

Payment of Dividends

Dividends may be paid from the net profit of the company during the fiscal year or as set out in its bylaws, based on a percentage of profits, share capital or any other criteria established in the bylaws.

The law requires an annual payment of dividends with reference to the minimum portion established in the bylaws, considering the minimum limit of 25% of the net profit of the year or, if not prescribed, half of the year's net profits adjusted for the

following items: appropriations to the legal reserve, contingency reserves, and reserves for unrealized profits. Payment of a minimum dividend may also be avoided if the payment is shown to be incompatible with the company's financial situation.

Payment of interim dividends out of current year profits or existing profits reserves from previous years is also possible, as long as this is provided for in the bylaws.

Shares

Shares must be denominated in Brazilian currency. The bylaws must determine the number of shares of the corporation and whether they are to be issued with or without a nominal (par) value. Common (ordinary) and preferred shares may be issued. Ordinary shares generally grant voting rights, while preferred shares may carry preferential rights to receive dividends, a refund of capital or both (which must also be established in the bylaws of the company). Preferred shares without voting rights may not exceed 50% of the total capital.

Shareholders' Rights

Fundamental rights of shareholders that may not be denied by either the bylaws or shareholders agreements, include the following: participation in yearly profits; participation in the net assets if the investment is liquidated; supervision of the conduct of the business; preference in subscribing for new shares, debentures to be converted to shares and subscription bonuses; and withdrawal under certain circumstances, with reimbursement of shares.

Management of a Corporation

A corporation is administered by a board of directors (diretoria) and, optionally, an administrative council (conselho de administração). An administrative council is mandatory for a corporation with authorized capital and for a publicly traded corporation.

The board of directors must be composed of at least two directors, who may or may not be shareholders of the company. They are elected and dismissed by the administrative council or, if there is no administrative council, by the shareholders at a general shareholders meeting. Directors must be residents of Brazil but not necessarily Brazilian citizens.

The board of directors is responsible for representing the corporation in its dealings with third parties, for the day-to-day management of the business, and for implementing resolutions of the administrative council (if appropriate).

The administrative council must have at least three members. They must be shareholders of the corporation and they are elected and dismissed by the shareholders in a general meeting. Unlike the directors, members of the administrative council may be foreign individuals who are not resident in Brazil. A nonresident foreigner must be represented by a Brazilian citizen empowered to receive subpoenas. Responsibilities of the administrative council include defining the corporation's overall strategy, electing and dismissing directors and supervising their performance, calling shareholders' meetings, and choosing and dismissing the independent auditors, if any, among others.

Another body that may be appointed at a general meeting of shareholders is the fiscal council (conselho fiscal), an audit committee that may function permanently or not. It must have between three and five members. The fiscal council basically oversees administrative acts performed on behalf of the corporation to ensure that they are in accordance with the articles of incorporation and current legislation, and provides an analysis of the corporation balance sheet.

Meetings and Votes in a Corporation

An annual general meeting of the shareholders must be held within four months after the end of the corporation's financial year to review the financial statements presented by officers of the corporation. The meeting decides on the dividend

distribution and elects members of administrative council or board of directors and of the Fiscal Council.

Extraordinary general meetings of shareholders may be called to discuss other matters that are not dealt with in the annual general meeting. All general meetings of shareholders must be held in Brazil. Each common share generally carries one vote.

Resolutions at a general meeting of shareholders generally require approval by a simple majority of the votes present or represented; absentees are not counted. However, changing certain important provisions in the bylaws, such as those dealing with the corporation's objectives and other matters prescribed by the law, may require a higher voting quorum.

Financial Statements

Corporations are required to prepare and publish the financial statements with the local Board of Trade and publish them in the Official Gazette (Diário Oficial) and in another wide circulation newspaper. In addition, the Securities Exchange Commission may require publication in the localities where open corporations trade their securities. This requirement does not apply to privately held corporations with less than 20 shareholders and net worth of less than R\$1 million. Companies with assets greater than R\$ 240 million or turnover greater than R\$ 300 million are called "large companies" and shall have its financial statements audited by independent auditors. Companies subject to control of the Brazilian Securities Commission (Comissão de Valores Mobiliários or CVM) must always have their financial statements audited.

Limited Liability Companies

A Limited Liability Company (limitada) is a useful corporate form for businesses with few owners and with no intention to raise public funds (by issuance of shares or bonds). Members may

be foreign or resident individuals or corporate entities. Limited liability companies are regulated by Brazilian Civil Code¹⁰ and they may also be governed by the provisions set forth in the Corporation Law (in the absence of proper regulations in the Civil Code). In general, a limited liability company is subject to fewer legal formalities than a corporation. The most important features of a limited liability company are:

- ▷ The company (limitada) must have a minimum of two partners (called quota holders);
- ▷ The company's capital is divided into quotas (instead of shares);
- ▷ Any nonresident quota holder must grant a power of attorney to a Brazilian citizen or resident;
- ▷ A nonresident quota holder must obtain a tax identification number from the Brazilian Internal Revenue Services (called CNPJ or CPF);
- ▷ The administration of the limited liability company must be held by Brazilian residents or citizens;
- ▷ The company name must make reference to the core business of the company. For example, this means that the company name may not be simply XYZ do Brasil Ltda., but it must mention the company's main business purpose such as, XYZ do Brasil Information Technology Equipment Ltda.
- ▷ In general, unanimous votes are required for amendments to the articles of incorporation;
- ▷ Quota holders' Meetings - The articles of association must disclose whether approval of accounts (annual financial statements), election, removal and resignation of company officers, definition of remuneration, amendments to the articles of association, take-over, mergers or spin-offs, among others, shall be resolved in a quota holders' meeting.

In practice, if the company has more than ten quota holders, resolutions must be made in a quota holders' meeting. The articles of incorporation must also provide for the form of convening partners as well as quorum for validity of meetings and resolutions thereof. Changes that were once made through a simple contractual amendment must now be made through agreement at a quota holders' meeting;

- ▷ If the limited liability company has more than ten shareholders, it is required to publish the calls for quota holders' meeting, as well as the minutes of certain meetings in the Official Gazette (Diário Oficial) and in another wide circulation newspaper;
- ▷ The entire capital must be subscribed on incorporation of the company, but no minimum percentage needs to be paid upon subscription;
- ▷ Until the full capital is paid in, the quota holders are jointly and severally liable for the total capital subscribed;
- ▷ No legal reserve or minimum dividend is required;
- ▷ Members may withdraw and receive the repayment of their quotas in case of disagreement; and
- ▷ A limited liability company does not need to publish its articles of incorporation, financial statements or minutes of quota holders' meetings in an Official Gazette or newspaper, as required for the Corporations.

A limited liability company may be converted into a corporation (and vice versa) easily and inexpensively and without triggering any corporate tax consequences.

The Limited Liability Companies with assets greater than R\$ 240 million or turnover greater than R\$ 300 million are called "large companies" and must follow the rules of the Corporations regarding to the preparation of their financial statements. Also, large companies shall have their financial statements audited by independent auditors.

D2 | Partnerships

A partnership is incorporated when individuals are mutually obligated to contribute goods or services for an economic activity, and to share the results. Brazilian corporate legislation provides for different types of partnership. However, other than for professional partnerships, the partnership form is not often used.

General Partnerships

A general partnership (sociedade em nome coletivo) is an association of two or more individuals operating under a collective name. All partners participate actively in the business and each bears unlimited liability for the partnership's debts.

Limited Partnerships

In a limited partnership (sociedade em comandita simples), one or more individuals are fully liable for the company's obligations, and others (who may not take part in its day-to-day operations) are liable only to the extent of their investments.

Partnerships Limited by Shares

A partnership limited by shares (sociedade em comandita por ações) issues certificates of transferable shares representing the partners' ownership interests. The partnership's activities are governed by the Corporation Law. Like partners in a limited partnership, partners in a partnership limited by shares include those with full liability for the partnership's debts and those with liability limited to the extent of their contributions.

Participation in a Partnership Account

A participation in a partnership account (sociedade em conta de participação) is not considered a corporate entity (legal status).

The entity has a silent partner that is not responsible for the partnership's obligations. Although this type of partnership is not a legal entity, it is often established for specific projects (for example, forest development projects). Taxation is generally applied on a pro rata basis.

De facto Corporation

The Brazilian legal system also recognizes the concept of a de facto corporation (sociedade em comum). Accordingly, under certain circumstances a group of persons whose activities are not organized according to a formal contract (for example, by laws not duly registered with the competent authorities) and who jointly perform business may be regarded as a legal entity for tax purposes.

D3 | Joint Ventures

Joint ventures may take either form of a corporation or limited liability company or the form of a consortium agreement, which is generally adopted for significant infrastructure projects in Brazil.

D4 | Trusts

Trusts are not recognized as entities under Brazilian law.

D5 | Branches of Foreign Companies

Foreign companies may not operate branches in Brazil unless they submit a special request to the Ministry of Industry and Commerce and receive prior authorization through a Presidential decree. In practice, owing to the bureaucratic

difficulties in obtaining such authorization, few branches of foreign companies operate in Brazil.

A branch must be registered with the Commercial Register and adopt the same name as its head office. A permanent representative of any nationality, who is fully authorized to act on behalf of the branch, must be resident in Brazil. No minimum capital requirement is imposed. Liability is not limited to the capital of the branch, but extends to that of the head office.

Branches of foreign companies must publish their annual financial statements and are subject to requirements similar to those applicable to corporations.

If losses are recognized during the first years of operation, the branch form may be advantageous for companies that are permitted to consolidate losses with income derived from other sources.

D6 | Establishing a Limited Liability Company

Time Required

As a general rule, a Brazilian limited liability company (limitada) may be established within a 40 to 60 day period.

Number of Quota Holders

A minimum of two quota holders is required to form the company. The quota holders do not necessarily need to be Brazilian citizens, as long as a Brazilian resident is appointed as the legal representative of the company.

Permissible Types of Quotas

A limitada has generally only one class of quotas, however, other classes may be available.

Directors

A limitada may be managed by one or more quota holders if they are nominated in the articles of incorporation or by a general manager or director appointed by the quota holders.

The management of the company must be conducted by a Brazilian resident.

Initial Capital Requirements

No minimum capital requirements are imposed on Brazilian companies (limitadas or corporations). Capital must be denominated in Brazilian currency.

Although Brazilian corporate law has no formal minimum capital investment requirement, in practice, the immigration authorities require a minimum investment for nonresidents of US\$50,000 in cash or the equivalent in transfers of technology or other capital goods to the Brazilian company in addition to the generation of at least ten new jobs within a two-year period. Alternatively, a minimum investment of US\$200,000 in the capital of a Brazilian company is required if a nonresident is nominated as the manager of the company and in order to obtain the proper visa. (see Section E.4 for details on visa requirements).

Foreign Capital Registration

A foreign equity investment must be registered with the BACEN within 30 days to allow future repatriation of the original amount invested as well as payments of dividends in foreign currency (see Section C.1).

D7 | Annual Requirements

Annual Meetings

Both corporations and limited liability companies (limitadas) must hold annual general shareholders' meetings within four months of the end of their fiscal year.

Financial Statements

Corporations must prepare and publish their financial statements. Although limited liability companies must prepare financial statements, they are not required to publish them.

Income Tax Filing

Brazilian companies must file annual tax returns based on their consolidated results for the calendar year (see Section F.1 for further information on income tax filing requirements).

Audit Requirements

Public Corporations must have their financial statements audited once a year by independent auditors, as well as any companies with assets greater than R\$ 240 million or turnover greater than R\$ 300 million.

D8 | Corporate Reorganizations

Corporate reorganizations are generally tax-free transactions provided they are implemented at book value, as allowed by Brazilian tax law. However, proper structuring considering all the tax consequences is highly recommended in Brazil. Care is needed to ensure compliance with the tax reporting obligations and tax consequences of the transaction for the entities involved in the reorganization, including tax obligations that may be carried over to the new entity or that may even be triggered by the transaction, depending on the structure adopted.

One of the main issues associated with a corporate reorganization is whether the transaction should take the form of an asset deal or a stock deal. This is because the tax impacts of each transaction are very specific and the decision may raise significant tax and non-tax issues that should be considered carefully before implementation.

Generally, an asset transaction tends to be less advantageous from a tax perspective than a stock deal. This may be the case, for example, if an amount is to be paid for goodwill in addition to price for the assets or business involved. An asset deal may also trigger indirect taxation to the seller depending on the assets involved. It also reduces the opportunity for recovering any goodwill paid in addition to the assets faster than through depreciation of the assets themselves (in contrast to a stock deal, for instance).

Some asset transactions may also be structured as an acquisition of a business as a going concern (TOGC). The TOGC tends to bring more tax benefits to the parties involved to the extent that indirect taxation is minimized and the main tax attributes (such as VAT tax credits, for instance) may be maintained and carried over by the seller.

As mentioned, stock transactions provide more tax benefits, especially if the seller pays a price that exceeds the book value of the assets or business involved. If the transaction is structured properly, any premium (or goodwill) paid, may be generally recovered faster than under standard depreciation rates, provided certain requirements are met (that is, the transaction complies with the requirements of the Brazilian income tax regulations). This may be a significant benefit especially if the acquired company is profitable, as the goodwill may become a tax-deductible expense that may be used to offset or reduce corporate tax liabilities of the acquired company triggered by the corporate reorganization. Taxation is often triggered by merger transactions.

It is important to note, however, that the Brazilian accounting regulations regarding the premium (or goodwill) treatment changed in December 2007. Some tax practitioners understand that the new accounting regulations could potentially compromise the tax-deductibility of the goodwill expense.

Nevertheless, to the extent that the Brazilian tax authorities have not yet issued their understanding on the subject, the

aforementioned tax benefits established in the law currently in force are still applicable to stock transactions whereby the seller's price exceeds the book value of the transferred asset.

For sales of shares, a gain or loss on the disposal is calculated using the book value, regardless of whether the investments are accounted for by the equity method or by the cost method. The gain is taxed as normal business profits (that is, at the combined rate of 34%). For an asset sale, any capital gain is also subject to corporate taxes charged at a combined rate of 34%, calculated on the positive difference between the cost of the asset sold and the sales price. However, in contrast to a stock transaction, sales proceeds are, in principle, also subject to gross revenue taxes (depending on the assets traded) charged at a maximum rate of 9.25%. Indirect taxes (ICMS and IPI) may also be imposed.

Brazilian legislation does not impose any restrictions on mergers, acquisitions and other types of corporate reorganizations. No special restrictions apply to foreigners. The Securities Commission (CVM) requires that certain procedures be followed for mergers or consolidations that include one or more publicly held companies.

Corporate entities may be combined in different ways. In a merger, one or more companies are merged into another company, with the surviving company succeeding to all the rights and obligations of the merged companies, except for carry forward tax losses (NOLs), which are generally lost upon a merger event. In addition, corporate reorganizations may also take place through a spin-off transaction or consolidation, both of which are generally followed by the creation of a new company. After a spin-off transaction, the tax losses (NOLs) of the company that is spun off are also lost in the proportion to the net equity transferred to the new (or existing) company.

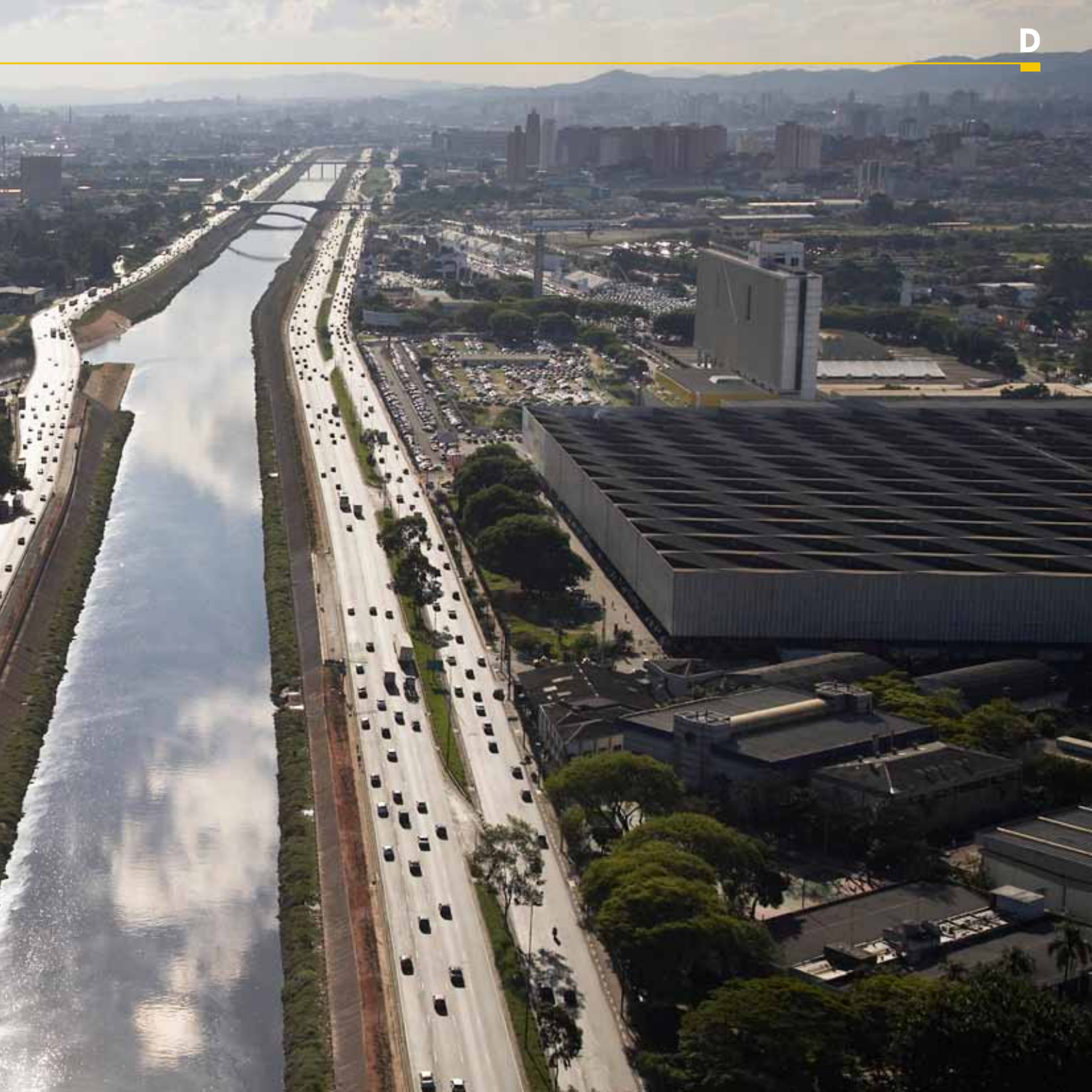
Losses incurred on sales of shares or any fixed assets are deemed to be non-operating losses. With effect from January 1, 1996, non-operating losses may be offset in subsequent periods

exclusively against non-operating profits. Carry forwards are limited to 30% of non-operating profits. Non-operating profits and losses from all sales occurring in the calendar year are computed together in calculating the ordinary taxable profit. Operating and non-operating profits must be separated only if non-operating losses and tax losses occur in the same calendar year.

A corporation that holds shares in another company accounts for the investment using either the equity method or the cost method of accounting, depending on its ownership interest in the other company and its relevance.

The equity method is required for both accounting and tax purposes if the investment is made in a controlled or affiliated company, or in other companies that are participant of the same economic group or that are under the same corporate control. ■





An aerial photograph of a sprawling, densely populated city, likely São Paulo, Brazil. The image shows a vast expanse of high-rise apartment buildings and commercial structures packed closely together. In the background, a range of mountains is visible under a clear sky. A yellow vertical line runs down the left side of the image, and a white diagonal line cuts across the bottom right corner.

E ▴ Labor Force

E1

Labor Supply and Relations

Availability of Skilled Workers

According to figures published in 2004, Brazil's workforce consists of approximately 89 million people. Unskilled workers are readily available, but certain regions have shortages of skilled workers and of mid-level workers such as managers, supervisors and technicians.

Unskilled workers from regions other than the main metropolitan areas in the South and Southeast often need substantial training before they reach a satisfactory skill level. The government operates programs to improve the quality of the unskilled labor force, such as industrial training schools (the SENAI program), commercial trade schools (the SENAC program) and professional education programs for rural workers. In 2006, the gender breakdown of the workforce was estimated at 44% women and 66% men.

Nationality Requirements

To preserve job opportunities for Brazilians, the government generally requires that at least two-thirds of the employees in any Brazilian company are Brazilian citizens, and that two-thirds of the total remuneration is received by Brazilians. Companies must prepare an annual report for the Ministry of Labor with a statement showing the proportion of national to foreign employees. This statement must specify employees' remuneration and other relevant data. For this purpose, a foreigner is deemed to be a Brazilian citizen if he or she has lived in Brazil for at least ten years and the foreigner is either married to a Brazilian citizen or is a parent of a Brazilian-born child or has Portuguese citizenship.

Wages

The Brazilian Federal constitution stipulates a minimum wage. With effect from January 2010, the national minimum monthly wage is R\$510 (approximately US\$274).

Salaries are payable at least monthly and they may not be reduced. If an employer makes certain payments regularly, such as bonuses or overtime, these payments are treated as part of the salary for labor law purposes. Currently, labor law does not provide for mandatory salary increases, therefore any increases are generally a result of free negotiations between employees and employers.

Executive Compensation

Executive compensation in Brazil is competitive by international standards. In addition to a base salary, executives are often entitled to fringe benefits such as a health insurance plan, a company car, life insurance and a private pension plan. Certain benefits are considered part of the base salary. However, because the tax advantages of these benefits have been reduced, it is anticipated that employers will increasingly grant direct salary increases and participation in profit-sharing schemes instead of granting fringe benefits.

Termination of Employment

An employment contract may be terminated either by the decision of the employer (dismissal) or by the decision of the employee (resignation). Dismissal may occur for just cause (such as dishonesty, improper conduct, or indiscipline) or without a just cause (also termed "unfair dismissal" for causes not listed as "just causes" under labor legislation).

If either party terminates an indefinite employment contract without just cause, the party terminating the contract must give the other party prior notice of at least 30 days.

Employees who are dismissed unfairly have the following rights:

- ▷ At least a 30-day prior notice period, with the salary paid in cash;
- ▷ A 13th monthly salary payment, proportional to the time worked in the year;
- ▷ The balance of salary for the remainder of that month; and

▷ Proportional vacation (see Section E.3).

The employer must also pay the employee 40% of the total amount of the deposits made into the Severance Pay Indemnity Fund (Fundo de Garantia de Tempo de Serviço or FGTS) while the employee is entitled to withdraw the total balance out of the severance fund (see Section E.2).

Companies may not terminate the employment contract of any worker who is a candidate for a labor union post. If the worker is elected, the employer may not terminate the employee's contract within one year after the election, provided that the employee has not committed any serious fault. Under Brazilian labor legislation, any act that may give rise to dismissal for just cause is considered to be a serious fault. The same rules apply to employees elected to the Internal Accident Prevention Commission (Comissão Interna de Prevenção de Acidentes or, CIPA). A pregnant worker may not be dismissed during the period between the announcement of the pregnancy and five months after the birth, provided, that the pregnant employee has not committed any serious fault.

Labor Legislation

Labor relations are governed by the Consolidated Labor Laws and numerous complementary laws and regulations. The Brazilian Constitution guarantees employees a series of labor rights and benefits. If any of these rights or benefits is not observed, an employee may make a claim in court for a period of up to two years after the termination of the employment contract. Claims may be made for the five year period preceding the exercise of these rights. An employee is not permitted to waive rights or benefits stated in a law or in an employment contract (see Civil and Labor Law Rights, and Section E.2, Severance Pay Indemnity Fund). A change in the legal structure or ownership of an employer does not affect the rights of employees under the labor laws.

Employees' basic rights may be increased through collective negotiation between employers and employees. Employee negotiations are generally led by the unions or representatives. In certain cases, these negotiations may grant workers broader rights than are granted under the general labor law, which may increase expenses for employers.

Every worker must hold a work card (carteira de trabalho or carteira profissional) which must record the terms of his or her employment contract. Employers must maintain files containing detailed information about each employee and submit this information to the labor authorities annually.

For temporary activities, temporary labor contracts may be used. Labor contracts are generally concluded in writing for a limited or unlimited period of time. Although labor legislation recognizes the validity of verbal contracts, labor agreements for a limited period of time must be concluded in writing. A labor contract for a limited period of time (fixed term) may be renewed once and its total duration may not exceed two years. Upon expiration of the contract, the employee is entitled to all labor rights granted on dismissal, except for the right to prior notice of dismissal (see Termination of Employment) and the 40% payment of the total amount of the deposits made to the Severance Pay Indemnity Fund (see Social Security).

Another type of labor contract, called an experience labor agreement, also exists. An experience labor agreement is used to hire a worker for a fixed term and it allows the employer the chance to verify whether the employee's capabilities meet the expectations for the position before the employee is hired for an unlimited period. Under this contract, the employer is under no obligation to hire the employee definitively on termination of the fixed term. This type of agreement may be renewed once and its total duration may not exceed 90 days. After that period, if the employee continues to work, the contract is considered to have been made for an unlimited period. Upon termination of the

experience period (up to 90 days), the employee is entitled to all labor rights granted on dismissal, except for the prior notice of dismissal and the payment of the 40% of the total amount of the deposits made to the Severance Pay Indemnity Fund. An experience labor agreement may be used in any industry.

Civil and Labor Law Rights

Civil and labor law rights provide that all workers must be treated equally regardless of gender, race or age. The Federal Constitution grants the right to strike to workers in private sector companies, and to civil servants that do not carry out activities considered to be essential. Other principal labor rights include the following:

- ▷ Pregnancy leave of 120 days for the mother, 28 days before the birth and 92 days following the birth and 5 days leave for the father. Tax benefits are available for companies extending the maternity leave to 180 days.
- ▷ Unemployment insurance for workers dismissed without just cause. This benefit, which is financed by the government, provides financial assistance to the employee for a certain period of time. The amount payable varies according to the employee's salary; and
- ▷ Employers must supply their employees with transportation vouchers, which entitle them to free transportation to and from work. Employees contribute a maximum of 6% of their monthly salaries to the cost.

Labor Union Organization

The political strength of labor unions in Brazil has grown since the country's return to democracy (see Section H.3). The most powerful labor unions are the Central Única dos Trabalhadores (CUT), the Força Sindical and the Central Geral dos Trabalhadores (CGT), which compete to obtain new members. Labor union organization is strongest in Brazil's

leading industrial centers, especially in the steel, automobile and transport industries based in the Southeast. Not all workers join labor unions, but all workers registered with a specific company must make an annual contribution to the unions equal to one day's salary, regardless of whether they are members. The payment is withheld by the employer.

E2

Severance Pay Indemnity Fund and Social Security

Companies are obliged to make monthly contributions to the Severance Pay Indemnity Fund (Fundo de Garantia de Tempo de Serviço or FGTS). Contributions may be withdrawn by employees under certain circumstances, including retirement and unfair dismissal. The company deposits an amount corresponding to 8% of the employee's monthly remuneration including certain fringe benefits, into a limited access linked bank account.

If an employee is dismissed arbitrarily or unfairly, the employer must pay the employee an additional amount equal to 40% of the company's deposits made into the employee's FGTS account during the time of his or her employment with the company (subject to monetary correction and interest). With effect from January 2006, in the case of unfair dismissal, a company must pay an extra 10% of the company's deposits into the employee's FGTS in addition to the 40% deposit. However, the additional amount is not paid to the dismissed employee but to the Brazilian government as an additional social security contribution. Until the end of December 2005, an additional social security contribution corresponding to 0.5% of the employee's total monthly payroll was payable by the employer to the government.

Social Security Contributions

Both employers and employees must make social security contributions. Contributions are used to fund government

pensions paid to retired citizens, as well as other social security benefits (see Section E.3).

Employees who receive remuneration from a Brazilian source are subject to local social security tax, withheld by the payer. Contributions range from 8% to 11%, depending on the amount of compensation, with a maximum monthly contribution of R\$375.82 (as from January 1st, 2010). The contribution for companies ranges from 26.8% to 28.8%, depending on the type of activity, calculated on the employee's total monthly compensation.

From March, 2000 onwards, a company that uses the services of a self-employed person must pay 20% of the self-employed person's total remuneration as a social security contribution. The company must also collect 11% of the total amount paid on behalf of the self-employed person, limited to R\$375.82. The same rules apply to partners receiving fees for working for their own companies.

E3 | Other Payroll Taxes and Employee Benefits

Pensions

Although private pension schemes funded by contributions from employees or employers are still comparatively rare in Brazil, they are becoming increasingly more common. The public pension scheme, controlled by the National Institute of Social Security (Instituto Nacional da Seguridade Social or INSS), is funded by contributions from active workers (see Section E.2), but it generally provides very low benefits.

Regarding urban employees, government old age pension or retirement pension schemes are available to men aged 65 years or older and to women aged 60 years or older, if the person has made at least 180 monthly pension contributions.

Vacation

After each 12 month employment period, employees are entitled to 30 days of vacation, to be taken in the subsequent 12 month period. In case vacation days are not taken in the mentioned period, the employer will be subject to pay the amount in double.

Vacation payment should be added up by 1/3 (one-third) over the base salary as compulsory vacation allowance. In addition, employees may choose to receive in advance 50% of their 13th monthly salary at the beginning of the vacation period, and request the conversion of 1/3 of their vacation days into a tax-free payment.

Working Terms and Overtime Pay

Brazilian legislation establishes that the maximum working week is 44 hours, spread over five or six working days. The working day may not exceed ten hours, made up of eight regular work hours and a maximum of two overtime hours. A lunch period of one hour must be given to workers who work more than six hours a day, and a 15 minute break is mandated for those who work more than four hours a day.

An employer may ask employees to work overtime or enter into a union agreement for that purpose. Overtime work is not mandatory (unless there is a prior agreement between the employer and employee) and it must be compensated at a premium rate of at least 50% of the regular salary, unless previously agreed otherwise (with the assistance of the union). Managers or employees in a position of trust or who are not subject to working time controls and other special employee groups are not entitled to overtime pay.

Bonus

Workers have the right to receive an annual bonus, referred to as the 13th monthly salary, which is proportional to the amount

of time worked during the year. The 13th month salary is paid in two installments, the first payment in the period between February and November, and the second in December.

Incentives

Employees may also receive incentives in the form of transportation and meal subsidies. Meal vouchers may be used in restaurants and other eating establishments. Companies generally receive tax deductions or other beneficial tax treatment for the related expenses. In addition, under certain conditions, this benefit is not included in the employee's taxable income. The transportation subsidy is a compulsory benefit that employers must grant to their employees. The meal subsidy is generally optional for employers, except in cases where this benefit is governed by a union agreement.

Profit Sharing

The Federal Constitution expressly grants workers the right to participate in profit sharing schemes. Profit sharing schemes must result from negotiations between labor unions and employers and payments should not occur more than twice a year. For the purpose of labor and social security legislation, profit sharing is not considered to be remuneration; therefore, payments are not subject to social or labor charges.

E4 | Special Requirements for Foreign Nationals

Employees may also receive incentives in the form of transportation and meal subsidies. Meal vouchers may be used in restaurants and other eating establishments. Companies generally receive tax deductions or other beneficial tax treatment for the related expenses.

E5 | Entry Visas and Work Permits

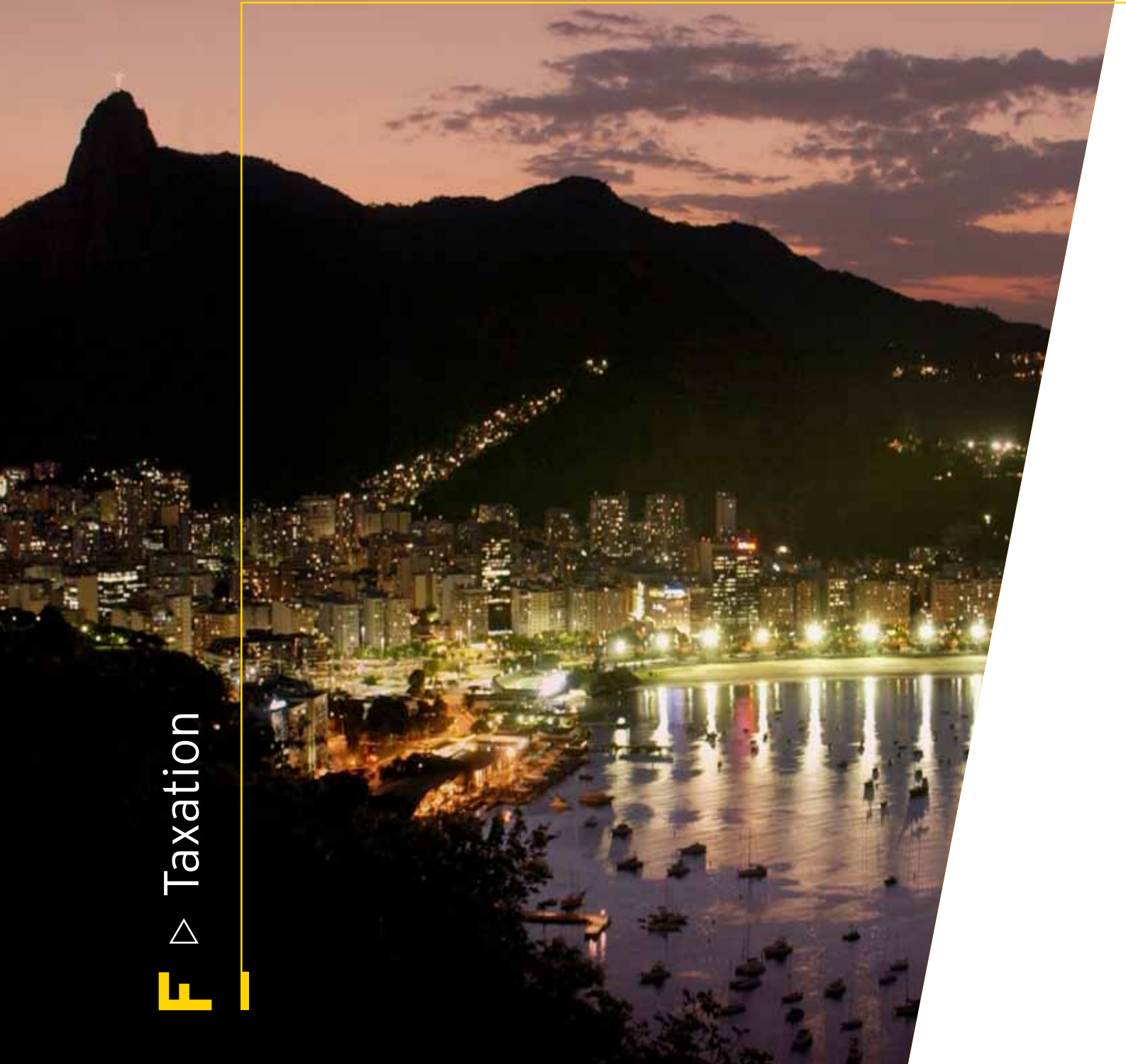
A foreign resident must obtain either a permanent or temporary visa to start working in Brazil. A foreign individual will be subject to Brazilian taxation as a local resident in the following situations:

- ▷ A person holding a Temporary Visa is subject to taxation in Brazil:
 - ▷ If the individual has a labor contract from the date of arrival in Brazil; or
 - ▷ If the individual has no labor contract, taxation applies if the person stays in the country for longer than 183 days, consecutive or otherwise, in any 12 month period, starting from the date of any entry into Brazil and ending on the day following the completion of the period; and
- ▷ A person holding a Permanent Visa is subject to taxation from the date of arrival in Brazil. To serve as a director or officer of a Brazilian subsidiary of a foreign company, a foreigner must hold a permanent visa. A permanent visa is valid for a period no longer than five years

A work contract is not a prerequisite for obtaining a temporary business visa, which is valid for 90 days and is renewable for an additional 90 days. Temporary visas (Type V) are generally valid and renewable for two year terms, but they may also be based on the length of the work contract.

To be registered as an employee in Brazil, a foreigner must obtain an identification card (carteira de identidade de estrangeiro or RNE) from the local police authorities and a labor card (carteira de trabalho or carteira profissional) from the Ministry of Labor. ■

F ▷ Taxation



F1

Overview of the Brazilian Tax System

Introduction

Brazil imposes taxes at the federal, state and municipal levels for individuals and companies.

A Brazilian company is subject to income tax at a general rate of 25% on its worldwide income. A Brazilian branch office, agency or representative office of a company domiciled abroad is also subject to Brazilian tax on its worldwide income. Losses incurred on foreign transactions may not be used to offset income generated in Brazil; however, a foreign tax credit is available for corporate taxes paid abroad.

In addition to corporate income tax, a Brazilian company is subject to social contribution tax, charged at a rate of 9% on its worldwide income (social contribution tax applies similarly to income tax). Additionally, since May 1, 2008, social contribution tax rate was increased to 15% for financial institutions, private insurance companies and capitalization companies. An individual who is resident in Brazil for tax purposes is subject to income tax at a rate of 15% or 27.5% on his or her worldwide income, and to capital gains tax at a 15% rate.

The federal government imposes a VAT-type of tax (IPI) on imports and transactions involving manufactured goods, while states also impose a VAT-type of tax (ICMS) generally charged on sales transactions (including any movements of goods out of the company's facility as well as certain types of services). PIS and COFINS are two additional taxes charged on imports of goods and services and on gross receipts.

The main municipal tax is the service tax (ISS) charged on the importation and the local provision of certain services. ISS applies at rates that vary from 2% to 5%. Exported services may be exempted from ISS, provided certain conditions are met.

Sources of Tax Law

The Brazilian Federal Constitution sets out the principles and guidelines for the tax system and it is also the authority for infra-constitutional legislation (including tax treaties). Taxation is regulated by the National Tax Code (Código Tributário Nacional or CTN); federal, state and municipal tax laws; international tax treaties and government decrees. Administrative and judicial court decisions are generally used as guidelines but they are not binding for third parties. The Income Tax Regulations (Regulamento do Imposto de Renda or RIR) is a compendium of Federal tax legislation.

Federal taxes are enacted through congressional legislation and through provisional measures issued by the President. In practice, the President is permitted to issue legal provisions to regulate issues or transactions that are deemed to be urgent (so-called Provisional Measures or MPs). MPs are hierarchically equivalent to Federal law. An MP becomes effective until final approval from the Brazilian Congress, which must happen within a maximum period of 120 days; otherwise the MP is automatically revoked with effect from the date of publication. Because Brazilian governments have frequently used MPs to introduce significant changes in the tax system (including introducing new taxes, and revoking tax benefits,) long-term tax planning has become difficult to implement. This practice has also led to the enactment of laws that were later declared to be unconstitutional by the courts.

Decisions issued by higher courts are binding only for the case in question. However, several similar decisions being issued by the higher courts generally results in the tax authorities issuing a general ruling for that specific question. With effect from 2005, with the enactment of Constitutional Amendment 45/2004, certain Supreme Court rulings on tax matters that involve constitutional law and resolutions issued by the Federal Senate may be binding on the tax authorities and consequently on all

taxpayers. These binding rulings require approval of two-thirds of the members of the Supreme Court and publication of the resolution in the Official Daily Government Newspaper (DOU).

Advance Rulings

Formal tax rulings are available at the federal, state and municipal levels; however answers generally take a significant time to be issued and a ruling is only binding for the taxpayer that submitted the ruling request. Also, the ruling must generally be based on actual facts and figures, that is, it may not generally be based on hypothetical situations or assumptions. In practice, therefore, it is very difficult to obtain advance rulings.

Tax Administration

The Federal tax system is administrated by the Federal Tax Revenue (Secretaria da Receita Federal or SRF), which is part of the Ministry of the Economy. States and municipalities maintain similar administrative departments.

Filing

The tax year is the calendar year (January 1 to December 31). Regardless of the accounting year adopted by a company, or of any election made to pay corporate taxes based on actual profits or deemed profits, a Brazilian company must file an annual income tax return based on its consolidated results for the calendar year. The return must generally be filed by the last working day of June following the end of the tax year.

A small entity with taxable income below specified amounts is also generally required to file an annual income tax return but using a simplified method of accounting ("Simples"). A tax exempt entity must also generally file annual income tax returns. Individuals are generally required to file their annual income tax returns by the end of April following the end of the tax year.

Tax Payment

Legal Entities

A company may elect to pay corporate taxes based on a presumed profit method (lucro presumido) or based on actual taxable income (lucro real). The election is annual and binding for the entire calendar year.

Under the actual profit method, corporate taxes are calculated on the actual profit made, adjusted for nondeductible expenses and nontaxable revenue on an annual or quarterly basis. The tax rate is 15% plus a surtax of 10% on annual income that exceeds R\$240,000. Prepayments are required on a monthly basis. The monthly corporate tax payments may be calculated using a deemed or actual taxable income, and they are considered to be advance payments of the actual corporate tax due by the end of calendar year. If the taxpayer elects for a quarterly tax period, the difference between the prepayments made and the actual corporate tax due at the end of each quarter must be paid by the last working day of the month following the previous quarter (installment payments are available plus interest).

If taxpayers elects for an annual period, any positive difference between the prepayments and the actual corporate tax due at the end of the calendar year must be paid by the last working day of March of the following year.

The corporate income tax due may be reduced by income taxes paid or withheld and certain tax incentives may also apply. A Brazilian taxpayer may claim a refund if an overpayment has been made (although the process tends to be very time-consuming) or the taxpayer may recognize a tax credit that may be used to offset other federal taxes (under special conditions).

A company that uses the presumed profit system calculates corporate taxes based on a deemed taxable base made up of a set percentage of gross sales and service receipts. The

percentage that applies varies depending on the type of business carried out by the company, but for sales of goods the percentage is generally 8%, while for services, the percentage is generally 32%. Passive income (such as capital gains or financial revenue) is not included in the presumed taxable income; this income is taxed in full. For the social contribution tax, the presumed percentage is 12% (or 32% for gross service receipts).

Small entities with taxable income below specified amounts may follow simplified payment procedures.

Individuals

An individual taxpayer is generally required to pay income tax on a monthly basis (cash method) based on worldwide income. Employees are subject to tax withholding on remuneration received (using a Pay-As-You-Earn or PAYE system). Companies that make payments to self-employed persons must withhold tax at source. If a company makes several payments to a self-employed person during the month, the tax withheld must be calculated in accordance with the tax rate for the total amount paid for the month.

Income tax on foreign earnings or earnings received from Brazilian sources on which no Brazilian tax has been withheld at source must be paid monthly using a specific voucher (carnê-leão). The tax is due on the last working day of the month following the month when the income was received.

Tax on capital gains is generally not included in the annual tax liability calculated on the income tax return for individuals. Instead, the tax is due on the last working day of the following month when the gain is realized. Special rules apply to gains derived from stock exchange transactions.

Brazilian taxpayers may also benefit from a self-assessment by spontaneously paying taxes due plus interest on late payments before any tax audit procedure (such as a Notification of Assessment, for example) to avoid fines that may apply.

Tax Audits

All Brazilian taxpayers are subject to tax audits. Although the criteria for selecting taxpayers for inspection are not publicly known, it is common for the tax authorities to audit companies with relatively high income and net worth. A Brazilian company must maintain proper records and supporting documentation for taxes paid for a minimum of six years, in case of a tax audit.

Tax Assessment

A Brazilian taxpayer is notified through a Notice of Assessment (Auto de Infração) if the tax authorities find any irregularity in the income tax return. The taxpayer has 30 days to file a defense based on the tax assessment. If this defense is rejected an administrative appeal may be made to the Taxpayers' Council (Conselho de Contribuintes).

If a company receives a Notice of Assessment, it may reduce the penalty by paying the amount due within 30 days following the issuance of the Notice. If payment in full is made in this period, the company receives a 50% reduction in the normal penalty rate of 75% (therefore, the effective penalty rate is 37.5%).

Interest and Penalties

Income tax paid after the due date may be subject to the following interest and penalties:

- ▷ Official interest (SELIC) charged at a monthly rate published by the government; and
- ▷ A daily fine of 0.33% on the tax due, up to a maximum penalty of 20% (excluding interest).

Tax assessments arising from failure to pay tax attract an automatic penalty of 75% of the tax not paid, while the penalty for fraud is 150% of the tax due. These penalties may be reduced by 50% if a taxpayer pays the tax due without disputing the assessment at the administrative level (other reductions on penalties may also be available during the appeal process).

Appeals

An appeal at the administrative level must be filed with the Taxpayers' Council, an administrative court with members composed of tax practitioners and judges nominated by the tax authorities.

Tax litigation initiated by a taxpayer is generally either a legal defense against an assessment after administrative remedies have failed or a challenge to the constitutionality of a tax law. Federal courts analyze Federal claims; State courts analyze both State and Municipal claims.

Appeals at the judicial level are then analyzed initially by a local Federal or State court while a subsequent appeal is generally decided by a Regional Federal Court. Last instance is to appeal to a superior court located in Brasília. The appeal is addressed to the Superior Court of Justice or, if the litigation involves a discussion on the compliance of the law with the constitution, the appeal must be addressed to the Federal Supreme Court. Certain appeals must be made to both superior courts simultaneously.

Statute of Limitations

The statute of limitations in Brazil for tax purposes is generally five years, beginning on the first day of the calendar year following the year when the tax could have first been assessed (in practice, up to six years). Longer statute of limitation periods apply for the Severance Pay Indemnity Fund - FGTS (up to 30 years).

F2 | Resident Corporations

Permanent Establishment

The Brazilian legislation does not clearly define permanent establishment (PE), however, there are certain articles in

the Brazilian tax law that could create a PE exposure for a nonresident trading in Brazil. According to the tax law, nonresidents operating in Brazil through commissionaires, legal representatives, agents and commercial representatives may be deemed to be Brazilian taxpayers subject to taxation on profits.

Rates

The standard corporate income tax is 15% increased by a surtax of 10% on taxable profits that exceed R\$240 thousand annually (or R\$20 thousand per month). Social Contribution Tax is generally levied at a rate of 9%. The taxable base for social contribution tax is very similar to the base used for income tax purposes, with small differences. Therefore, the combined corporate tax rate is 34%.

Exemption from or reduction of income taxes is granted to businesses in certain underdeveloped areas (see Section C).

For an example of a corporate income tax and social contribution tax calculation, see Appendix 5.

Worldwide Income

Companies domiciled in Brazil and Brazilian branch offices, agencies and representative offices of companies domiciled abroad are subject to Brazilian corporate income tax and social contribution tax on profits on their worldwide income and they are required to pay corporate taxes under actual profit system. The amount of foreign tax paid by an entity may be used to offset Brazilian corporate tax but limitations may apply (up to the amount of Brazilian corporate tax charged on the foreign income earned).

Under the Brazilian controlled foreign corporation (CFC) rules, CFC income must be included in the company's taxable income at the end of each calendar year, regardless of the availability or qualification of the income.

Income Subject to Tax

A Brazilian company may elect to pay corporate taxes based on its actual profit (actual profit system) or on a presumed profit (presumed profit system). The election is annual and is generally driven by the profitability of the company and its plans for future investments, among other factors.

Under the presumed profit system, corporate taxes are charged on a presumed profit that is generally calculated by applying a fixed percentage to the gross sales or service revenue (the percentage is based on the type of activity undertaken by the company), plus 100% of the company's passive income. Therefore, no expense deductions are allowed and tax losses may not be deducted or carried forward. Corporate taxes are computed on a quarterly basis. Only Brazilian companies that comply with certain requirements may elect to pay corporate taxes using this method.

A Brazilian company may also adopt the actual profit method to pay corporate taxes. In this case, the tax is charged on the company's actual profit adjusted for nondeductible expenses and nontaxable revenues. Corporate taxes may be calculated and paid on a quarterly or annual basis (with prepayments made during the calendar year).

In general, operating expenses are deductible for corporate tax purposes provided they are necessary and usual to a company's activity. Deductible expenses also comprise in general:

- ▷ Depreciation - fixed assets may be depreciated using the straight-line method at rates provided for various classes of assets: for buildings, the rate is 4% a year; for machinery and equipment, the rate is 10%; for vehicles the rate is 20%; and for computer hardware and software, the rate is 20%. Companies that operate two work shifts per day may depreciate machinery and equipment at 1.5 times the normal rate. If a company operates three shifts, it may double the normal rate. Other methods of depreciation may be authorized by the Brazilian authorities.

- ▷ Provisions - the following provisions are deductible for computing taxable income: accrued vacation pay based on employees' remuneration and the number of vacation days to which employees are entitled at the end of the calendar year; and the 13th monthly salary (see Section E.3) paid to employees. Under certain conditions, effective losses on receivables are deductible. Provisions not expressly mentioned by the Brazilian law, such as the provision for bad debts, are not deductible.

The following expenses are in general treated as nondeductible for corporate taxes:

- ▷ Expenses related to fixed assets, including financial and operating lease payments, depreciation and amortization, if the assets are not directly used in the production or commercialization of products and services.
- ▷ Fringe benefits given to shareholders and officers if the beneficiaries are not identified and individualized. In these circumstances, withholding tax at a rate of 35% (with an effective rate of 53.84%) is imposed. Neither the fringe benefits nor the withholding tax is deductible.
- ▷ Donations in general, gifts and other non-mandatory payments.

Small businesses may use simplified methods to calculate their tax liabilities.

Companies located in tax incentive regions pay corporate income tax on a special taxable base called *Lucro da exploração*, which is the net accounting profit for the period before corporate income tax and social contribution tax, reduced by the excess of financial income over financial expenses; gains and losses from permanent investments; and non-operational gains and losses.

Rents, Royalties, Dividends and Interest

Rental, royalties and interest income derived by resident corporations are subject to tax as ordinary income.

Dividends paid by other Brazilian resident companies are excluded from taxable income if the recipient records the investment at cost. If the recipient records the investment by using the equity method, dividends received are deducted from the value of the investment. Dividends derived from nonresident legal entities are taxable in Brazil (see Worldwide Income).

Capital Gains

Capital gains are generally included in taxable income and are subject to tax at the regular corporate income tax and social contribution tax rates. Capital gains effectively received by Brazilian companies from the disposal of investments in foreign branches, subsidiaries, agencies or representative offices are taxable in Brazil. For capital losses, see Losses Carried Forward.

Losses Carried Forward

Tax losses may be carried forward indefinitely, but no carry back or inflation adjustment are permitted. Tax losses that are carried forward may be used to offset up to 30% of a company's taxable income in a tax period. Restrictions on the offsetting of carried forward tax losses may be imposed if there is a change of ownership control and in the business activity between the period when the losses were generated and the period when the losses will be effectively used. Non-operating tax losses (for example, capital losses) accrued with effect from 1996 may only offset non-operating taxable income (for example, capital gains).

Losses generated outside Brazil through branches or subsidiaries may not be used to offset taxable income of the parent company in Brazil. In any event, such losses may be carried forward indefinitely and they may be used to offset future income from the same foreign branch or subsidiary without limitations.

Losses arising from transactions carried out on stock, future or commodity exchanges or on organized over-the-counter

markets in Brazil may only be used to offset gains realized on transactions of the same nature. Day-trading losses must only be used against day-trading gains.

Valuation of Assets

Inventories

Companies that have an integrated costing system must value inventory for tax purposes at the lower of cost and market value, using either the average cost or the first in, first out (FIFO) method. Direct cost and last in, first out (LIFO) methods may not be used. In general, companies that do not have an integrated costing system must value finished products at 70% of the highest sale price used in the tax period. Work-in-progress must be valued at either 80% of the finished product cost or 1.5 times the highest cost of the material content. Supermarkets and similar enterprises that sell a large number of goods may use a specific system for inventory valuation based on periodic and simplified counting.

Marketable Securities and Fixed Assets

Marketable securities and fixed assets are generally valued at cost for tax purposes. Different rules may apply for financial institutions.

Treatment of Groups of Companies

Brazilian tax law does not permit the filing of consolidated tax returns, nor does it recognize the concept of a group of companies (consolidation rules).

Dividends, Interest and Royalties Paid to Foreign Affiliates

Dividends related to profits accrued as of January 1, 1996 and distributed to nonresidents are not subject to withholding tax in Brazil.

Interest remitted abroad is generally subject to withholding tax at a rate of 15% (or a lower treaty rate). Interest paid to residents of low-tax jurisdictions is subject to a 25% withholding tax.

Royalties paid to foreign companies are subject to a 15% withholding. A special contribution (CIDE) charged at a 10% rate is also imposed to royalty payments, including payments for technical assistance and technical services. The tax is payable by the Brazilian payer (it is not a withholding tax). If the payment is made to a low tax jurisdiction, a 25% withholding tax rate plus a 10% CIDE applies.

Royalties may be deducted from taxable income limited to 1% to 5% of net sales. For trademark royalties, the applicable limit is 1%. In order for royalty payments to be treated as a tax-deductible expense, the contracts must be approved by the Brazilian Intellectual Property Agency (Instituto Nacional de Propriedade Industrial or INPI) and they must be registered with the Brazilian Central Bank to allow remittances to be made abroad.

Notional Interest on Equity

A Brazilian company may calculate notional interest on the net equity value (adjusted by the deduction of certain accounts) paid to both resident and nonresident shareholders. Notional interest on equity is a hybrid mechanism to remunerate capital to the extent that amounts paid are treated as deductible expenses for corporate tax purposes (similar to financial expenses) while shareholders are remunerated for their investment in capital.

Interest on equity is calculated on the adjusted net equity by applying the official long-term interest rate (TJLP) but subject to limitation established by law, specifically, 50% of current earnings or accumulated profits. It should be noted, however, that in December 2007 the Brazilian accounting regulations were amended to determine, among other things, that the

accumulated profits account was extinguished. Despite the fact that the accounting rules have changed, still the relating tax consequences for the Notional Interest on Equity were not yet defined by the tax authorities.

Interest on equity paid to foreign shareholders is subject to withholding tax in Brazil charged at a general 15% rate (or 25% if of payment is made to a low-tax jurisdiction). Interest on equity payments tends to be advantageous to profitable Brazilian subsidiaries (to the extent that the interest generates tax-deductible expenses) although the overall tax benefit should be evaluated in the light of the country of residence of the foreign shareholder.

If a Brazilian legal entity is a shareholder, gross revenue taxes (PIS and COFINS) also apply on interest on equity received.

Foreign Exchange Variations

Brazilian tax law allows a Brazilian taxpayer with cross border transactions (for example, operations in foreign currency such as imports and loans) to elect to calculate and pay corporate taxes on foreign exchange gains and/or losses on a cash or accrual basis. Under the cash basis of accounting, taxation is triggered on the liquidation of the transaction. Under the accrual method of accounting, taxes are computed on a monthly basis upon the corresponding accounting entry.

F3

Transfer Pricing

A Brazilian company that elects to pay corporate taxes using the actual profit method is required to comply with Brazilian transfer pricing rules.

Brazilian transfer pricing rules came into force on January 1, 1997 and they differ in several aspects from the arm's length principle as adopted under OECD¹¹ guidelines and by

the majority of the countries with transfer pricing regulations. For example, Brazilian taxpayers are required to adopt fixed profit margins to demonstrate compliance with transfer pricing regulations under one of the methods provided that do not necessarily reach a profit margin under arm's length conditions.

Concept of Related Parties

The legislation has a very broad definition of related parties involving concepts of direct and indirect control utilizing voting power and business control criteria. This includes companies associated in joint ventures, consortiums and other forms or joint ownership. In addition, there are rules in the sense that exclusive distributors and interposed parties are also considered related parties for the purposes of Brazilian transfer pricing regulations.

Transactions with Low-Tax Jurisdictions

Brazilian transfer pricing rules also apply to residents of low-tax jurisdictions regardless of a corporate relationship with the Brazilian company. The countries that are treated as low-tax jurisdictions are included in a Federal list (black list). They are generally defined for Brazilian tax purposes as countries that do not impose income tax or that impose income taxes at a rate that does not exceed 20%. The list, in principle, also includes countries that maintain secrecy for the shareholding ownership of the companies resident in such countries.

Law 11,727, published on 23 June 2008, broadened the scope of low-tax jurisdiction for transfer pricing purposes. According to the new law, low-tax jurisdictions should now include those jurisdictions which do not allow access to information with respect to the beneficial owner (beneficiário efetivo) of income attributed to nonresidents.

Additionally, Law 11,727 introduced the concept of Privileged Tax Regimes and the transfer pricing rules should be applied

to transactions performed under these regimes whether or not carried out with related parties.

Given the unclear definition on the scope of a low-tax jurisdiction and a privileged tax regime, regulations are expected to be enacted soon.

Brazilian Transfer Pricing Rules for Imports

The deductibility of costs and expenses associated with the importation of goods, services or rights from related parties abroad is limited to the price arrived at by using on one of the transfer pricing methods provided under Brazilian legislation. Prices are generally based on the following transfer pricing methods: cost plus, resale minus or the use of comparables. There is no "best method" rule; a Brazilian taxpayer may demonstrate compliance with the transfer pricing rules by choosing the method that best fits the transaction and that provides the best results.

The portion of the import price that exceeds the value based on one of the transfer pricing methods is treated as a nondeductible cost for Brazilian corporate tax purposes and is added back to the company's taxable income that is subject to corporate taxes at a 34% rate. The price methodologies must be applied on a product by product basis. The transfer pricing methods provided for import transactions are:

- ▷ The Comparable Independent Price Method (PIC) – this is the Brazilian equivalent of the Comparable Uncontrolled Price Method (CUP) set out in the OECD Guidelines on Transfer Pricing. The Comparable Independent Price Method is defined as the average price charged by the same exporter when selling to third parties abroad or the average price paid by the Brazilian company when acquiring identical or similar goods, services or rights from third parties abroad.

- ▷ The Resale Price less Profit Method (PRL): – Brazilian transfer pricing regulations provide for two resale methods: the resale price minus a 20% margin; and the resale price minus a 60% margin. The first method is generally applied to products imported for resale purposes while the second method applies to products imported for use in the manufacture of finished products to be sold by the Brazilian company. They apply as follows:
 - ▷ The resale minus 20% method is defined as the average resale price of goods, services or rights, reduced by any unconditional discounts granted, taxes and contributions charged on sales, commissions and brokerage fees paid, less a profit margin of 20%.
 - ▷ The resale minus 60% method is defined as the average resale price of goods, services or rights, reduced by unconditional discounts granted, taxes and contributions charged on sales, commissions and brokerage fees paid, less a profit margin of 60% calculated on net sales discounted by a percentage equivalent to the participation of the imported product in the overall cost of production.
- ▷ The Production Cost plus Profit Method (CPL) – this is the Brazilian equivalent to the Cost Plus Method set out in the OECD Guidelines on Transfer Pricing. It is defined as the average cost of production of identical or similar goods, services or rights in the country where they were originally produced, plus taxes and charges on exports in that country, plus a 20% profit margin, calculated on the pretax cost.

Brazilian Transfer Pricing Rules for Exports

Revenues derived from export transactions entered into with foreign related parties are subject to adjustment under the Brazilian transfer pricing rules if the average price used for the export transaction is lower than 90% of the average price of identical or similar goods, services or rights traded by the

Brazilian company in Brazil during the same period and under similar payment terms (the absolute safe harbor provision).

In general, Brazilian transfer pricing rules require that minimum export revenue is recognized by the Brazilian company when trading with a related party abroad based on a parameter export price reached by applying of one of the transfer pricing methods provided for exports, which are based on: resale minus; cost-plus; or comparables. No “best method” rule also applies to export transactions. If the export price reached by applying of one of the transfer pricing methods is higher than the export price effectively adopted for the export transaction, the positive difference must be added to the exporter’s taxable income and is subject to corporate taxes in Brazil. The transfer pricing methods provided for export transactions are:

- ▷ The Export Sales Price Method (PVEx) – this is the Brazilian equivalent to the Comparable Uncontrolled Price Method (CUP) in the OECD Guidelines on Transfer Pricing. It is defined as the average export sales price charged either by the company itself or any other Brazilian exporter for identical or similar goods, services or rights, during the same period and under similar payment conditions to third parties.
- ▷ The Wholesale Price in Country of Destination less Profit Method (PVA) – this is the Brazilian equivalent of the Resale Price Method in the OECD Guidelines on Transfer Pricing. It is defined as the average wholesale price of identical or similar goods in the country of destination, under similar payment conditions, less taxes included in the price, and a 15% profit margin calculated on the gross wholesale price.
- ▷ The Retail Price in Country of Destination less Profit Method (PVV) – this method is defined as the average retail price of identical or similar goods in the country of destination, under similar payment conditions, less taxes included in the price, and a 30% profit margin calculated on the gross retail price.

- ▷ The Purchase or Production Cost plus Taxes and Profit Method (CAP) – this is the Brazilian equivalent to the Cost Plus Method in the OECD Guidelines on Transfer Pricing. It is defined as the average purchase or production costs of the exported goods, services or rights, increased by taxes and contributions charged in Brazil on exports and a 15% profit margin calculated on the sum of costs, taxes and contributions.

Safe Harbor Provisions for Exports

Brazilian transfer pricing regulations also provide for two safe harbor provisions (Dispensa de Comprovação or “relief of proof” rules), which exempt taxpayers with relatively small export revenue or with minimum profitability on exports made to related parties abroad from compliance with the Brazilian transfer pricing rules through the use of one of the methods provided for exports. Brazilian taxpayers are entitled to demonstrate the adequacy of the export price adopted by disclosing regular commercial documents that support the export transaction (and the burden of proof is shifted to the Brazilian tax authorities in case of future tax audit).

The safe harbor provisions apply in the following situations:

- ▷ The taxpayer's net export revenues do not exceed 5% of total net revenues during the fiscal year; or
- ▷ The taxpayer demonstrates that a minimum pre-tax profit of 5% is reached on the export transaction (for the analyzed fiscal year and the two preceding years).

Due to the appreciation of the Brazilian currency, the government granted a relief for exporters to comply with transfer pricing rules, by considering their exports increased by 35%, 29%, 28% and 20% in the calendar years 2005, 2006, 2007 and 2008, respectively.

Taxpayers are also allowed to increase the intercompany exports by the same percentages mentioned above for the application of the CAP Method and for the absolute safe harbor provision.

Amendments on the Transfer Pricing Legislation

On 29 December 2009, the Brazilian Executive issued Provisional Measure 478 (MP 478), which amends the Brazilian transfer pricing legislation.

Among other changes introduced by MP 478, we emphasize the alteration of the minimum statutory gross profit margin required by the Resale less Profit Method, applicable to import transactions of goods, services or rights from 20% pure resale and 60% for manufacturing, to 35% for all types of transactions.

The new calculation methodology adopted is very similar to that set forth by Normative Instruction 243/02 for the production version of PRL, which is now applicable regardless of the imported product's nature (finished good or raw-material).

MP 478 establishes that the sale price of goods, services or rights imported should be prorated according to the imported item's proportion of the total cost of the finished good sold. The higher the value added in Brazil, the lower will be the imported good's sale price.

PIC Method's wording was also altered by MP 478. It is still uncertain whether the purpose of this change is to restrict the use of this methodology or quite the opposite.

One possibility is that MP 478 now allows the comparison of the importation price of the Brazilian entity with the purchase price from unrelated suppliers of the controlled exporter, when the company acts only as a pass through entity, without processing the goods exported to Brazil.

The wording of MP 478 is unclear on whether it would be, in fact, restricting the application of PIC only to transactions related to purchases by the same importer from unrelated parties and purchases and sales operations carried out between other resident or nonresident unrelated parties.

Moreover, under MP 478, the transfer pricing method elected by the taxpayer cannot be changed once the tax inspection has

been initiated. Taxpayers can use the most beneficial method only if it had calculated prior to the tax audit proceedings. The option for one of the methodologies must then be indicated in the Income Tax Return for each item imported or exported, and cannot be modified once the tax inspection begun.

Finally, the proposed changes entered into force on 1 January 2010. To be converted effectively into law, MP 478 needs majority approval in the Brazilian congress, which has up to 120 days to vote on this provisional measure.

Financial Transactions

Interest paid or credited to related parties abroad, associated with loan agreements not registered with the Brazilian Central Bank, are also subject to compliance with the Brazilian transfer pricing rules on the maximum interest expense treated as deductible for corporate tax purposes. Interest expense is tax deductible if the amount does not exceed an amount based on the Libor rate for six-month US dollar deposits plus a spread of 3% per year, proportional to the period for which the interest is charged. Likewise, interest earned by a Brazilian taxpayer from a loan granted to a foreign related party must, in principle, also comply with this condition.

Deduction of Royalties

The Brazilian transfer pricing rules do not apply to royalty payments associated with agreements registered with the Brazilian Intellectual Property Agency (INPI) to the extent that the deductibility of these payments for corporate taxes in Brazil is subject to limitations based on domestic legislation (that is, a maximum of 5% of the corresponding net revenue).

Transfer Pricing Documentation

Brazilian taxpayers are required to provide transfer pricing information on inter-company import and export transactions on an annual basis as part of the corporate income tax return

(DIPJ). The information generally includes among other things: the total transaction values; the name and place of residence of related trading partners; methodologies used to demonstrate compliance with transfer pricing rules; and the calculated benchmark price. Due to the complexity of the calculations required to prove the adequacy of the transfer price adopted, taxpayers are expected to include price calculations as well as documentation to support the information provided and to maintain such information in case of future tax audit.

In an effort to strengthen the enforcement of the transfer pricing rules, the Brazilian Tax Authorities are testing a program that will allow taxpayers to send detailed data about their intercompany and internal transactions directly to the Federal Revenue of Brazil (RFB) via internet - the International Audit Generator Program - AUDIN.

With the AUDIN, besides the normal transfer pricing documentation, taxpayers will be required to generate electronic data about the company's domestic sales, imports, exports, cost of products sold, inventory, and other relevant information, in an electronic file layout determined by the RFB. In the event of a transfer pricing audit, the taxpayer will be required to upload the electronic data into the AUDIN system, which will first validate, and then submit the data to RFB's computers.

Therefore, RFB will be able to make its own calculation and compare the results with the documentation prepared by the taxpayers. In case a difference is found, the taxpayer will be automatically assessed.

Consultation with Tax Authority

Questions or ruling requests related to transfer pricing methods, regulations and changes in statutory profit margins may be submitted to the tax authorities by means of a formal ruling request; however the tax authorities generally take a significant time to answer.

Fixed Profit Margins

The Brazilian government is permitted to change the fixed profit margins provided under Brazilian transfer pricing regulations. Taxpayers are also entitled to negotiate specific profit margins if they can prove the inadequacy of the fixed profit margins or the lack of applicable methods. To this end, taxpayers must apply internationally accepted methodologies to gather information supporting lower profit margins as well as prepare economic analysis as complementary proof.

On 29 September 2008, Ordinance MF n. 222 was published introducing several changes to the process of submitting requests to the Minister of Finance to change the Brazilian transfer pricing rules' statutory profit margins. This new rule also revoked the Ordinance MF 95/97, which previously regulated the changing of the transfer pricing profit margins but in more generic and bureaucratic terms.

The purpose of the Ordinance MF 222/08 is to provide guidance on how to apply for changes in the Brazilian transfer pricing margins, in order to reflect the real economic conditions of taxpayers. Changing these profit percentages is possible if the taxpayer submits a petition, in which the taxpayer proposes a different margin, and proving that those set forth by the Brazilian transfer pricing rules are not compatible with the margins practiced among unrelated parties in similar conditions.

It is the first initiative from the Brazilian authorities towards allowing more flexibility to the Brazilian transfer pricing rules and it is certainly an improvement over the old regulation.

Compliance Dates

The contemporaneous documentation required as part of the annual tax declaration (DIPJ) generally has to be filed by the end of June of the following fiscal year. Taxpayers are expected to have the detailed calculations, and the documentation necessary to support the information filed as part of the DIPJ, ready for potential tax audits before the filing date.

Penalties

In the absence of specific penalties related to failures in transfer pricing compliance, the standard tax penalties apply. Penalty may be 20% of the taxes not paid as a result of a lack of transfer pricing adjustments if corporate taxes are paid before a tax inspection, or it may range from 75% to 150% of the tax unpaid after a tax assessment occurs.

F4 | Foreign Tax Exemption and Credit

In general, income taxes paid abroad qualify for tax credit to offset corporate taxes charged in Brazil over foreign income, but offsetting is limited to the Brazilian corporate taxes charged on such income regardless of the actual tax paid abroad. Foreign tax that exceeds the limit may not be registered as a tax credit in Brazil or carried forward – it is essentially lost.

F5 | Nonresident Companies

Branches of foreign companies are taxed at the same rates as resident companies. Capital gains realized by nonresidents and related to assets located in Brazil (including shares in Brazilian companies) are generally subject to withholding tax at a rate of 15% (or 25% for residents of low-tax jurisdictions).

F6 | Partnerships and Joint Ventures

Partners in a consortium are subject to income taxes on their proportional share of partnership profits. For all other forms of partnerships, the partnership itself is subject to taxation as a legal entity.

F7

Taxation of Individuals

Residents and Nonresidents

Territoriality

Residents are taxed on their worldwide income. Nonresidents are taxed on their income from Brazilian sources only.

Expatriates who become resident in Brazil are subject to Brazilian income tax on their worldwide income, including all of their foreign source income.

Definition of Resident

Individuals are considered to be resident in Brazil, for tax purposes, if they meet any of the following criteria:

- ▷ Individuals living in the country on a permanent basis.
- ▷ Holders of permanent resident visas. Resident status begins on the date of arrival in the country.
- ▷ Holders of temporary resident visas with a local labor contract. Resident status begins on the date of arrival in the country.
- ▷ Holders of temporary resident visas without a local labor contract and who have been in the country for at least 183 days, during any 12 month period. Residence status begins on the 184th day of presence in Brazil;
- ▷ Brazilian citizens who had become nonresidents and returned to Brazil definitely. Resident status begins on the date of arrival in the country.
- ▷ Former resident taxpayers who left Brazil temporarily or permanently without obtaining a tax clearance certificate before departure. These individuals are deemed to be resident taxpayers for a 12 month period following their departure.

Taxation of Residents

Income Subject to Tax

Gross income is taxable whether it is received in cash or in kind. Income includes compensation, directors' fees, interest, and dividends from foreign sources, rental income and certain capital gains. Taxable compensation consists of salaries, wages, bonuses, fees, commissions, foreign service premiums and other types of remuneration.

Personal expenses paid by an employer are considered as an indirect benefit for the employee and are generally included in gross income. The value of housing provided by an employer, cost-of-living difference and home leave are taxable on the employee if the beneficiaries are identified and individualized, otherwise the tax burden is borne by the employer. Schooling allowances are also considered indirect salary and are taxed accordingly. No distinction is made between personal expenses paid directly by the company and personal expenses reimbursed by the company to an employee.

Employees are not taxed on the mandatory monthly deposits corresponding to 8% of the employee's monthly remuneration, which are paid by the employer to the Severance Pay Indemnity Fund (Fundo de Garantia por Tempo de Serviço or FGTS). The amounts deposited plus interest may be withdrawn tax free by the employee under certain conditions, including retirement and unfair dismissal. In addition, an employee unfairly dismissed is entitled to a tax free indemnification from the employer in an amount equal to 50% of the company's deposits in the employee's FGTS linked account –40% for the employee and 10% for the government.

Under Brazilian law, individuals are taxed on a cash basis. Therefore, payments from foreign sources, including bonuses or premiums related to services rendered, that are paid prior to

or following an assignment are generally not taxable if received during a period when the individual is not resident for tax purposes. Consequently, it may be advantageous to schedule payment of these allowances so that they are received before the individual is a resident for tax purposes or after the tax clearance is requested prior to departure.

Gifts, donations and inheritances are exempt from Brazilian individual income tax. However, specific state legislation governs inheritance and donation when the beneficiary has established his domicile in a specific state. States may levy gift tax on transfers of real estate by donation and inheritance at any rate up to 8%. The rate applicable in Rio de Janeiro and in São Paulo is generally 4%. Residents, foreigners and nonresidents are exclusively subject to this tax on assets located in Brazil.

Treatment of Capital Gains

Capital gains are calculated as the difference between the sale price and the acquisition cost of an asset. Capital gains are generally taxed at a rate of 15%.

Shares Traded in the Brazilian Stock Market.

Individuals who derive net gains from sales of stock in the stock market are subject to income tax on the monthly gains at a rate of 15%. If the aggregate sale price of all shares sold in any month is less than R\$20,000 (approximately US\$10,000), the transactions for that month are treated as nontaxable. In the case of a loss, it may be carried forward and it may only be used to offset capital gains from the sale of shares in the stock market.

Real Estate

Capital gains derived from the sale of real estate are subject to income tax at a rate of 15% on the difference between the sale price and the acquisition cost. Special exemptions:

- ▷ Gains from the sale of real estate acquired between 1969 and 1988 and, based on the time of ownership, for those acquired before January 1, 1989;
- ▷ Gains from the sale of the sole property, provided the beneficiary has not sold any real estate in the previous five years and the sale price does not exceed R\$440,000;
- ▷ Gains from the sale of residential properties if fully taken to purchase other residential properties within 180 days countable from the first transaction. The exemption is available once every 5 years.

Other Personal Assets

Capital gains derived from disposal of personal assets are subject to income tax at a rate of 15%. The amount of taxable gain is the difference between the sale price and the acquisition cost. There is no loss carry forward. This provision does not apply to sales of assets and rights of the same nature for less than R\$ 35,000 per month, which are exempt, and to the disposal of shares traded on the Brazilian stock market, as explained above.

Deductions

The following are the only deductible expenses permitted in calculating monthly income tax liability:

- ▷ Social security taxes paid to Brazilian federal, state or municipal entities;
- ▷ Private pension contributions made to Brazilian pension funds;
- ▷ Amounts paid as alimony and pensions in accordance with a court order;
- ▷ For self-employed individuals, expenses incurred to produce business income and maintain the source of business income, excluding depreciation and transportation expenses, if proper books and fiscal documentation are maintained;

- ▷ Old age pension (over 65 years), up to the monthly limit of R\$1,434.59; and
- ▷ Standard deductions for dependents (R\$144.20 monthly), without limit on the number of dependents.

On the annual Federal income tax return 2010, fiscal year 2009, a taxpayer may deduct the following items:

I) From the Taxable Income:

- ▷ Payments made by the taxpayer or a dependent for educational expenses, up to an annual limit of R\$2,708.94 for each individual;
- ▷ Payments made during the calendar year to doctors, dentists, psychologists, physic-therapists, phono-audiologists, occupational therapists and hospitals, and expenses for laboratory tests and X-rays (medical expenses that are covered by insurance or reimbursed to the taxpayer are not deductible), without limit;
- ▷ Payments for medical treatment plans managed by Brazilian companies or by companies authorized to carry out activities in Brazil and healthcare insurance premiums, without limit; and
- ▷ Contributions made to the Retirement Pension Fund (FAP), up to an annual limit of 12% of the total annual taxable income. The limitation also includes the amount deducted for the monthly private pension contributions made to Brazilian pension funds.

II) From the Income Tax Due:

- ▷ Certain charitable contributions and donations up to a maximum of 6% of the income tax due; and
- ▷ Employer contributions to the INSS for domestic employees up to R\$ 732.00.

Rates

Personal income tax is imposed on a progressive scale which is updated every year. For fiscal year 2009, the following brackets apply:

Calculation basis	Income tax rate	Standard deduction
Up to 1,499.15	-	-
From 1,499.16 to 2,246.75	7.5%	112.43
From 2,246.76 to 2,995.70	15%	280.94
From 2,995.71 to 3,743.19	22.5%	505.62
Over 3,743.20	27.5%	692.78

For a sample individual income tax calculation, see Appendix 6.

Taxation of Nonresidents

Nonresidents are taxed on their income from Brazilian sources only. They are subject to withholding tax at a rate of 10%, 15% or 25% depending on the type of income. The source of the income is determined by the location of the payer, regardless of where the work is performed. Individuals are considered to be nonresident for tax purposes if they meet any of the following criteria:

- ▷ Individuals that do not live on a permanent basis in Brazil.
- ▷ Holders of a temporary visa without a local labor contract. Nonresident status is kept during the first 183 days in Brazil within a 12 month period, or until an employment relationship is established.
- ▷ Former residents that have obtained a tax clearance certificate prior to definitive departure from Brazil. Nonresident status begins on the date of departure.
- ▷ Former residents that have been absent from Brazil for more

than one year after having left the country without obtaining a tax clearance certificate. Nonresident status begins 12 months after departure.

F8 | Inheritance and Gift Taxes

Transfers of real state are subject to a tax on immovable property (Imposto sobre Transmissão de Bens Imóveis or ITBI), at rates ranging from 2% to 6%, according to municipal law.

If the real estate transfer is done through donation or inheritance an inheritance tax applies, (Imposto sobre Transmissão Causa Mortis ou Doação or ITCMD) which is levied at a maximum rate of 8% (in Sao Paulo and Rio de Janeiro, for example, the applicable tax rate is 4%).

F9 | Indirect Taxes

Value Added Taxes

Both the Federal and State governments impose value-added tax (VAT) type taxes in Brazil. Each manufacturing plant or branch of a Brazilian company is generally considered an autonomous tax unit for both federal and state VAT purposes.

Federal Value Added Tax (IPI)

Federal VAT (Imposto sobre Produtos Industrializados or IPI) is charged on imports of goods, on the first sale of imported goods and on transactions involving manufactured goods. Exports are tax exempt. The tax rate varies depending on the product traded and ranges from 0% to 365%. IPI paid on an import transaction or on local acquisitions generally becomes a tax credit to offset IPI charged on subsequent transactions. Special rules apply to the import and sale of fixed assets.

State Value -Added Tax (ICMS)

State VAT (Imposto sobre operações relativas à circulação de mercadorias e sobre prestações de serviços de transporte interestadual e intermunicipal e de comunicações or ICMS) is levied on the import of goods and on the movement out of imported and manufactured goods, even if between branches of the sale legal entity. Exports are tax exempt. ICMS paid on imports as well as on local acquisitions generally becomes a tax credit to offset ICMS due on subsequent transactions. Special rules apply to the offset of ICMS tax credits associated with the acquisition of fixed assets.

ICMS tax rates vary according to the state where the company and the acquirer of the goods are located. Imports are generally subject to a 17% or 18% rate, while local transactions are subject to rates varying from 7% to 18%. Transactions involving taxpayers located in the states of the North, Northeast and Center-West regions and Espírito Santo are subject to a 7% rate, while a 12% rate applies to transactions involving companies located in states of the Southeast and South regions.

ICMS is also charged on the provision of transportation services, communication and electricity.

Other Taxes

Import Duties

Import duties apply to import transactions based on the customs value of the goods. The customs value is generally based on the cost plus insurance and freight (CIF) value of the goods plus others costs specified by the customs valuation rules. Import Duty is levied when products are imported into the country. Import duty rates vary depending on the tax position of the goods imported according to the MERCOSUR common external tariff (TEC) which follows the Brussels Harmonized Code (see section C.6 for more detailed information).

PIS and COFINS on Imports

PIS (Programa de Integração Social) and COFINS (Contribuição Social para Financiamento da Seguridade Social) are generally imposed on the import of goods and services at a combined rate of 9.25%. In the case of imported goods, the taxable base is the CIF value plus import tax, ICMS and PIS and COFINS themselves. The taxable base for services is the service price plus service tax and PIS and COFINS themselves. As a general rule, PIS and COFINS paid on products or services imported may be used as tax credit to offset PIS and COFINS charged on gross receipts derived from local transactions if the company is subject to the non-cumulative regime of calculating PIS and COFINS, as further explained in the item “Turnover Taxes” below.

Municipal Service Tax (ISS)

Municipal service tax (Imposto sobre serviços de qualquer natureza or ISS) is charged on the rendering of certain services included in a Federal list of taxable services. Rates vary from 2% to 5%. Imported services are also subject to ISS taxation regardless of whether the service is performed abroad. Exported services are tax exempt, provided certain conditions are met.

Financial and Exchange Operations Tax

Under certain circumstances, financial operations tax (Imposto sobre operações financeiras or IOF) is imposed by the Federal government at rates varying from 0% to 25% on loan transactions, investments in fixed income funds, transfers of amounts from foreign to local financial institutions and investments by nonresidents in short-term funds.

Turnover Taxes (PIS and COFINS)

PIS (Programa de Integração Social) and COFINS (Contribuição Social para Financiamento da Seguridade Social) are turnover taxes charged on gross receipts under two different regimes: non-cumulative; or cumulative.

Under the non-cumulative regime, PIS and COFINS are generally charged at a combined rate of 9.25% on gross receipts. Tax credits are allowed for certain business related costs and expenses, which may be used to offset PIS and COFINS liabilities. Brazilian taxpayers that use the cumulative regime are subject to a reduced PIS and COFINS tax rate (a combined rate of 3.65%) but without any tax credits.

Tax on the Disposal of Real Estate (ITBI)

The municipal tax on the disposal of real estate (Imposto sobre Transmissão inter-vivos de Bens Imóveis pr, ITBI) is levied in the case of a burdensome real estate transfer, such as a sale. This tax is also required in specific situations such as for mortgage guarantees. Transfers of real estate resulting from corporate reorganizations or resulting from incorporation may be exempt from ITBI, if the corporate reorganization or incorporation does not characterize a prevalent activity of the acquiring company. As an example, in the Municipality of São Paulo the ITBI tax rate ranges from 0.5% to 2%, to be calculated over the market value of the transferred real estate.

Tax on Inheritance and Donations (ITCMD)

ITCMD (Imposto sobre Transmissão Causa Mortis ou Doação) is levied on the complimentary transfer of any assets and equity rights, which means, it applies to donation or inheritance transfers. Each State determines the tax rate applied, up to the maximum percentage established by the Federal Senate, which is currently 8%. In Sao Paulo, for example, the tax rate is currently 4%, to be applied upon the market value of the transferred real state.

Federal Land Tax (ITR)

Federal land tax (Imposto sobre Propriedade Territorial Rural or ITR) is levied annually on the ownership or possession of real

estate in rural areas. Rates vary from 0.03% to 20% depending on the value and the level of utilization of the land.

Municipal Property Tax (IPTU)

Municipal property tax (Imposto sobre a Propriedade Predial e Territorial Urbana or IPTU) is levied annually on the ownership of real estate in urban areas. The tax is based on the arbitrated value of the land and buildings, adjusted according to formulas prescribed in the legislation. In the Municipality of São Paulo, the applicable rate varies from 1% to 1.5%, depending on the utilization of the real estate.

F10 | Tax Treaties

Brazil has been extending its tax treaty network in the last couple of years. Currently Brazil has double tax treaties signed with numerous countries in Latin America (including Mexico, Chile and Argentina) and Europe, as well as Japan and Canada, but the main absence is the United States.

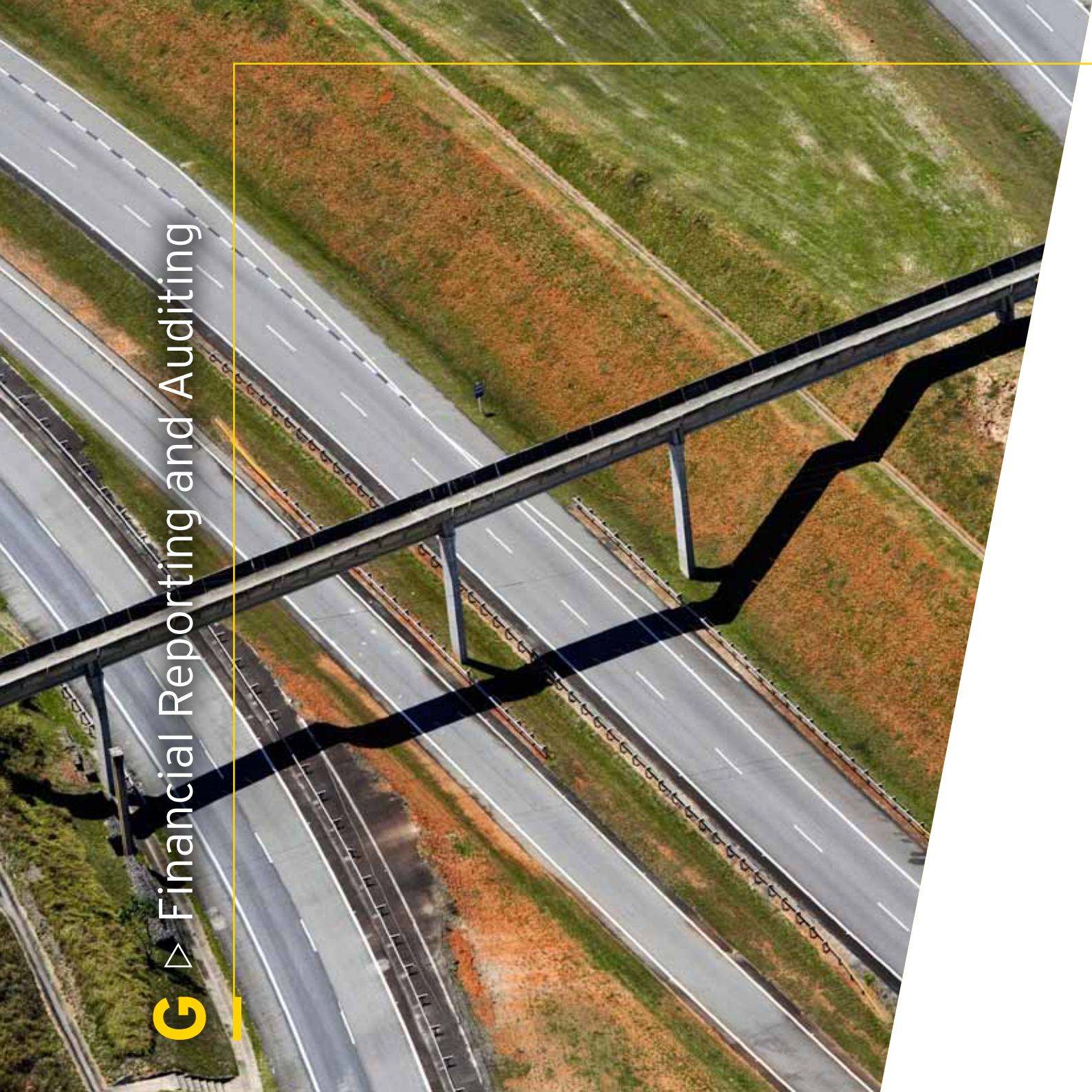
Although the main definitions of transactions covered by each double tax treaty are generally based on the model treaty convention of the OECD, Brazil does not follow the interpretation commonly adopted under OECD guidelines for some of the articles provided (in particular, the business profits article) because Brazil is not an OECD member country.

Tax credit mechanisms as well as the definition of the maximum withholding tax rates, including provisions on tax sparing, are set forth in the majority of the tax treaties currently in force. Notwithstanding this, dividend payments are not subject to withholding tax based on domestic legislation while royalties and interests are subject to maximum 15% rate - although recent treaties have provided for lower rates especially for royalty payments. For a complete chart of applicable withholding taxes on the main cross border payments, see Appendix 7. ■





G ▷ Financial Reporting and Auditing



G1 | Statutory Requirements

Books and Records

Corporate entities and individuals engaged in commercial activities must maintain proper accounting books and record transactions in these books as required by law.

Corporate entities must maintain the following books and records:

- ▷ A general ledger (diário);
- ▷ Federal and State VAT books;
- ▷ A book reconciling accounting income with taxable income (LALUR); and
- ▷ Registers of inventory and goods shipped and received.

Official records must be written in Portuguese with values expressed in Reais. Transactions must be recorded in chronological order. Manual or computerized subsidiary ledgers for cash receipts and disbursements and for purchases and sales are permitted if they are properly registered. Records must be clear and without erasures. Blank lines and alterations are not permitted.

Method of Accounting

Companies in Brazil must use the accrual method for computing the results of their activities. A cash method is available for small companies that elect for the simplified taxation system.

Financial Statements

On December 28, 2007, after seven years of discussions in the Brazilian Congress, Law no. 11638 was approved. This new law makes relevant amendments to Law no. 6404, of December 15, 1976, regarding the preparation of financial statements for corporations and large companies, even if they have not been organized as corporations (“S.A.”).

This new Brazilian Law represents a major step in the process towards harmonization with International Financial Reporting Standards (IFRS). Some changes and new requirements introduced by the new Law are described in the following paragraphs. Public companies and financial institutions regulated by the Central Bank will need to comply with IFRS for fiscal years ending on December 31, 2010, with comparative disclosures required.

Large companies, even if not organized as corporations (“S.A.”), must now comply with the provisions contained in Law no. 6404 regarding preparation of financial statements. These financial statements shall be audited by an independent auditor registered with the Brazilian Securities Commission (“CVM”). For the purposes of this Law, a large company means a company, or a group of companies under common control, with recorded total assets above R\$240 million (approximately US\$120 million) or gross sales above R\$300 million (approximately US\$150 million), in the prior year.

The new Law, and also Law no. 11,941 approved in May 27, 2009, requires a clear distinction between the financial statements prepared for tax purposes and those prepared to meet Brazilian corporate law requirements. The accounting entries related to adjustments made solely to comply with the financial reporting standards, as well as the financial statements and calculations based thereon, will not have any impact on income taxes levied, whether the taxpayer has made an option to adopt the RTT (Transitory Tax Regimen).

G2 | Sources of Accounting Practices

Brazilian accounting practices are established by Corporate Law No. 6,404 of 1976 as amended by Laws 9,457 of 1997, 11,638 of 2007 and 11,941 of 2009. Besides those Laws, the Comitê de Pronunciamentos Contábeis (CPC) has the authority to issue accounting statements in Brazil.

The CVM has the authority to specify accounting and reporting practices for publicly traded companies as well as promulgate disclosure requirements for the quarterly and annual financial reports required from such companies. The Commission generally relies on CPC to establish accounting standards and practices.

Companies in the banking, insurance and other specialized business sectors must comply with specific accounting practices established by the regulatory agencies for these sectors.

G3 | Accounting Principles and Practices Significant Accounting Principles and Practices

Brazil is a member of the International Accounting Standards Board (IASB). In general, accounting practices adopted in Brazil are comparable to those prescribed by IASB because CPC take IASB statements into consideration when preparing accounting standards. The principal differences between accounting practices adopted in Brazil and those prescribed by international accounting standards are summarized in the Ernst & Young Terco booklet “Brazilian GAAP vs. IFRS - The Basics June 2009”, which can be downloaded on the Ernst & Young web site.

G4 | Financial Reporting

Disclosure Requirements

General Requirements

Corporations (SAs) and large companies as defined by the Law No. 6,404 amended by the Law No. 11,638 must prepare financial statements annually, transcribing them in the general

journal. Required financial statements include a balance sheet and statements of income, cash flows, and value-added (only mandatory for public companies) and changes in shareholders' equity. Assets and liabilities are presented in the order of liquidity. In addition, notes to the financial statements are required, including disclosures of the accounting practices adopted by the company. All SAs must publish two year comparative financial statements in the Official Gazette and in at least one well-known newspaper.

Closely held corporations and limited liability companies (limitadas) are subject to disclosure requirements similar to those of publicly held companies, but the audit of their financial statements is not mandatory, unless they fit into the large companies category as defined by Law no. 6,404 and 11,638.

Balance Sheet

The balance sheets must disclose the following items:

- ▷ Current assets;
- ▷ Non-current assets (long term assets, investments, property, plant and equipment and intangibles);
- ▷ Current liabilities;
- ▷ Non-current liabilities;
- ▷ Deferred income;
- ▷ Share capital;
- ▷ Capital and income reserves, and equity valuation adjustments;
- ▷ Retained earnings (not allowed for public companies) or accumulated losses.

Income Statement

At a minimum, the income statement must disclose the following items:

- ▷ Gross income from sales of goods and services, sales

deductions, discounts and sales taxes;

- ▷ Net proceeds from sales of goods and services, cost of goods and services sold, and gross profit;
- ▷ Selling expenses, financial expenses (less financial income), administrative expenses and other operational expenses;
- ▷ Income (or losses) from operations, other income and expenses;
- ▷ Income for the year before income taxes;
- ▷ Income taxes;
- ▷ Participation in profit payable to employees and directors and contributions to employees' pension and welfare funds;
- ▷ Net income; and
- ▷ Net income per share (outstanding at end of the period).

Statement of Cash Flows

This statement is similar to the requirements of IAS 7

- Statement of Cash Flows.

Statement of Value-Added (mandatory only for public companies).

This statement gives further analysis into the nature of the company's cost and expenses.

Notes to the Financial Statements

To comply with Corporate Law and certain accounting regulations, SAs must provide the following information in the notes to the financial statements to the extent the information is applicable:

- ▷ The principal accounting practices used in preparing and presenting the financial statements, including the method used for valuing inventories and determining depreciation, amortization and depletion; and adjustments made to cover

losses expected to be incurred on the disposal of assets;

- ▷ The basis of consolidation and the companies included in consolidation;
- ▷ The major categories of all significant accounts, for example, inventories and fixed assets;
- ▷ Details of material investments in other companies;
- ▷ Details of transactions with related parties;
- ▷ Increases in the carrying values of fixed assets as a result of spontaneous revaluation;
- ▷ Pledges of assets, guarantees given to third parties and other contingent liabilities;
- ▷ Interest rates, maturity dates and guarantees for short and long-term loans;
- ▷ Details of income tax calculation (current and deferred);
- ▷ Details of all derivative instruments used;
- ▷ The number, type and classes of the company's shares;
- ▷ Dividend distribution policies;
- ▷ Prior year adjustments, which are made for a variety of reasons (often involving immaterial amounts); and
- ▷ Significant events occurring after the balance sheet date that have or might have a material effect on the company's financial position or on the results of future operations.

Directors' Report

Publicly held companies must issue a directors' report containing basic information about the company, any significant changes and information on the business segments in which the company is engaged. In addition, publicly held companies must supply detailed annual and quarterly information to the CVM, that is similar to but much less extensive than the information required

by the Securities and Exchange Commission (SEC) of the United States. Independent auditors must review the quarterly financial information submitted to the Commission that is mandatory for publicly held companies with gross sales over R\$100 million.

Requirements for Listed Companies

Publicly held companies that are subject to control by the CVM, must publish audited financial statements annually, together with the report of independent auditors. The financial statements consist of a balance sheet, an income statement, a statement of retained earnings or accumulated losses (generally provided as a part of the statement of shareholders' equity), a statement of cash flows, value-added, and notes to the financial statements. The audited financial statements must be submitted to the CVM annually, to the appropriate government agency if the company is a public utility, and to the BACEN and other regulatory agencies if the company is engaged in banking, leasing or insurance activities.

Requirements for Different Industries

Regulatory bodies require companies in regulated industries, such as banking, public utilities and insurance, to prepare detailed uniform financial statements and to conform with specific accounting requirements relevant to their industries.

Reporting Requirements

Although Limitadas must publish certain corporate acts, they are not subject to reporting requirements related to their financial statements, unless they fit into the large company definition of Laws no. 6,404 and 11,638. Privately held SAs must publish their financial statements annually. Publicly held SAs must issue quarterly reports and publish their audited financial statements annually. Banks and insurance companies must publish their audited financial statements twice a year.

All financial statements must be expressed in Brazilian Reais and

be prepared in Portuguese. Statements must be in accordance with Brazilian GAAP applied on a consistent basis and they must include appropriate information disclosures.

Filing Requirements

A company that offers shares and securities for sale to the public must file a registration statement for the public offering with the CVM. The registration statement must include audited financial statements and, depending on the length of time since the end of the prior year, the most recent unaudited interim financial information. Companies whose securities are publicly traded must file periodic reports, including audited annual financial statements, within the CVM.

The Brazilian Stock Exchange has four corporate governance segments: Levels 1 and 2, Bovespa Mais, and Novo Mercado. Each segment has different requirements to be complied with by the registrants.

G5 | Audit Requirements

The Brazilian Federal Accountants' Council (Conselho Federal de Contabilidade or CFC) and the Regional State Boards regulate the accounting profession, and accountants must register with these bodies before entering public practice and signing audit reports. Under the legislation governing Brazil's accounting profession, only a certified public accountant (contador registrado) may sign audit reports. In order to hold an executive position in public companies and financial institutions audits, the professional must be registered in the Cadastro Nacional dos Auditores Independentes (CNAI).

Publicly held companies, government-owned companies, financial institutions, insurance companies and legal entities applying for public funds must engage qualified independent

auditors registered with the CVM. Independent auditors are engaged or dismissed by the administrative council (conselho de administração) of a corporation. These independent auditors must attend the annual shareholders' meeting to supply information in connection with the audit performed during the year.

BACEN requires that all financial institutions be audited by independent auditors, regardless of whether the institution is also subject to examination by the BACEN's internal auditors. Legislation provides for submission of semi-annual audit reports by financial institutions. Each year, independent auditors must submit to the Commission a list of the legal entities they have audited. BACEN and CVM require that independent auditors be replaced at least every five years.

The auditor must declare in the audit report whether, in the auditor's opinion, the financial statements present fairly the company's financial position and the results of its operations. Independent auditors that are registered with the Commission are liable for damages incurred by third parties relying on their audits.

The CVM has the authority to examine the accounting records and other financial information produced or held by the following:

- ▷ Individuals and legal entities engaged in activities related to trading marketable securities; and
- ▷ Publicly held companies, mutual funds, independent auditors, consultants and experts operating in the capital market.

CVM requires publicly held corporations to reissue financial statements and related reports if they are found to be misleading or if other changes are considered necessary.

G6

Accounting Profession

Professional Associations

All accountants in Brazil must be registered with the CFC, which has primary responsibility for regulating and overseeing the accounting profession in Brazil. The CFC is also responsible for issuing statements on professional ethics, bylaws and auditing standards. Until recently, IBRACON has been the entity responsible for issuing statements on accounting and auditing. Membership in the institute is voluntary and consists primarily of independent auditors. The institute remains supports the CFC on issuing the Brazilian generally accepted auditing standards.

Professional Standards

An auditor must have a recognized bachelor's degree in accounting and be registered with the CFC. In practice, all auditors that have significant audit accounts are members of IBRACON.

Accountants must have graduated from an accounting university and be registered with the Regional Accountants' Council (Conselho Regional de Contabilidade or CRC).

Foreign accountants may practice in Brazil if they provide the following documents:

- ▷ An original (or a notarized copy of a) university degree;
- ▷ A letter from the foreign employer stating the individual's position in the foreign company, length of employment, remuneration earned abroad, and the position and remuneration of the individual with the Brazilian company; and
- ▷ A criminal clearance certificate. ■

H ▷ General



H1 | Geography and Climate

Brazil is the world’s fifth largest country, with an area of 8,514,877 square kilometers (3,287,597 square miles) . Located in eastern South America, it borders every South American country except Chile and Ecuador. Brazil’s coastline along the Atlantic Ocean is approximately 7,500 kilometers (4,650 miles) .

The country is divided into the following five geographic regions:

- ▷ The North, consisting primarily of the Amazon Basin states, including Acre, Amapá, Amazonas, Pará, Rondônia, Roraima and Tocantins;
- ▷ The Northeast, that comprises the states of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe and Bahia;

- ▷ The Southeast, that includes the states of São Paulo, Rio de Janeiro, Minas Gerais and Espírito Santo;
- ▷ The South, consisting of the states of Parana, Santa Catarina and Rio Grande do Sul; and
- ▷ The Center-west, that includes the states of Mato Grosso, Mato Grosso do Sul, Goiás and the Federal District.

The equator passes through the north of Brazil, where the Amazon Rain Forest is located. The Tropic of Capricorn crosses São Paulo state.

Because of its extensive length from north to south—about 4,500 kilometers (2,800 miles)—the climate varies considerably, as the following table illustrates.

	Average Low and High Temperature		Average Humidity	Average Rainfall	
	Celsius	Fahrenheit	%	Cm	Inches
North	20° to 36°	68° to 97°	85	140	55
Northeast	21° to 33°	70° to 91°	80	120	47
São Paulo, in the southeast	5° to 35°	41° to 95°	70	50	20
Porto Alegre, in the south	0° to 30°	32° to 86°	76	62	24

Although winter temperatures in the south fall to 0°C (32°F) , snow is rare.



H2 | Population and Language

Brazil's population was estimated at 194 million people in 2009. The estimated annual growth rate is approximately 1.6%. The Southeast has the largest population concentration (approximately 42.6% of the total population), followed by the northeast with approximately 27.7%. The south has 14.6% of the population while the north has 7.98% and the west central region only 7%.

The largest city in Brazil is São Paulo, with an estimated population of 19.223 million of inhabitants in the metropolitan area. Rio de Janeiro, the second largest metropolitan area, has approximately 16 million of inhabitants.

Belo Horizonte, 2.452 million; Porto Alegre, 3.959 million, Recife, 1.561 million, Salvador 3.866 million and Fortaleza 2.505 million. Portuguese, the official language, is spoken throughout Brazil.

Population in 2008

Brazilian Regions	Estimated population (2008) *1000 persons	Brazilian Regions	Estimated population (2008) 1000 persons
BRAZIL	189.820		
NORTH	15403	SOUTHEAST	80845
Rondônia	1595	Minas Gerais	19765
Acre	679	Espírito Santo	3530
Amazonas	3431	Rio de Janeiro	15772
Roraima	419	São Paulo	41779
Pará	7275		
Amapá	641	SOUTH	27704
Tocantins	1364	Paraná	10535
		Santa Catarina	6066
NORTHEAST	52305	Rio Grande do Sul	11103
Maranhão	6280		
Piauí	3071	MIDWEST	13563
Ceará	8358	Mato Grosso do Sul	2338
Rio Grande do Norte	3092	Mato Grosso	2920
Paraíba	3655	Goiás	5861
Pernambuco	8608	Distrito Federal	2444
Alagoas	3092		
Sergipe	2040		
Bahia	14109		

H3 | Government and Political System

The Brazilian Federal Constitution was issued in 1988 and heralded a return to democracy after almost 30 years of military dictatorship. The first direct election of state government officials took place in 1982, but direct elections for president were not held until 1989.

Brazil is a federal republic divided into 26 states plus the Federal District, which includes the capital, Brasília. The states are also divided into municipalities.

The federal government consists of executive, legislative and judicial branches. The president serves as the head of state and nominates the ministers and secretaries of the government. The president also names the presidents of several government entities, including the Central Bank of Brazil. Certain nominations require approval by the Senate to become effective.

The Congress is the legislative branch. It is divided into two chambers, the House of Representatives and the Senate. Proposed legislation generally must be approved by both chambers and receive presidential sanction before it becomes law.

The judicial branch consists of federal and state courts.

State and municipal governments are structured like the federal government. Each state government is headed by a governor and has legislative and judicial branches.

Although Brazil has a large number of political parties, their ideologies are not well developed as Brazil's emergence as a democracy is recent. The parties generally represent specific economic interests within the population. The following table lists Brazil's major parties and the percentage of the Congress they control, as of December 2009:

Political Party	Congress seats
Partido do Movimento Democrático Nacional (PMDB)	26
Partido Democratas (DEM)	21
Partido Social Democrático Brasileiro (PSDB)	20
Partido dos Trabalhadores (PT)	24
Partido Popular (PP)	20

H4 | Living In Brazil

Time

Most of Brazilian states, including São Paulo and Rio de Janeiro, are three hours behind Greenwich Mean Time (GMT). Certain less populated regions in the western part of Brazil, including the city of Manaus, are four hours behind GMT.

From October to February, most states observe Daylight Saving Time putting the clocks an hour forward.

Business Hours

Normal office hours are 8:30 a.m. or 9:00 a.m. to 5:30 p.m. or 6:00 p.m. with a one-hour break for lunch. Most offices observe a five-day working week, although some factories work on Saturday mornings as well. Stores are generally open from 10:00 a.m. to 7:00 p.m. during the week and from 10:00 a.m. to 4:00 p.m. on Saturdays. Stores located in shopping centers and supermarkets normally stay open until 10:00 p.m. Banks are generally open Monday to Friday from 10:00 a.m. to 4:00 p.m., but these hours vary according to the municipality involved.

Public Holidays

Official federal holidays in Brazil are set forth in the following table. Dates in italics vary from year to year.

	2010	2011
New Year's Day	1 January	1 January
Carnival	16 February	08 March
Easter	4 April	22 April
Tiradentes Day (Martyr of Brazilian independence)	21 April	21 April
Labor Day	1 May	1 May
Corpus Christi	03 June	23 June
Independence Day	7 September	7 September
Patron Saint of Brazil Day	12 October	12 October
All Soul's Day	2 November	2 November
Republic Day	15 November	15 November
Christmas	25 December	25 December

Business in Brazil almost completely stops during Carnival and the preceding and following days. In addition to the above-mentioned holidays, several local municipal holidays are recognized.

Transportation and Communications

Highways

The highway system is adequate for business and other travel, linking all major cities with the exception of some towns in tropical North. Interstate bus service provides good passenger transportation, but city buses are often crowded and lack of

security. In practice, many people prefer going to work by car. Some of the highway systems have already been privatized.

Subways

São Paulo and Rio de Janeiro have a subway system that covers a relatively limited area. São Paulo subway has been going through a process of expansion by the State Government.

Railroads

Inadequate investment in the infrastructure of the railway system during the last two or three decades has caused the decline of railroads as a means of transportation. New railroads have been constructed in the North and Central regions, but they have a limited impact on national transportation. The situation is expected to change with the privatization of railroads transportation. By 1997, 856 kilometers (532 miles) of railways were privatized. However, the privatization is temporary; after a certain period, the Brazilian government will retake control of these railroads. São Paulo and Rio de Janeiro have good underground systems, but they also cover a relatively limited area.

Waterways

The waterway system is being expanded significantly in São Paulo, Minas Gerais, Goiás, Paraná and Mato Grosso do Sul. In addition, many major rivers in northern Brazil are navigable, including the Amazon and São Francisco rivers.

Air Transport

Brazil has an extensive internal airline system that is modern and efficient. Regular flights link all major cities, and air shuttle services serve the cities of São Paulo, Rio de Janeiro, Belo Horizonte and Brasília.

Telecommunications

Telecommunications are well developed in Brazil, especially in the urban areas. This has been achieved mainly as a result of the privatizations occurred in the 90's. Nevertheless, certain regions are in need of improved telecommunications infrastructure, mainly in the North and Center-West regions. Mobile phone systems are also available in the country (3G, GSM system and others).

When calling from an international location, the caller must use the international telephone country code for Brazil, 55, as a prefix, and the area code that is shown in parenthesis below. When calling from an internal location but to a different state, the caller must dial 0 plus the number of a local operator (15, 21, 23 and others), the area code and the telephone number.

Postal Services

The Brazilian postal services are generally efficient but companies often hire their own messengers for same-day delivery of local correspondence. International and national courier services are widely available.

Internet and Communications

According to extra official sources, Brazil had more than 39 million people utilizing the Internet in 2009. Brazil is the sixth country in the world with more internet users and the number of users is increasing every year. Brazil has a significant participation in the electronic commerce in Latin America, which is estimated to generate revenue of US\$ 193 billion per year. A total of 553 thousand Brazilian addresses registered on the web were reached in June 2009.

Education

Brazil provides a national, free public education system, but the quality is not satisfactory. On the other hand, numerous private

educational facilities from kindergarten to university level provide high standard education. Schools with American, British and European orientations are available in São Paulo, Porto Alegre, Belo Horizonte, Brasília, Rio de Janeiro, and some other major cities.

Medical System

The public medical system in Brazil provides services to patients free of charge, but the quality of services is not satisfactory. Private doctors, dentists and hospitals are readily available and offer excellent services. Many companies offer private health plans to their employees, and in the industrial sector, many companies offer on-site medical assistance to workers. Sometimes the assistance is also available to their families.

Housing

High-quality housing is available in all Brazilian major cities. However, the housing situation for many in lower socio-economic groups is dire, and the scale of the problem is evident throughout large areas of the major cities.

Leisure and Tourism

Many clubs in Brazil have extensive facilities for social activities and sports. Major cities, especially Rio de Janeiro, São Paulo, Belo Horizonte and Porto Alegre, offer a wide range of cultural activities and also have numerous theatres, cinemas and restaurants. Brazilian popular music is internationally renowned, its eclectic nature reflecting the diversity of the country.

Tourists and foreign residents have many options available for travel throughout the country at reasonable prices. Brazil's ethnic diversity and vast size make it a country with a rich heritage and numerous natural attractions, such as the Amazon Rain Forest, the Pantanal Wetlands, the Iguaçu Falls, the historic cities of southern Minas Gerais and the beaches of the Northeast region.

Government Authorities

Banco Central do Brasil

Central Bank of Brazil (BACEN)

Setor Bancário Sul (SBS) - Ed. Sede
Quadra 03, Bloco B
Caixa Postal: 08670
70074-900 - Brasília, DF.
Telephone: (61) 3414-1414
Facsimile: (61) 3226-6194
Toll Free: 0800-99-2345
Website: www.bcb.gov.br

Secretaria da Receita Federal

Federal Tax Department

Esplanada dos Ministérios
Bloco P - Ed. Anexo - Ala B
7o andar, sala 733
70048-900 - Brasília, DF
Telephone: (61) 3412-2000/3000
Facsimile: (61) 3412-1716
Website: www.receita.fazenda.gov.br

Ministério da Justiça

Justice Department

Esplanada dos Ministérios, Bloco T
Ed. Sede
70064-900 - Brasília, DF
Telephone: (61) 2025-3587
Facsimile: (61) 2025-6817
Website: www.mj.gov.br

Ministério da Agricultura, Pecuária e do Abastecimento

Ministry of Agriculture

Esplanada dos Ministérios, Bloco D
8º andar

70043-900 - Brasília, DF
Telephone: (61) 3218-2828/2302
Facsimile: (61) 3225-4272
Toll Free: 0800-611995
Website: www.agricultura.gov.br

Ministério da Fazenda

Ministry of Economy

Esplanada dos Ministérios, Bloco P
70048-900 - Brasília, DF
Telephone: (61) 3412-3000/2000
Facsimile: (61) 3226-9084
Website: www.fazenda.gov.br

Ministério das Relações Exteriores

Ministry of Foreign Affairs

Esplanada dos Ministérios, Bloco H
Palácio do Itamaraty
70170-900 - Brasília, DF
Telephone: (61) 3411-6161
Facsimile: (61) 3321-6541/45
Website: www.mre.gov.br

Ministério da Saúde

Ministry of Health

Esplanada dos Ministérios, Bloco G
Ed. Sede
70058-900 - Brasília, DF
Telephone: (61) 3315-2425
Facsimile: (61) 3315-3349
Toll Free : 0800-611997
Website: www.saude.gov.br

Ministério do Trabalho e Emprego

Ministry of Labor

Esplanada dos Ministérios, Bloco F
70059-900 - Brasília, DF

Telephone: (61) 3317-6000/6798/6792
Facsimile: (61) 3317-8245
Website: www.mte.gov.br

Ministério da Previdência e Assistência Social

Ministry of Social Security

Esplanada dos Ministérios, Bloco F
70059-900 - Brasília, DF
Telephone: (61) 2021-5000
Facsimile: (61) 2021-0016
Toll Free: 0800-780191
Website: www.mpas.gov.br

Banco Nacional de Desenvolvimento

Econômico e Social National Bank for Economic and Social Development (BNDES)

Av. Republica do Chile, 100 - Centro
20031-917 - Rio de Janeiro, RJ
Telephone: 0800-7026307
Fax: (21) 2172-7117
Website: www.bndes.gov.br

Instituto Nacional da Propriedade Industrial

National Institute of Industrial Property (INPI)

Rua Mayrink Veiga, 7 - Centro
20090-901 - Rio de Janeiro, RJ
Telephone: (21) 2139-3000
Facsimile: (21) 2139-9841
Website: www.inpi.gov.br

Fundação de Apoio à Pesquisa

Research Support Foundation

SAI Trecho 06 lotes 105-115

71205-060 - Brasília, DF
Telephone: (61) 3462-8800/8891
Fax: (61) 3462-8886
Website: www.fap.df.gov.br

Comissão de Valores Mobiliários

Security Comission (CVM)

Rua Sete de Setembro, 111
2º, 3º, 5º, 6º (parte), 23º, 26º ao 34º andares
20050-901 - Centro - Rio de Janeiro, RJ
Telephone: (21) 3554-8358
Fax: (21) 3554-8264 (orientação ao investidor)
Website: www.cvm.gov.br

Industrial Organizations

Confederação Nacional da Indústria (CNI)

National Confederation of Industry

SBN - Quadra 01-Bloco C - Edif. Roberto Simonsen
70040-903 - Brasília - D.F. RJ
Telephone: (61) 3317-9989
Facsimile: (61) 3317-9994
Website: www.cni.org.br

Federação das Industrias do Estado de São Paulo

São Paulo State Federation of Industries (FIESP)

Av. Paulista, 1313
01311-923 - São Paulo, SP
Telephone: (11) 3549-4499
Fax: (11) 3549-4633
Website: www.fiesp.com.br

Professional Associations

Federação Brasileira dos Bancos

Brazilian Bank Association (FEBRABAN)

Rua Libero Badaró, 425 - 17º andar
01009-905 - São Paulo, SP
Telephone: (11) 3244-9800
Fax: (11) 3031-4106
Website: www.febraban.org.br

Ordem dos Advogados do Brasil

Brazilian Bar Association (OAB)

Edifício Sede OAB
SEPN 516, Bloco B, lote 7
70770-525 - Brasília, DF
Telephone: (61) 3036-7000
Facsimile: (61) 3272-5427
Website: www.oabdf.org.br

Instituto Brasileiro de Contadores

Brazilian Institute of Accountants (IBRACON)

Rua Maestro Cardim, 1179 - 8º/9º andares
01013-001 - São Paulo, SP
Telephone: (11) 3119-2000
Fax: (11) 3107-9911
Website: www.ibracon.com.br

Stock Exchanges

Bolsa de Valores do Rio de Janeiro

Rio de Janeiro Stock Exchange

Praça XV de novembro, 20

20010-010 - Rio de Janeiro, RJ
Telephone: (21) 2514- 1010
Facsimile: (21) 2514-1150
(superintendência geral)
Website: www.bvrj.com.br

Bolsa de Valores de São Paulo

São Paulo Stock Exchange (BOVESPA)

Rua XV de novembro, 275
Caixa Postal: 3456
01013-001 - São Paulo, SP
Telephone: (11) 3233-2000
Facsimile: (11) 3242-3550
Website: www.bovespa.com.br

International Organizations

Banco Interamericano de Desenvolvimento

Inter-American Development Bank (IDB)

SEN Quadra 802
Conjunto F - Lote 39
70800-400 - Brasília, DF
Telephone: (61) 3317-4200
Facsimile: (61) 3321-3112
Website: www.iadb.org

Organização dos Estados Americanos

Organization of American States

Esplanada dos Ministérios
Bloco H Anexo I - Sala 314
70170-900 - Brasília, DF
Telephone: (61) 3411-8285
Fax: (61) 3411-9458

Chambers of Commerce

Câmara de Comércio Brasil-Canada

Canada

Rua do Rocio, 220- 12º andar Cj.121
04552-000 - Vila Olímpia- São Paulo, SP
Telephone: (11) 3044-4535/3044-6166
Facsimile: (11) 3044-4535
Website: www.ccbc.org.br

Câmara de Comércio Brasil-Chile

Chile

Rua Guararapes, 700
Caixa Postal: 29208
04561-990 São Paulo, SP
Website: www.camchile.com.br

Câmara de Comércio França Brasil

France

Alameda Itu, 852-19º andar
01421-001 São Paulo, SP
Telephone: (11) 3088-2290
Facsimile: (11) 3061-1553
Website: www.ccfb.com.br

Câmara de Comércio e Indústria Brasil-Alemanha

Germany

Rua Verbo Divino, 1488 - 3º andar
04719-904 - São Paulo, SP
Telephone: (11) 5187-5100
Facsimile: (11) 5181-7013
Website: www.ahkbrasil.com

Câmara Italiana de Comércio de São Paulo

Italy

Av. Paulista, 2073 - 24º andar
01311-940 - São Paulo, SP
Telephone: (11) 3179-0130
Facsimile: (11) 3179-0131
Website: www.italcam.com.br

Câmara de Comércio e Indústria Japonesa do Brasil

Japan Av. Paulista, 475 - 13º andar
01311-908 - São Paulo, SP
Telephone: (11) 3287-6233
Facsimile: (11) 3284-9424
Website: www.camaradojapao.org.br

Câmara de Comércio Holando-Brasileira

Netherlands

Rua Marques de Itú, 503 - 6º andar, sala 62
01223-001 - São Paulo, SP
Telephone: (11) 3221-5899
Facsimile: (11) 3221-9242
Website: www.dutcham.com.br

Câmara Portuguesa de Comércio no Brasil

Portugal

Av. Liberdade, 602 - 2º andar
01502-001 - São Paulo, SP
Telephone: (11) 3272-9872
Facsimile: (11) 3277-9872 - 24
Website: www.camaraportuguesa.com.br

Câmara Oficial Espanhola de Comércio no Brasil

Spain

Av. Engº Luís Carlos Berrini, 1681
14º andar
04571-011 - São Paulo, SP
Telephone: (11) 5508-5959
Facsimile: (11) 5508-5970
Website: www.camaraespanhola.org.br

Câmara Britânica de Comércio e Indústria no Brasil

United Kingdom

Rua Ferreira de Araújo, 741
1º andar - Pinheiros
05428-002 - São Paulo, SP
Telephone: (11) 3819-0265
Facsimile: (11) 3819-7908
Website: www.britcham.com.br

Câmara Americana de Comércio Brasil-Estados Unidos

United States

Rua da Paz, 1431
04713-001 - São Paulo, SP
Telephone: (11) 3011-6000
Facsimile: (11) 3011-6000
Website: www.amcham.com.br

US Consulate

Consulado Americano em São Paulo

American Consulate
Rua Henri Dunant, 500
04709-110 - São Paulo, SP
Telephone: (11) 5186-7000
Facsimile: (11) 5186-7199
Website: www.embaixada-americana.org.br

Appendix 1: Economic Performance Indicators

The following table presents indicators of Brazil's economic performance for 2006 through 2010.

	(2006)	(2007)	(2008)	(2009)	(2010)
GDP (R\$ trillions)	2.02	2.48	2.92	2.35	3.67
Real GDP growth	3,7	6,07	5,17	-1,66	7,5
Inflation rate (%) *	3,84	7,74	9,80	-1,71	11,32

* Índice Geral de Preços de Mercado (IGP-M)—Brazilian inflation-rate index.

Sources: Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística or IBGE), Central Bank of Brazil (Banco Central do Brasil), Economic and Development Secretariat (Secretaria de Desenvolvimento Econômico do Distrito Federal) and Ministry of Development, Manufacturing and Foreign Trade (Ministério do Desenvolvimento, Indústria e Comércio Exterior).

** MFI projection

Appendix 2: Foreign Exchange Rates

The following table presents exchange rates of the Real against major foreign currencies from 2004 through 2010.

Real per Unit of Foreign Currency	2004	2005	2006	2007	2008	2009	2010
British pound	5.126	4.022	4.182	3,536	3,385	2,817	2,58
Japanese yen	0.0259	0.0198	0.0179	0,0158	0,0258	0,0188	0,0205
US dollar	2.654	2.3407	2.137	1,77	2,33	1,74	1,66
Euro	3.619	2.769	2.818	2,59	3,23	2,49	2,22

Sources: Central Bank of Brazil (www.bcb.gov.br) & Thomson Reuters

Appendix 3: Imports and Exports

The following tables list Brazil's principal imports and exports for 2010, listed by industry group.

Imports

Product	US\$(millions)	%Δ 2010/09	%of overall imports
Mechanical Equipment	28.537	35.7	15.7
Fuel and Oil	29.958	58.8	16.5
Electrical and Electronic Equipment	22.246	42.7	12.2
Motor Vehicles and Parts	17.276	50.8	9.5
Organic and Inorganic Chemicals	10.235	18.6	5.6
Optical and Precision Equipment	6.093	25.0	3.4
Plastics and its products	6.521	36.1	3.6
Iron, Steel and its Products	7.882	71.6	4.3
Pharmaceuticals	6.093	36.1	3.4
Fertilizers	4.943	26.6	2.7
Cereals and Milling Products	2.785	9.7	1.5
Rubber and its Products	3.990	74.0	2.2
Airplanes and its Parts	2.293	3.6	1.3
Synthetic and Artificial Filaments and Fibers	1.949	28.9	1.1
Copper and its Products	2.464	87.3	1.4

Source: SECEX/MDIC

Exports

Product	US\$(millions)	%Δ 2010/09	%of overall exports
Soy Beans and its Products	17.115	-0.8	8.5
Transport Material	21.748	34.6	10.8
Oil and Fuel	22.890	53.1	11.3
Ores	30.839	113.4	15.3
Meats	13.292	15.9	6.6
Metallurgic Products	12.948	16.6	6.4
Chemicals	13.477	23.9	6.7
Sugar and Ethanol	13.776	41.8	6.8
Machines and Equipment	8.187	30.9	4.1
Paper and Pulp	6.769	35.4	3.4
Electrical Equipment	4.815	-3.0	2.4
Coffee and its Products	5.739	35.0	2.9
Tobacco and its Products	2.762	-9.3	1.4
Footwear and Leather	3.513	27.1	1.7
Metals and Precious Stones	2.270	30.7	1.1

Source: SECEX/MDIC

Appendix 4: Major Trading Partners

The following tables list Brazil’s major trading partners in 2006 through 2010 in \$ millions FOB

Major Countries for Brazilian Exports

Country	US\$(millions) 2006	US\$(millions) 2007	US\$(millions) 2008	US\$(millions) 2009	US\$(millions) 2010
United States	24,524	25,065	27,423	15,740	19,462
Argentina	11,739	14,416	17,605	12,785	18,523
China	8,402	10,748	16,403	20,191	30,786
Netherlands	5,748	8,840	10,482	8,150	10,228
Germany	5,691	7,211	8,850	6,175	8,138
Japan	3,894	4,321	6,114	4,270	7,141
Venezuela	3,565	4,723	5,150	3,610	3,854

Source: Ministry of Development (Ministério do Desenvolvimento - Secretaria do Comércio - , Associação de Comércio Exterior do Brasil (AEB))

Major Countries for Brazilian Imports

Country	US\$(millions) 2006	US\$(millions) 2007	US\$(millions) 2008	US\$(millions) 2009	US\$(millions) 2010
United States	14,657	18,723	25,626	20,183	27,249
China	7,990	12,621	20,040	15,911	25,593
Argentina	8,053	10,404	13,257	11,281	14,426
Germany	6,503	8,669	12,025	9,866	12,552
Japan	3,839	4,609	6,806	5,368	6,982
Nigeria	3,918	5,281	6,706	4,760	5,920
South Korea	3,106	3,391	5,412	4,818	8,422

Sources: Ministry of Development (Ministério do Desenvolvimento - Secretaria do Comércio Exterior).

Appendix 5: Corporate Income Tax and Social Contribution Tax Calculation

The following is a sample corporate tax calculation for a non-financial company.

	R\$	R\$
Calculation of the Corporate Income Tax		
Net profit per financial statements		1,000,000
Add back of items disallowed for tax purposes:		
Penalties on unpaid taxes (a)	50,000	
Private car expenses (b)	2,000	52,000
Less nontaxable items:		
Dividends (c)	62,000	
Equity adjustments	15,000	77,000
Taxable income		975,000
Losses carried forward		
(limited to 30% of taxable income)		292,500
Taxable income less losses carried forward		682,500
Calculation of the Corporate Income Tax		
Basic corporate income tax at 15%		102,375
Surtax of 10% on taxable profits exceeding R\$240,000		44,250
Gross Corporate Income Tax:		146,625
Less withholding tax paid		6,000
Net Corporate Income Tax payable		140,625

	R\$	R\$
Calculation of the Social Contribution Tax		
Net profit per financial statements		1,000,000
Add back of items disallowed for tax purposes:		
Private car expenses (b)	2,000	2,000
Less nontaxable items:		
Dividends (c)	62,000	
Equity adjustments	15,000	77,000
Taxable income		925,000
Negative Bases carried forward		
(limited to 30% of taxable income)		277,500
Taxable income less negative bases carried forward		647,500
Calculation of the Social Contribution Tax		
Social Contribution tax at 9%		58,275
Calculation of Total Income Tax and Social Contribution Tax Due		
Net Corporate Income Tax payable		140,625
Net Social Contribution Tax		58,275
Total Income Taxes payable		198,900
(a) This is an assessment penalty, it is only acceptable as an addition for income tax purposes and not for social contribution.		
(a) This expense must be grossed up to include withholding tax.		
(b) Dividends received from investments recorded at cost from Brazilian companies.		

Appendix 6: Individual Income Tax Calculation

The following is a sample individual income tax calculation for the year of assessment 2009.

	R\$	R\$		R\$	R\$
Calculation of Taxable Income			Calculation of Tax		
Foreign source salary income	247,382		0 to R\$ 17,215.08 exempt	0	
Brazilian-source salary income	12,533	259,915	R\$ 17,215.09 to R\$ 25,800.00 at 7.5%	643.87	
Brazilian-source rental income		16,481	R\$ 25,800.01 to R\$ 34,400.40 at 15%	1,290.06	
Total income		276,396	R\$ 34,400.41 to R\$ 42,984.00 at 22.5%	1,931.31	
Less allowable deductions:			More than R\$ 42,984.00 (c) at 27.5%	56,924.36	60,789.60
Social security contributions	4,229.17 (a)		Less tax withheld on local-source income		0
Annual dependent allowances (R\$ 1,730.40 x 3 dependants)	5,191.20		Less monthly income tax payments	0	
Tuition expense (b)	2,708.94		Tax payable		60,789.60
Medical expenses	14,285	26,414.31			
Taxable income		249,981.69			

(a) The maximum annual withholding contributions are \$ 4,229.17.
 (b) Payments made by the taxpayer or a dependant for educational expenses are deductible up to an annual limit of R\$2,708.94 for each individual.
 This example assumes tuitions paid for one dependant.
 (c) These values are only applicable to 2009 and will be adjusted in 2010 Income Tax Return.

Appendix 7: Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends %	Interest %	Royalties (k) %		Dividends %	Interest %	Royalties (k) %
Argentina	0	15 (d)	-(n)	Korea (South)	0	15 (a) (d)	10 (l) (o)
Austria	0	15 (d)	15 (b) (l)	Luxembourg	0	15 (a) (d)	15 (l)
Belgium (o)	0	15 (a) (d)	15 (c) (m)	Mexico	0	15 (d)	10 (o) (n)
Canada	0	15 (a) (d)	15 (l)	Netherlands	0	15 (a) (d)	15 (l)
Chile	0	15	15	Norway	0	15 (d)	15 (l)
China	0	15 (d)	15 (l)	Paraguay (j)	0	15 (d)	15
Czechoslovakia (h)	0	15 (d) (f)	15 (l)	Peru	0	15 (d)	15
Denmark	0	15d)	15 (l)	Philippines	0	15 (d)	15 (l)
Ecuador	0	15 (d)	15 (l)	Portugal	0	15 (d)	15
Finland	0	15 (d)	15 (c) (l)	Russian Federation (j)	0	15 (d)	15
France	0	15 (a) (d)	15 (c) (l)	South Africa	0	15 (d)	10 (p)
Hungary	0	15 (d) (g)	15 (l)	Spain	0	15 (d) (f)	10 (p) (q)
India	0	15 (d)	15 (l)	Sweden	0	15 (d)	15 (l)
Israel	0	15 (d)	15 (i)	Ukraine	0	15 (d)	15
Italy	0	15 (d)	15 (l)	Venezuela (j)	0	15 (d)	15
Japan	0	12.5 (d)	12.5 (e)	Nontreaty countries	0	15	15

(a) The withholding rate is 10% for interest on certain bank loans with a minimum term of seven years.

(b) The withholding rate is 10% for royalties for the use of, or the right to use, copyrights of literary, artistic or scientific works, excluding cinematographic films and films or tapes for television or radio broadcasting, produced by a resident of a contracting state.

(c) The withholding rate is 10% for royalties for the use of, or the right to use, copyrights of literary, artistic or scientific works or for the use of, or the right to use, cinematographic films or television or radio films or tapes produced by a resident of a contracting state.

(d) Interest paid to the government of the other contracting state, a political subdivision thereof or an agency (including a financial institution) wholly owned by that government or political subdivision is exempt from tax.

(e) The withholding rate is 15% for royalties with respect to copyrights of cinematographic films and films or tapes for radio or television broadcasting.

(f) The withholding rate is 10% for interest on certain long-term (at least 10 years) bank loans.

(g) The withholding rate is 10% for interest on certain long-term (at least eight years) bank loans.

(h) Brazil is honoring the Czechoslovakia treaty with respect to the Czech and Slovak Republics.

(i) This rate applies to royalties related to the use, or the right to use, trademarks. For other royalties, including payments for technical assistance and technical services, the rate is 10%.

(j) This treaty has been signed, but it has not yet been ratified.

(k) The tax treaties do not apply to the CIDE (see footnote [d] to Section A).

(l) The withholding tax rate is 25% for royalties paid for the use of trademarks.

(m) The withholding tax rate is 20% for royalties paid for the use of trademarks.

(n) The treaty does not provide a maximum rate for royalties.

(o) These are the rates under an amendment to the double tax treaty between Brazil and Belgium, which entered into force on 31 December 2007.

(p) The withholding rate is 15% for royalties for the use, or the right to use, trademarks.

(q) The withholding tax rate applicable to royalties was reduced as a result of the most favorable clause contained in the protocol to the treaty. This clause provides for a rate reduction if a future treaty establishes a lower rate. Because of the treaty between Brazil and Israel, the withholding tax rate on royalties was reduced to 10% (except for trademark royalties).

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Eliézer Serafini

Sócio-líder de Tributos
+55 11 2573-3312
eliezer.serafini@br.ey.com

Gil Mendes

Sócio de Tributos Internacionais
+55 11 2573-3456
gil.f.mendes@br.ey.com

Frank de Meijer

Sócio de Tributos Indiretos e Alfandegários
+55 11 2573-3383
frank-de.meijer@br.ey.com

Jefferson Sanches

Sócio de Tributos Indiretos
+55 11 2573-3253
jefferson.sanches@br.ey.com

Ricardo Gomes

Sócio de Business Tax Compliance
+55 11 2573-3283
ricardo.gomes@br.ey.com

Romero Tavares

Sócio de Assessoria Tributária
+55 11 2573-3312
romero.tavares@br.ey.com

Tatiana Ponte

Sócia de Human Capital
+55 11 2573-3236
tatiana.ponte@br.ey.com

