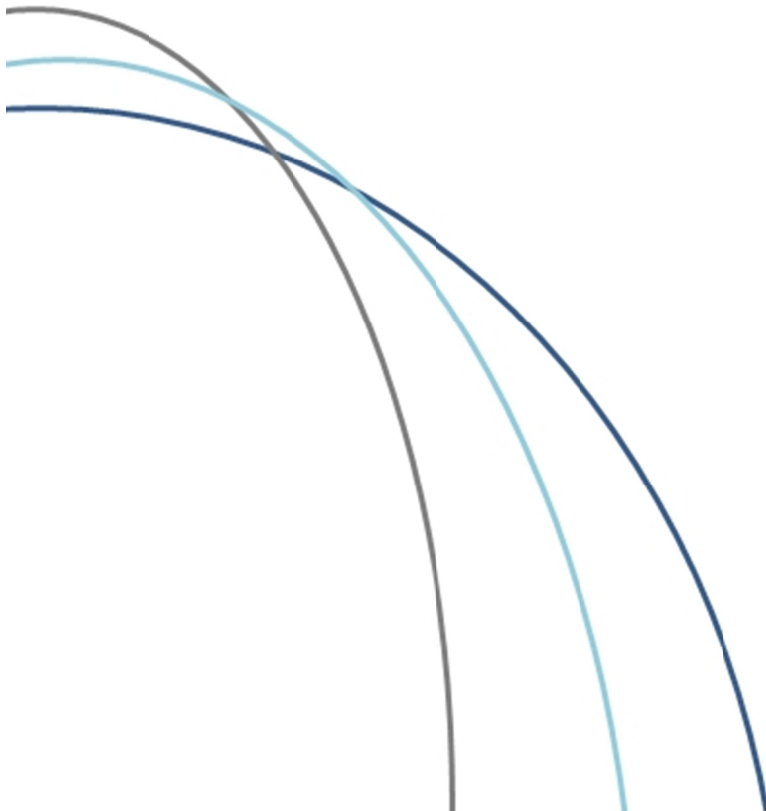




Companies Circle Case Studies Part 1

CPFL Energía - Grupo Algar - Grupo Graña y Montero - Grupo Los Grobo - Ultrapar



August, 2013

About the Companies Circle

The Latin American Companies Circle is a unique initiative launched in May 2005 in Sao Paulo, Brazil. The 15-members Companies Circle brings together a group of leading Latin American companies who have adopted good corporate governance practices in order to provide private sector input into the work of corporate governance regional development and to share their experiences with each other and other companies in the region and beyond.

Through the Companies Circle, members showcase how leading Latin American companies can implement good corporate governance and the benefits their firms have experienced from undertaking these improvements. The Latin American Companies Circle members are: Los Grobo (non-listed, Argentina); Algar (non-listed), CPFL, Embraer, Natura, and Ultrapar (Brazil); Argos, Carvajal (non-listed), and ISA (Colombia); Florida Ice (Costa Rica); Compartamos and Homex (Mexico); Buenaventura, Ferreyros, and Graña y Montero (Peru).

The Companies Circle is currently sponsored by the International Finance Corporation (IFC), and supported by the Organization for Economic Co-operation and Development (OECD).

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IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. Working with private enterprises in more than 100 countries, we use our capital, expertise, and influence to help eliminate extreme poverty and promote shared prosperity. In FY13, our investments climbed to an all-time high of nearly US\$25 billion, leveraging the power of the private sector to create jobs and tackle the world's most pressing development challenges. For more information, visit www.ifc.org.

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CPFL Energia

1. Corporate Governance as a strategy

1.1 Origins of CPFL Energia

In 2012, the CPFL Energia group commemorated 100 years of history. The energy distribution company was incorporated in 1912 when Companhia Paulista de Força e Luz (CPFL Paulista) was founded with the merger of four electric energy distributors in São Paulo. Since then, the company's control has changed hands several times. In 1927, it was acquired by the American Foreign Power Co., responsible for major progress in regions in which CPFL operated. After 37 years under the control of private capital, in 1964 CPFL Paulista was transferred to the state-owned Eletrobrás in which the federal government has a controlling stake. A little later in 1975, with the reorganization of the Brazilian electricity sector, company control was transferred to Companhia Energética do Estado de São Paulo (CESP). In 1997, the company was included in the State Privatization Program and sold at a premium of almost 70% in a strongly disputed auction on the São Paulo Stock Exchange.

Upon privatization, the shareholding control of CPFL Paulista was assumed by solid business groups and pension funds, represented by VBC Energia S.A. (the Camargo Corrêa, Votorantim and Bradesplan groups¹), 521 Participações S.A. (Caixa de Previdência dos Funcionários do Banco do Brasil- Previ) and Bonaire Participações S.A. (an investment fund which has as its unit holders, leading pension funds: Fundação Cesp (Funcesp), Fundação Petrobras de Seguridade Social (Petros), Fundação Sistel de Seguridade Social (Sistel) and Fundação Sabesp de Seguridade Social (Sabesprev)).

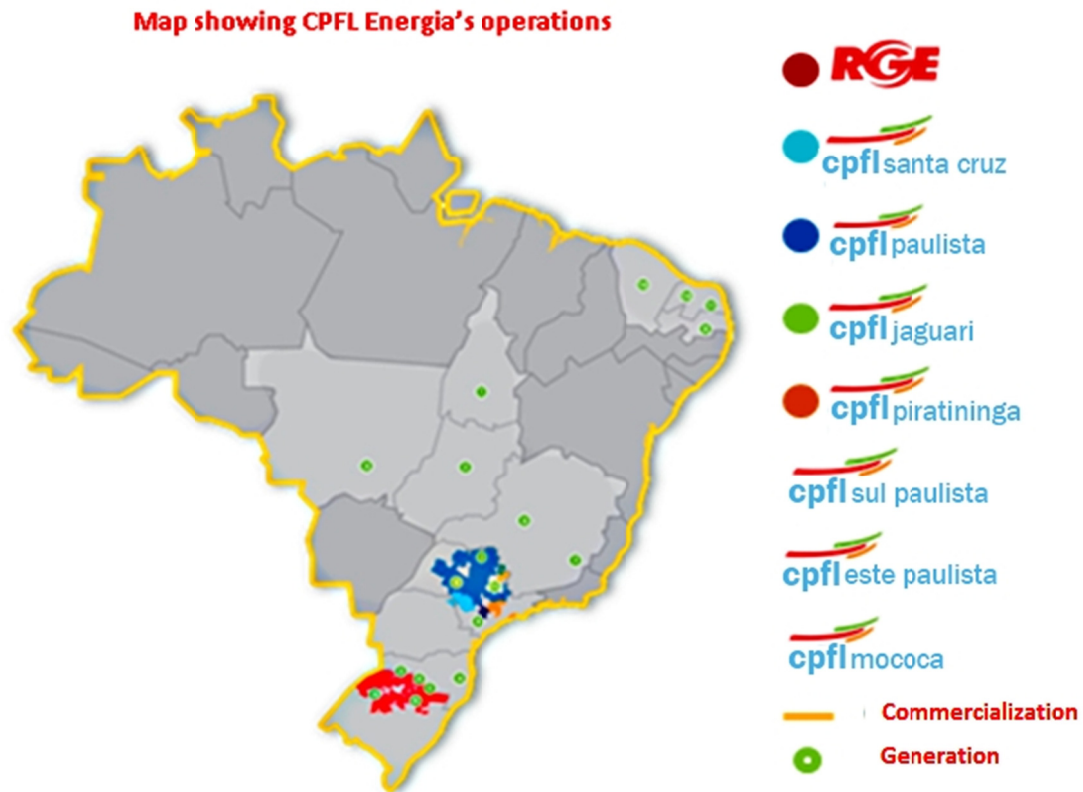
In 2002, CPFL Energia was incorporated in the midst of a major electricity sector crisis (culminating in energy rationing on a national scale), which together with Brazil's economic uncertainties, posed significant challenges. However, the commitment of the controlling shareholders and their confidence in the potential for the company's growth, together with the strategy instituted by management, were fundamental for meeting the challenges and consolidating CPFL Energia's leadership position in the Brazilian electricity sector.

1.2 Governance and strategic discipline as a response to economic crises

A notable example of the proactive support of its controlling shareholders and the strategic discipline of the company occurred in the first year of activity, when a capital injection of about US\$570.5 million from the shareholders in the controlling bloc became necessary. Part of this money was used to settle the debt of acquisitions made in the previous year and the other part for implementing an audacious investment program.

¹ Bradesplan and Votorantim are no longer part of the controlling bloc.

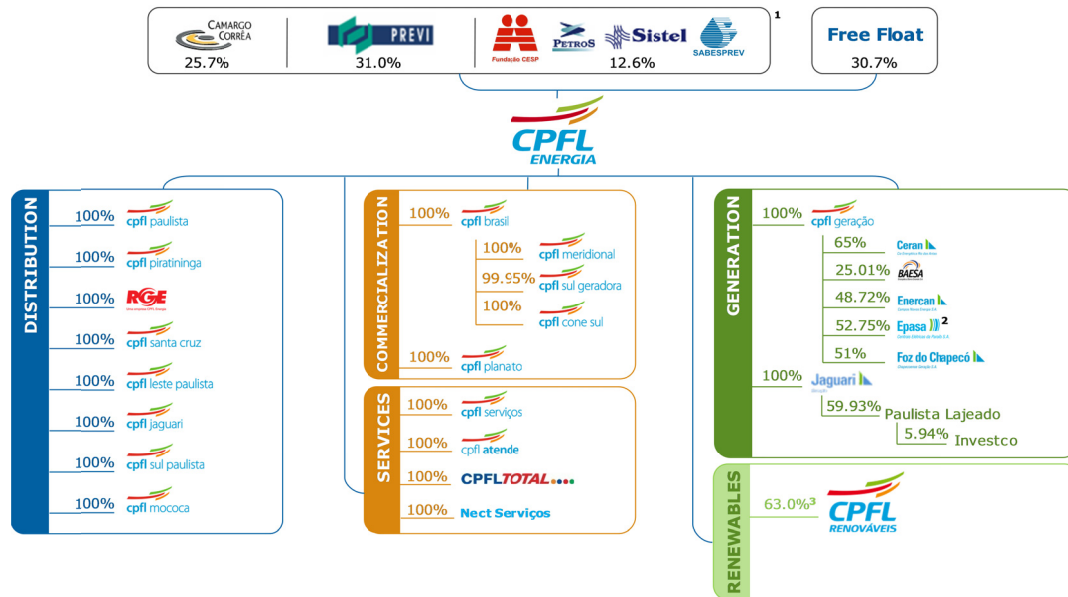
CPFL Energia sustained its strategy of creating value on the basis of operational efficiency and synergetic growth employing a system of corporate governance which allowed it to clearly define rules for the decision-making process and institute advisory bodies in support of the Board of Directors. As a result, the Board sought with statutory executives to focus on financial discipline and permanently manage the risks during the course of the implementation of its strategic plan. In this way, in the last 10 years CPFL Energia has consolidated into the largest private sector company in the Brazilian electricity industry. Currently, it controls, directly or indirectly, 44 companies in the segments of energy generation, distribution and commercialization, and offers services covering more than 600 Brazilian municipalities.



In 2012, CPFL Energia recorded operating revenue of R\$21.4 billion (US\$10.5 billion) and a market capitalization of R\$20.6 billion (US\$10.1 billion)². Currently, the CPFL Energia group directly employs more than 8,000 people.

² Based on the exchange rate as of December 31, 2012 (R\$2.0435).

Figure 1. Corporate Structure as of December 2012



Notes:

- (1) Controlling shareholders
- (2) Termoparaíba and Termonordeste TPPs
- (3) Pro-forma – CPFL Energia owns a 63.0% interest in CPFL Renováveis through CPFL Geração, with 35.5%, and CPFL Brasil, with 27.5%

The Brazilian energy sector has always demanded major investments and therefore needs to attract investors with a long-term vision. In a market with this profile, the Brazilian electricity sector had to claw back investor confidence, badly shaken by energy rationing and impacted by a new regulatory framework instituted following privatization.

CPFL Energia identified the need to offer more than just competitive rates of return if it was to attract potential partners as well as retain investors that believed in the privatization of the sector. The company had to develop reliable and solid relations with the market based on clear information on how the company was to be managed and what the strategies were to be. For this, a system of structured and widely disclosed governance was important to signal the company’s commitment to the principles of governance and its relationship with the shareholders in the controlling bloc, making this transparent to the market.

Consequently, the corporate governance guidelines served as a road map which provided guidance to the Board of Directors and the Board of Executive Officers in the management of the businesses during periods of turbulence.

2. Evolution of the Corporate Governance practices

CPFL Energia's efforts to adopt best practices of corporate governance were part of the preparatory work for the initial public offering of shares (IPO) which took place on the then São Paulo Stock Exchange (now BM&FBovespa) in September 2004. The offer was also conducted simultaneously with the listing of American Depositary Shares (ADS) on the New York Stock Exchange (NYSE).

The train of events at CPFL Energia in relation to corporate governance evolved concomitantly with the development of the Brazilian capital markets as a whole. The company listed its shares on the Novo Mercado, a listing segment created by the then Bovespa in 2000 in which companies undertake to voluntarily adopt additional corporate governance practices in addition to those required of them by corporate legislation.

CPFL Energia was the fourth company – and the first in the electricity sector – to conduct an IPO through the Novo Mercado.

The company adopted various corporate governance practices prior to the IPO and subsequently many others. The process of transforming the governance structure began internally following the privatization of CPFL Paulista in November 1997 and intensified from 2000 with the structuring of the Integrated Management System.

CPFL Energia took the first steps towards best corporate governance practices with the support of international consultants who identified processes requiring improvement and defined the initial documents to be adopted jointly with the Governance Committee. The principal governance documents were released to all interested parties: namely the Board of Directors and its Advisory Committees, the Fiscal Council and the executive directors of the holding company and all subsidiaries.

The Board of Directors and the Fiscal Council approved their internal charters, setting forth rules for functioning, duties and responsibilities. A system of self-evaluation was then instituted for these two bodies, a measure designed to help their members identify opportunities for improvement.

The company documented all the important corporate governance processes for ensuring the adequate flow of information and disseminating them both internally and externally. This proved to be very beneficial, involving in-house stakeholders in the proposed changes at the same time as the company adopted the regulatory practices for listing on the New York Stock Exchange and the Novo Mercado of the then Bovespa (now BM&FBovespa).

Over the years, the practices have been reviewed and improved. For example, the compendium of information made available to the directors is now also examined by the Management Processes Committee. This committee evaluates the various types of disclosure channels and verifies what is really important and what should be eliminated or updated. The company also instituted a minimum calendar of matters to be discussed by the Board of Directors during the year. This optimizes directors' resources and time, allowing a sufficient period for preparatory work for the best handling of strategic and/or complex themes.

Additionally, a Governance Portal was implemented to facilitate access to the necessary information for members of the Board of Directors and the Advisory Committees to perform their functions. Thanks to this Portal, CPFL Energia has improved responsiveness in the dispatch of information, offering simultaneous access to users of the tool and eliminating the risk of mislaying documents as well as achieving greater efficiency in contacts with Board and Committee members. Board members in turn have a greater degree of independence in accessing information as well as reducing the costs of printing and dispatch of material.

3. CPFL Energia on the Stock Exchange

CPFL Energia's capital stock is made up exclusively of common shares, each one of which carries the right to vote. The Company's securities are traded on the Novo Mercado, BM&FBovespa's special listing segment with the strictest governance regulations. The company also has an American Depositary Shares (ADS) program listed on the New York Stock Exchange (NYSE) in the proportion of two shares per security. CPFL's IPO on 29 September 2004 comprised a primary offering in the amount of R\$685 million (US\$239 million) and a secondary offering of R\$136 million (US\$47 million), a total of R\$821 million (US\$286 million). Each share closed at a price of R\$17.22 (US\$6.00).

The company's initial free float (shares freely traded on the stock exchange) was 13.64%. Since then, this amount has gradually increased, today standing at 30.7%, reflecting such events as the exercising of a green shoe option of a share issue, a convertible debenture operation between BNDESPar and VBC Energia and the conversion of an International Finance Corporation (IFC) loan into shares. In addition, minority shareholders of the CPFL Paulista, CPFL Piratininga and CPFL Geração³ subsidiaries exchanged their respective shareholding stakes in the companies for shares in the controlling company CPFL Energia.

Besides the strategic role corporate governance played in reestablishing stakeholder confidence in the electricity sector and the ramping up of company value, good governance practices contributed to the very establishment of CPFL Energia, a company which treats all of its shareholders equally, be they controllers or otherwise. In this sense, all shareholders are guaranteed 100% tag-along rights.

CPFL Energia also seeks to encourage a constant dialog with investors and the market. It holds an annual meeting with investors as well as periodic meetings with market analysts and investors in several cities such as São Paulo, Rio de Janeiro, Belo Horizonte and Porto Alegre. Conferences and non-deal roadshows are also held with institutional investors in the United States and Europe.

4. Decision-making process

Structuring the decision-making process was an essential step for the CPFL Energia holding company, constituted in 2002 with a complex ownership structure made up of eight controlling shareholders. Of these, three were leading business groups while the other five were pension funds. In this context, one of CPFL Energia's challenges was to establish and maintain a governance structure for

³ In the past 12 years, CPFLGeração has been responsible for building six large hydroelectric plants in the South, acquiring a further two in the Central-Western region and the construction of two thermoelectric plants in the Northeast.

preserving the balance between the relations of the shareholders and the transparency of the decision-making process.

The shareholding group originally responsible for constituting CPFL Energia remains part of the company to this day⁴, reinforcing the long-term vision of these investors as well as a commitment to the longevity of the businesses. Thus, the diverse complexion of the controlling group – combining the experience and solidity of financial conglomerates and pension funds – was instrumental in the businesses of CPFL Energia also being run with their focus on the group's long-term objectives.

However, from the governance point of view, this diversity proved a challenge. It required a robust governance system for handling issues such as transactions with related parties and conflict of interests. In this context, in March 2002, the shareholders signed an agreement setting forth the rules of shared control and the processes for decision-making to be observed by the controlling bloc. The agreement is designed to avoid potential conflicts that might impact the dynamic and performance of the company's business.

This shareholders' agreement was updated in 2006. The new version, still in effect, includes improvements to the company's corporate governance in line with changes in the business context which has become more complex over the years. After all, the company's growth during the last few years has been set against changes in the posture of market agents as a reaction to corporate financial scandals and the international economic crisis of 2008. These events provoked a greater demand for information. In this context, examples are the new rules instituted by the capital markets' regulators and self-regulators. With respect to self-regulation, of particular note are changes to BM&FBovespa's Novo Mercado listing regulations which became effective in May 2011. Among these:

- (i) Lifting of voting limitations on shareholders with less than 5% of the capital stock.
- (ii) Prohibition on the establishment of a qualified quorum in the bylaws for deliberating on matters that must be submitted to the general shareholders meeting.
- (iii) Prohibition of the clause which impairs affirmative votes or imposes sanctions on shareholders (entrenched clause).
- (iv) Prohibition on the accumulation of positions of chairman of the Board of Directors and chief executive officer.
- (v) Obligation on the part of the Board of Directors to issue an opinion on the terms and conditions of any public tender offer for acquisition of shares of a company share issue, taking into consideration the interests of the shareholders as a whole.
- (vi) Publication of a policy for trading securities by the company.
- (vii) Preparation and disclosure of a Code of Conduct, establishing the values and principles that guide the company's activities.

⁴ Since February 2009, VBC Energia's capital pertains in full to the Camargo Corrêa Group.

These practices were already in place at CPFL Energia prior to the Brazilian stock exchange making them mandatory, other than item (v) which was promptly included.

In the regulatory environment, the Brazilian Securities and Exchange Commission instituted the Reference Form (FR) for publicly held companies. It contains material data for investors and shareholders to understand and evaluate the company, including information on the management, the applicable regulations, the results, strategy, and business risks, among other important corporate information.

5. Decision-making Structures

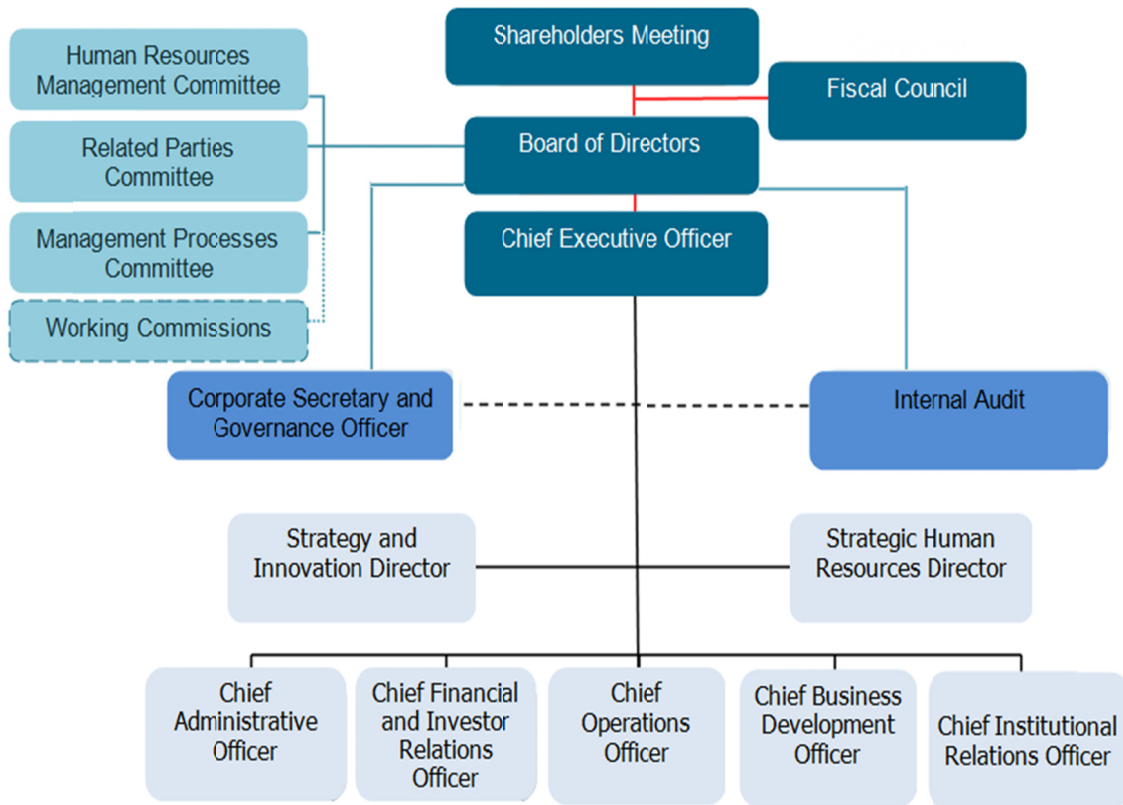
The complex ownership structure, characterized by the participation of financial conglomerates and institutional investors, has made the definition of rapid and efficient information flows essential for supporting decision-making and efficacy in solving problems. By the very nature of its activities, CPFL Energia has to be very responsive in its decision-making. In short, besides supplying a basic input for companies and for the daily routines of people, it must also consider the risks inherent to the business.

The company's management perceived that best governance practices made for rapid and effective decisions resulting in maximized economic capacity and return on invested capital. In this sense, the structuring of the decision-making process at the Executive Board and Board of Directors levels was essential.

The number of directors, initially 12, was later reduced to seven, one of whom is independent, for greater agility and flexibility and to facilitate the mobilization of directors where decisions of an extraordinary nature are required.

The management of CPFL Energia is exercised by the Board of Executive Officers, made up of one chief executive officer and five vice chief executive officers. Leadership in the case of each collegiate body (Board of Directors and Board of Executive Officers) is exercised by different professionals.

This corporate governance structure is also made up of a permanently installed Fiscal Council and by an Internal Audit, reporting directly to the Board of Directors. The structure also includes three committees: Human Resources Management, Related Parties and Management Processes. The committees do not have a deliberative characteristic and are directly subordinated to the Board of Directors, supporting the latter in taking decisions.

Figure 2. Overview of CPFL Energia's Governance System

However, the structure was not always this way. It has been fine-tuned in line with the business context and the growth of the company. An example is the corporate governance processes. After the first five years of adopting the initial practices and structure, the Board of Executive Officers and the Board of Directors found that they were expending an excessive length of time on governance activities. It was time to make the processes more efficient and effective for improving and ensuring that decision-making was more responsive.

CPFL Energia undertook a study of agendas over a three-year period prior to implementing improvements and with the objective of maintaining a focus on relevant information at Board meetings, identifying the type of contribution required from the Board in the areas of:

- ✓ Decision-making
- ✓ Monitoring
- ✓ Cognizance

A new flow of information to the Board was outlined on the basis of this study, eliminating 43% of routine topics handled at meetings. The Board itself defined the periodicity, manner of presentation and the channels of information to be provided by the Board of Executive Officers. The Board of Directors' work was optimized with the Governance Portal's redesigning in 2006, an interactive tool

which can be accessed from any location by members (Directors and the Fiscal Councilors) and those sitting on the Committees to facilitate access to information required for performing their functions. Through the Portal, the directors are able to receive documents nine days prior to the meeting. This degree of notice allows the prior clarification of doubts for the better preparation for meetings, among other benefits.

Since its establishment, the portal has already undergone two updates, including improvements such as the updating of software (SharePoint), information security (watermarking of documents), and tracing accesses to the Portal, among others.

The greater efficiency of the information architecture has been instrumental in improving the dynamic of the meetings. Documents of a merely informative and monitoring nature are made available to all directors beforehand, allowing meetings to be dedicated to clarifying doubts and especially for dialog with the Chief Executive Officer (CEO) on matters that may impact the sector and the company's strategies, as well as the risks inherent to the businesses.

5.1 Board of Directors

The Chairperson of the Board has the role of leading the directors' group. It is incumbent on the chairperson to involve and promote the participation of the other directors in discussions and meetings. It is also part of his/her functions to act as a conduit for dialog and support of the CEO. In addition, the chairperson coordinates the evaluation of the Board, a function which includes proposals for the action plan based on the results of the replies to questionnaires by the directors in order that identified initiatives can be effectively instituted.

The Board of Directors Chairperson is a senior executive with vast business experience in several sectors of the economy. Elected by the General Shareholders' Meeting upon the nomination of the controlling shareholder which has the largest stake in the company, the profile for occupying the position is one of an experienced and qualified professional, responsible for facilitating dialog among members of the Board and with the Board of Executive Officers, handling eventual conflicts of interest and encouraging Board members to contribute to the longevity of the businesses.

Since 2010, Board members have been certified by the Brazilian Corporate Governance Institute (IBGC). In supporting this certification, the Company's objective is to encourage developing and updating directors on matters relating to corporate governance, risk management and leadership.

The Board of Directors has conducted annual evaluations of performance since 2003

Improvements are being continually made to the self-evaluation process as well as the other practices of CPFL Energia's Corporate Governance. The questionnaire now includes questions about the Board's responsibilities and specific questions about individual performance.

The evaluation results are examined jointly by the Board Chairperson and by the directors and, on the basis of the points for improvement raised, a plan of action is put together for implementation during the year with the support of the Corporate Governance Officer/Company Secretary. The following year, results are verified against planned actions.

5.2 Fiscal Council

The Fiscal Council is a permanently installed body independent of the company's management.

It is made up of five members and, since 2005, exercises some of the functions of an audit committee pursuant to the Sarbanes-Oxley (SOX) Act. The fiscal councilors are also certified by the IBGC.

The council's activities cover periodic meetings with the internal auditor, the external auditors, the Risk Management and Internal Controls Officer and with the principal executives of the company.

In the light of its functions as an audit committee, the Fiscal Council also conducts an annual performance evaluation where it analyzes the relationship with internal and external audits. This evaluation touches on group dynamics, information architecture and the focus on relevant issues. With regards to this last point, emphasis is placed on the quality of CPFL's financial statements and on monitoring the company's important bodies: the Auditors (both internal and external), the Department of Compliance and the Department of Risk Management.

5.3 Internal Audit and Risk Management and Internal Controls

The Internal Audit is subordinate to the Board of Directors with its operations involving the principal processes and businesses. Its objective is to promote alignment between the corporate guidelines and the strategies outlined by management.

CPFL Energia also has a Risks Management and Internal Controls Department. Since the company is listed on the BM&FBovespa and the New York Stock Exchange, it is subject to the legislation applicable to the respective capital markets. As a result, the guidelines for evaluating internal controls are aligned to the requirements of the SOX Act in the context of the principal business processes of the holding company and subsidiaries with respect to disclosure of financial reports.

The CEO and the Chief Financial Officers are responsible for certifying the internal controls, a function also exercised by the independent auditors (pursuant to Section 404 of the SOX Act). The CPFL group's internal controls remain unchanged, with the elaboration and publication of the financial statements being audited by independent auditors without qualification since 2006.

In 2009, the Board of Directors approved a corporate policy for risk management and a rule for evaluating internal controls. Subsequently, in 2010, CPFL Energia received ISO 9001:2008 standard certification for the risk management and evaluation of internal controls on financial statements.

5.4 Advisory Committees

CPFL Energia's Advisory Committees are support bodies of a non-deliberative nature permitting greater agility and consistency in the Board's decisions as they examine in detail topics of great complexity or that require specific knowledge. Up until 2006, there were seven committees, which were then disestablished and their activities redistributed among three new committees: the People Management Committee, the Related Parties Committee and the Management Processes Committee.

Currently, each committee has a Work Form setting out the activities which have been delegated to it by the Board together with the expected results, some of the delegated work being set a specific timeframe for completion. One of the functions of the coordinator of each committee is to account for the group's activities at the monthly meeting of the Board as a means of keeping it apprised of what is being executed by the committee and ensuring that compliance with deadlines is monitored.

This interaction between the Board and the Committees through their coordinators is a method of maintaining alignment between the collegiate bodies and guaranteeing that any matter has been duly delegated by the Board following prior discussion.

Human Resources Management Committee

The committee provides support to the Board of Directors in coordinating the selection of the CEO, establishing compensation policy (including short- and long-term incentive plans), and evaluating the performance of the Board of Executive Officers, including the setting of goals. It also supports the coordination of the Succession Plan for senior management and oversees human resources policies and practices, proposing improvements when necessary.

The People Management Committee jointly with the CEO examines the plan of the Board of Executive Officers' goals, which should be aligned to the company's strategic plan. It also supports the Board in examining the officers' performance in relation to short- and long-term goals.

Related Parties Committee

The committee supports the Board, initially analyzing the transactions involving companies related to the shareholders of the controlling block in order to verify that usual market practices are being respected. These operations may involve supply or rendering of services, acquisition of inputs and services and power purchasing agreements.

Any agreements which are submitted for deliberation by the Board must be previously submitted to the examination of the Related Parties Committee, which examines them based on the criterion of usual market practices. Ratification of the agreements is the exclusive competence of the Board.

Management Processes Committee

The purpose of the Committee is to advise the Board of Directors on issues relating to management processes and performance of the businesses, evaluation of risks, and guidance on the work of the Internal Audit. The Committee considers economic, social and environmental aspects, strategic to CPFL Energia.

In addition to the committees, ad hoc commissions are constituted to advise the Board of Directors on subjects such as corporate governance, strategy, budget, energy procurement, new businesses, financial policies, sustainability and corporate risks. The commissions are set up to deal with special requirements identified by the Board. In the light of their results, additional committees may be constituted.

5.5 Board of Executive Officers

CPFL's executive officers are responsible for the company's management and representation, and are accountable for the subsidiaries and affiliate companies. They execute the strategic guidance determined by the Board of Directors, a body which elects them (or removes them) for mandates of two years, reelection being permitted.

There is no overlap of functions between the Board of Directors and the Board of Executive Officers. The CEO is chosen by a specialized consultancy from among market professionals with the support of the People Management Committee. The executive officers are hired with the support of international head hunters, selected among the most experienced and recognized professionals in their respective areas. The People Management Committee monitors the selection process.

The performance of the Board of Executive Officers is analyzed by the People Management Committee and evaluated by the Board of Directors. This process is based on short-term goals, enshrined in the individual goals agreements, and long-term goals, as established in the Long-Term Incentives Plan.

The company also has a succession plan for senior management. The Board of Directors monitors the plan with the support of the People Management Committee. The plan is drawn up by the Human Resources Department with the support of a specialized consultancy. Its principal purpose is the identification of potential successors to fill key positions in the company, the planning of initiatives for developing and retaining these professionals, as well as establishing an action plan for the positions where no in-house successors have been identified.

6. Management Compensation

The members of the Board of Directors receive a fixed monthly fee only. On the other hand, the Company's Executive Officers and the CEO's of the controlled companies are awarded short- and long-term fixed and variable compensation.

The Board of Executive Officers' goals are extended to all levels of the organization. In other words, each one of the six executive officers is responsible for replicating his agreed goals with the hierarchical levels within the structure for which he or she is accountable down to the non-executive employee level. This structure aligns the objectives of the Board of Executive Officers and non-executive staff to the quantitative and qualitative goals which sustain the value of the business. In addition, the structure is designed to retain CPFL Energia group talents as well as identify and prepare successors.

Fixed compensation is set in accordance with the median for the market on the basis of surveys conducted by internationally recognized consultants. Conversely, variable short-term compensation is calculated according to methodology aligned with the strategic plan and individual agreements of goals which are linked to the market and approved by the Board. Thus, compensation reflects the results achieved in relation to pre-established goals, the achievement of which is evaluated in detail by the People Management Committee.

The Long-Term Incentives Plan (ILP Plan) in turn was approved by the Board of Directors in 2006, which was revised in 2010 and 2012. The principal objectives of the ILP Plan are the attraction and retention of executives, the alignment of best market compensation practices and the convergence of interests between the executives and shareholders based on the organization's strategic plan.

The aggregate amount submitted for approval of the General Shareholders Meeting takes into consideration the maximum amount to be paid to the officers and directors in the period between May of the current year and April of the subsequent year, including variable compensation. This amount is proposed by the company, examined by the People Management Committee and submitted beforehand to the Board of Directors.

7. Dialogue between the Board and the Board of Executive Officers

Permanent interaction between the Board of Directors and the Board of Executive Directors means that the executive officers can count on advice and support from the Board. Thus, while CPFL Energia group is made up of various companies, there is a competitive advantage in the fact that the company is able to act rapidly in the implementation of decisions since it has an aligned management and a capacity for rapid mobilization.

CPFL Energia uses a systematized method of planning and monitoring results. Every year, the Board of Directors approves the multi-year Strategic Plan which sets the target for creation of value over a five-year period, the necessary actions for reaching the value (denominated value initiatives) and the key indicators for the management of the businesses. The Strategic Plan is the instrument for providing the framework for the multi-year budget which is monitored throughout the year. The company's performance is evaluated monthly against economic- financial results, key business indicators (compared with benchmarks) and value initiatives. The goals set for value creation are used as indicators in the evaluation of executive performance.

8. Lessons learned

The company's corporate governance structure has evolved over time in line with lessons learnt and as a function of the demands of the business. This model has been an essential part of the process for monitoring governance practices, permitting a continual process of improvement.

In 2007, the Corporate Secretary/Corporate Governance Officer structure was established which is directly accountable to the Board of Directors. CPFL Energia was one of the first Brazilian companies to have a corporate governance area directly linked to the Board.

The principal responsibilities of the Company Secretary/Corporate Governance Officer are to:

- ✓ Act as a catalyst for facilitating interactions between the Board, the committees / commissions and the Board of Executive Officers;
- ✓ Guarantee that corporate governance guidelines are followed in the company's decision-making process;
- ✓ Support the Board's chairperson in evaluating the Board itself as well as the ongoing process of integration and education of the directors themselves; and

- ✓ Improve the CPFL group's corporate governance practices.

9. Shareholders' Meetings

Prior disclosure of information to the Shareholders' Meetings is a further example of CPFL Energia's efforts to continually improve its corporate governance practices. In 2008, the company began to voluntarily publish the Manual for Participation in General Shareholders' Meetings, a document which has become a benchmark in the market and was created in anticipation of a mandatory regulation in 2010 when the Brazilian Securities and Exchange Commission (CVM) began requiring companies to publish the manual pursuant to CVM Instruction 481/09.

In clear and objective language, the Manual for Participation in Shareholders' Meetings provides shareholders with information on matters to be decided at the meetings. This initiative is to establish a direct and accessible line of communication between the company and all shareholders, encouraging participation in corporate events and contributing to the understanding of strategic decisions, important for the development of the businesses. The document is published 30 days prior to the date of the meeting. The manual is published in Portuguese and English, and can be found on the CPFL Energia, CVM and SEC websites.

The shareholder unable to be at the meetings may nominate a CPFL executive as a representative free of charge, thus guaranteeing the opportunity to freely exercise the right to vote and to express an opinion.

The Investor Relations (IR) area is a channel through which investors and shareholders are able to contact the company and clarify doubts on information provided to them. According to Brazilian corporate legislation, shareholders may propose items for inclusion on the agenda of the day during the meetings. Should they participate in loco, they are permitted to make verbal interventions. Should they wish to propose matters for discussion, interested shareholders should refer to the company's calendar – widely disclosed to the market and available on its website – and with the necessary prior notice, send the suggestions to be examined by the Board of Directors, responsible for the convening of the meetings. Eventual requests addressed by shareholders to the Investor Relations area are sent to the chairperson of the Board.

10. Corporate Governance in times of turbulence

Corporate governance practices have also been essential for mitigating the impacts of the financial crisis which affected the world economy in 2008. The company carried out an intense corporate agenda with an emphasis on the revision of the management model and practices. In order to prepare the company for turbulent times in the economy, structures were reviewed and new management tools introduced for accelerating fulfillment of the goals established in the Strategic Plan. The position of Chief Administration Officer was created with the company pursuing new gains in efficiency, prioritizing the rationalization of corporate costs and introducing an austerity program covering all controlled companies.

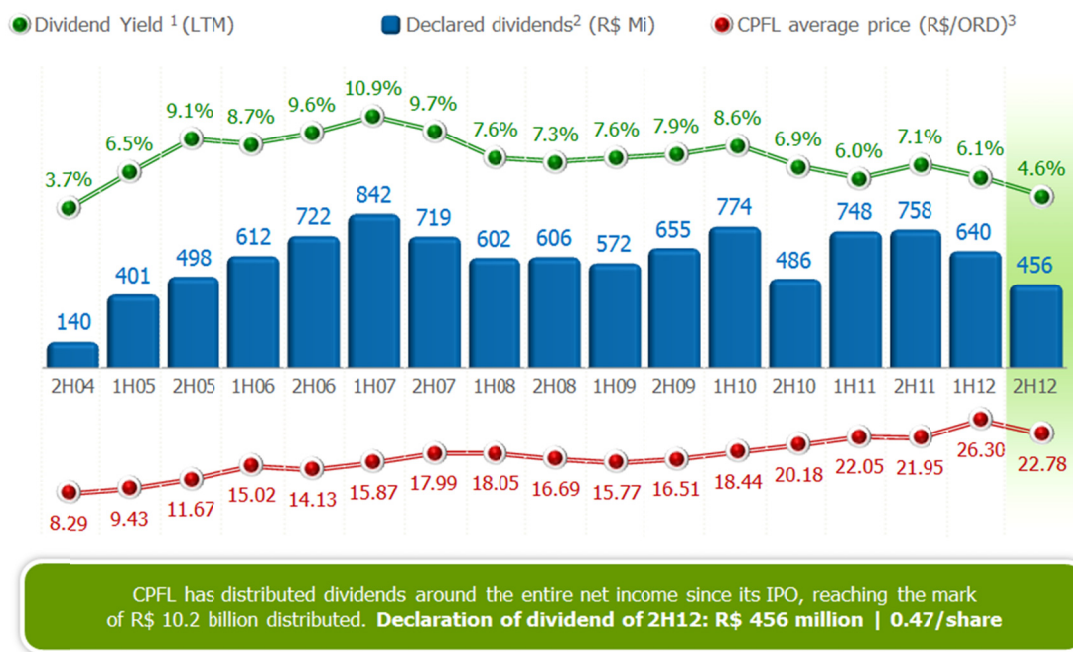
One of the first decisions taken by the Board of Directors was to expand the liquidity cushion (a reserve fund made up of highly liquid assets), maintaining leverage at secure levels to guard against eventual scenarios of instability.

Initiatives such as this, together with the economic-financial solidity of the company demonstrate management’s commitment to the prudent administration of operational costs and the maintenance of debt on a continual basis in addition to careful and rigorous conduct in adopting investment decisions.

These factors played a significant role in protecting the company’s share price from the effects of the 2008 financial crisis. The fall in CPFL Energia’s prices proved less than those of the principal BM&FBovespa and New York Stock Exchange stock indices. During fiscal year 2008, CPFL Energia shares reported a decline of 3.4% on the BM&FBovespa against a fall of 41.2% for the Ibovespa. CPFL Energia’s securities on the NYSE in turn dropped 25.6% as compared with 53.7% for DJBr20 and 33.8% in the case of the Dow Jones Industrial Average.

CPFL Energia believes that stock exchange performance is a reflection of the confidence of the market in the group’s strategies, its capacity to grow consistently and the consolidation of its results over time through practices which guarantee low risk and sustainability of the businesses. CPFL Energia distributed R\$ 10.2 billion between 2004 and 2012.

Figure 3. Dividends



1) Considering last two half years' dividend yield 2) Refers to declared dividend. Payment in the next half year. 3) Considers share price adjusted for reverse stock split and simultaneous split of shares on June 29, 2011 (not adjusted per dividends).

11. Incentive to best practices

Initially, governance practices at CPFL Energia were determined using a process of internal consensus building. Subsequently, these practices were adopted by the other companies in the group to ensure alignment of governance. Communication during this stage was essential.

The processes of the more than 40 controlled companies— managed by the principal holding company executives — were aligned through bylaws and standard management tools. All group subsidiaries adhered to the same governance rules as the holding company. By sharing the same practices, the corporate processes were optimized and decision-making improved allowing the companies to concentrate on their core businesses.

In sharing future benefits with the shareholders of the controlled companies, the leadership of CPFL Energia also strengthened its commitment to improving corporate governance in all group companies. Minority shareholders of CPFL Paulista, CPFL Piratininga, CPFL Geração and RGE were able to convert both their common and preferred shares into common shares of CPFL Energia, thus enjoying the benefits of a listing on BM&FBovespa's Novo Mercado.

Improvements to corporate governance practices such as a succession plan, an anonymous and confidential communication channel for accounting fraud whistle blowing, the automation of internal controls for the preparation of financial statements and a Code of Ethics and Conduct were all shared with CPFL Energia's subsidiaries.

The changes were introduced via the Human Resources and Corporate Communication areas on the basis of discussions with the interested parties in order to better handle any resistance, to be expected during periods of change. In addition, the sponsorship and support of senior management were important factors in this transformation.

12. Focus on Ethics

CPFL Energia believes that ethical behavior forms the bedrock for the structures of governance. In this context, the company has introduced a series of mechanisms at all the CPFL group's companies – the Ethics Development and Management System (SGDE) – to monitor and improve individual and institutional actions of an ethical nature.

These mechanisms include an Ethics Committee of eight members, of which one is a representative of civil society; a Code of Ethics and Business Conduct for monitoring adherence to the requirements of the SOX Act; and the Access Channels, one of which a channel for accounting and fiscal fraud whistle blowing and a second involving conduct in relation to infringements of the Code of Ethics.

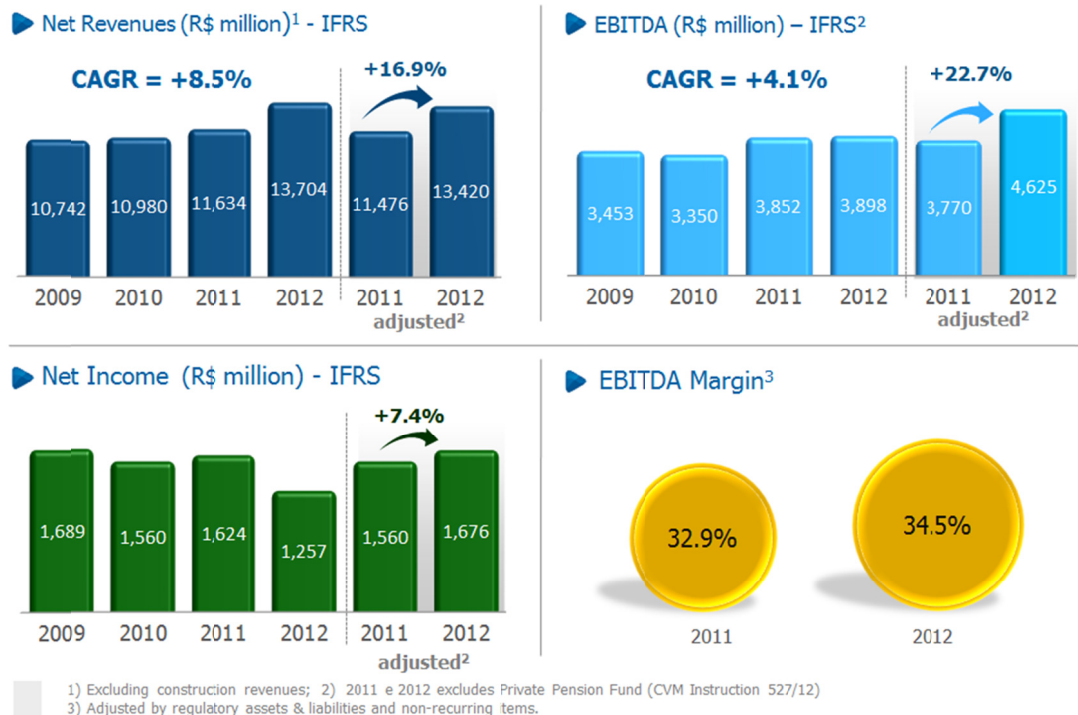
13. Financial Results

Until 2009, CPFL Energia reported its financial statements in line with the Generally Accepted Accounting Principles in Brazil as well as those principles enshrined in USGAAP. As of 2010, with the adoption of new accounting practices contained in the International Financial Reporting Standards (IFRS), the financial statements are now presented in accordance with the opinions of the Accounting

Pronouncement Committee (CPC) applicable to the operations of CPFL Energia and the IFRS, and now also accepted by the SEC.

In addition, the distribution companies in the Group also publish their regulatory accounting statements in accordance with the rules in Accounting Manual of the National Electric Energy Agency (ANEEL), which contains information on regulatory assets and liabilities. The company's Annual Report in turn is published in the Global Reporting Initiative (GRI) format.

Figure 4. Financial Results 2012



13. Good Governance versus Better Share Performance

CPFL Energia is of the opinion that the employment of differentiated practices of corporate governance delivers additional value to the company over time. For this reason good governance practices adopted since 2002 which have been constantly improved and expanded, together with the decisions underlying CPFL Energia's operations, have been interpreted positively by the market – as evidenced by the company's share performance on the stock exchange.

Since the IPO in September 2004, CPFL Energia's common shares (ONs) have appreciated by 343%. In the same period, BM&FBovespa's Corporate Governance Stock Index and the Bovespa Stock Index (Ibovespa) rose 285% and 162%, respectively. On the New York Stock Exchange (NYSE), CPFL Energia ADRs have appreciated 516% against 198% for the Dow Jones Brazil Titans 20 (DJBr20) and 29% in the case of the Dow Jones Industrial Average.

Figure 5. Shares Performance – CPFE3 vs. IGC vs. Ibovespa

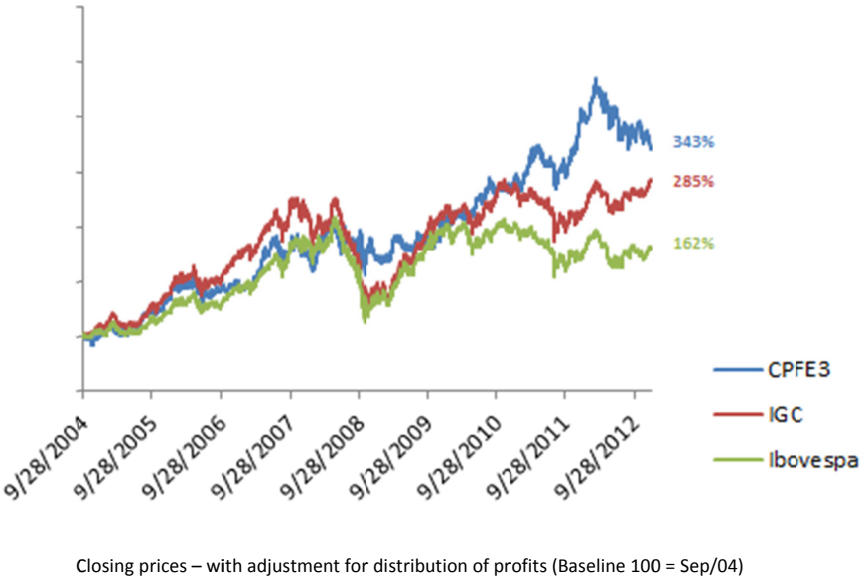
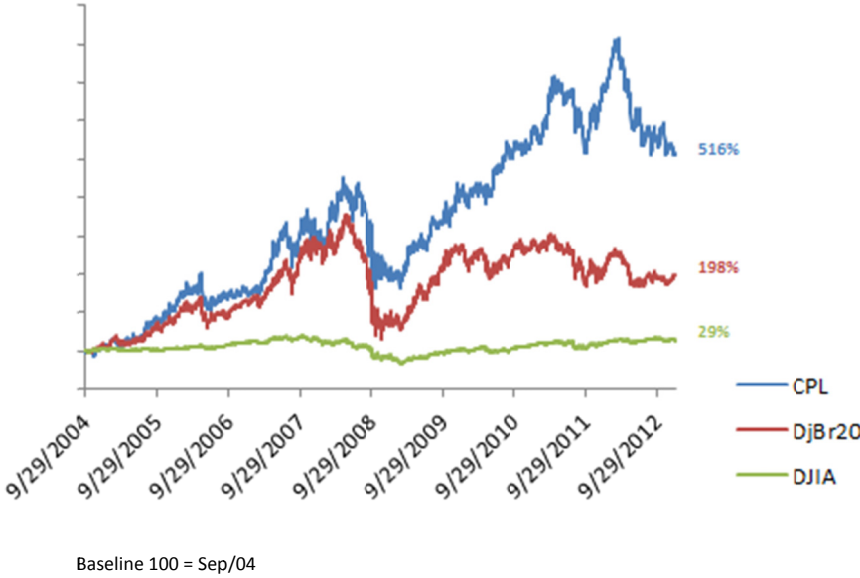


Figure 6. Share Performance – CPL vs. DjBr20 vs. DJIA



The shares of CPFL (BOVESPA - CPFE3; NYSE - CPL) are included in the following BM&FBovespa stock indices:

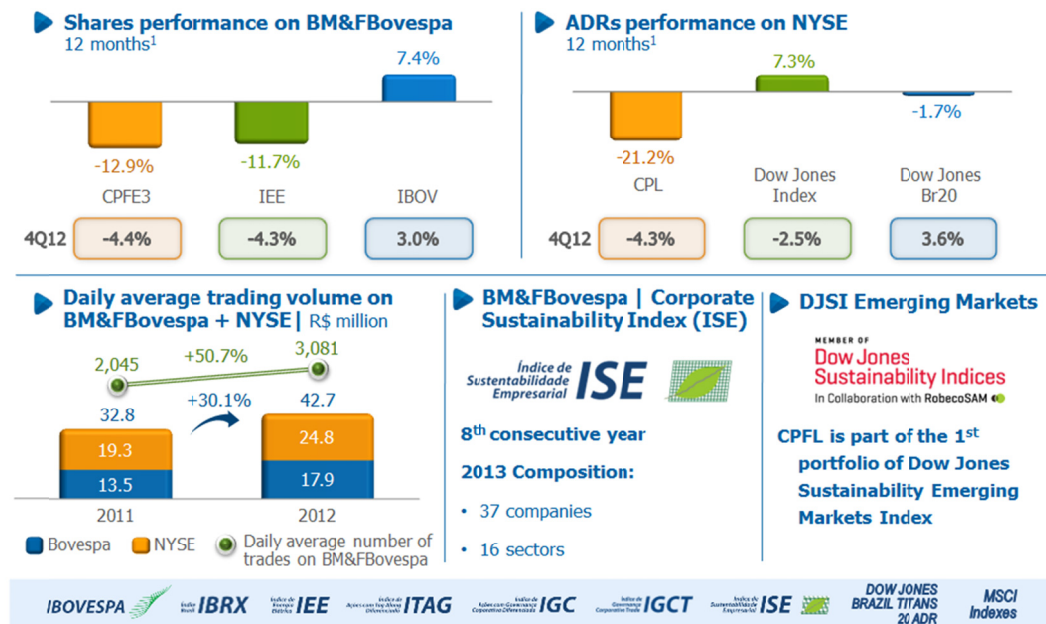
- IBrX 100 – the 100 most liquid shares ;
- IEE – Electric Energy Stock Index;
- IGC – Corporate Governance Stock Index and

- ITAG – Differentiated Tag Along Stock Index

CPFL Energia has also been a component of BM&FBovespa’s Corporate Sustainability Stock Index since its creation in 2005 and for the eighth consecutive year, continues to be one of the shares in the index’s portfolio.

The company’s shares are also a component of the Dow Jones Brazil Titans 20 stock index for ADRs, which is made up of the principal Brazilian ADSs (American Depositary Shares) trading on the NYSE.

Figure 7. Stock Market Performance



1) Considers the period of 12 months ended in Dec/12

Source: Economática

14. Next Steps

CPFL Energia is committed to acting in line with best corporate governance practices. The company has always adopted these practices on a continuous basis, reviewing them and updating them in line with the holding company’s business environment.

Corporate governance practices are already part of the company’s DNA. With the growth of the holding company over the last few years, the main challenge has been to constantly disseminate the culture of corporate governance among the controlled and affiliate companies. The objective is that all the companies should share the same commitment to the creation of value, transparency and sustainability of the businesses.

It was in this context that in 2012 CPFL Energia launched a Transformation Program for preparing the company for the new challenges it must confront in the future. CPFL Energia has achieved a position

of leadership in the electricity sector and believes it must adopt innovative attitudes if it is to remain at the forefront of the industry.

CPFL Energia's goal is to operate with excellence, innovation and technology, spearheading the sector with a focus on excellence of services, maximization of shareholder value and sustainability of the businesses. For this, the company places great importance on the transformation of culture and leadership style. In this way, it seeks to disseminate the best practices and principles of corporate governance in the recently acquired companies – and already consolidated in the holding company – in order to instill the corporate culture in them as well.

The Board of Directors now faces new challenges as a result of the growth of the CPFL group and the diversification of its businesses. In addition to maintaining the relevance of the strategy of consolidating leadership in the energy sector, growth in new business segments and the sustainability of the group, the Board must also integrate several cultures through a single Corporate Governance System.

As part of this proposal for the integration of new technologies and sharing information among the CPFL Group's companies, one of the initiatives will be to share the access of the CPFL Energia governance portal with the management of the controlled companies with previously defined profiles. In this way, management benefits from this important administrative tool for managing the performance of the Directors' functions.

15. Recognition of Corporate Governance

CPFL Energia's corporate governance practices have been recognized over the years by several entities and through specific rankings published by recognized publications⁵. Of the various awards received by the company, among the most recent are:

IBEF Sustainability Award 2011

Brazilian Institute of Finance Executives – IBEF Corporate Governance – Annual Report 2009 Blog case study

Best Energy Sector Company in Sustainability in Latin America 2011

Latin Finance Magazine/ Management & Excellence Consultancy

Sustainability – 3rd consecutive year

Best and Biggest Award 2011

Exame Magazine

Return on Adjusted Equity – Energy Sector

Brazil Intangible Award – PIB 2011

Consumidor Moderno magazine and DOM Strategy

Utilities

XIII Anefac Award – Transparency Award 2011

⁵ The Group's three major distributors have also won the National Quality Award (PNQ) five times, the PNG being ranked the most important panel in the world for judging corporate excellence.

Anefac – Fipecafi – Serasa Experian

Listed Company – Sales over R\$ 8 billion

XIII Anefac Award – Transparency Award 2011

Anefac – Fipecafi – Serasa Experian

Accountancy Professional – Transparency in Financial Statements for 2010 (CPFL Paulista)



ALGAR

1. The Company and Corporate Governance History

1.1 The Context

Comprising companies in the areas of information technology and telecommunications, agribusiness, services and tourism, the Algar Group is a family owned (non-public) conglomerate with administrative headquarters in Uberlândia, Minas Gerais, Brazil.

Algar is national in scope and controlled by the Garcia family⁶, descendants of Alexandrino Garcia, a Portuguese immigrant. He began his first business in the area of rice processing at the end of the 1920s. In the following decades he and his brothers invested in car dealerships and gas stations, areas in which they achieved considerable success.

In 1954, already a prosperous businessman, Alexandrino Garcia began what was to become his major accomplishment: the installation and improvement of telephone services in the interior of Brazil. At first, together with other entrepreneurs in the area, he assumed control of CTBC (Telephone Company of Central Brazil), a small and local operation. In the following years, as he became the sole stockholder, he rapidly expanded, transforming his company into a regional operation that served four Brazilian states: Minas Gerais, São Paulo, Goiás and Mato Grosso do Sul.

The positive results of CTBC encouraged Alexandrino Garcia to diversify his business activities. He developed companies in the areas of executive aviation, agribusiness, graphics, newspaper and tourism. Meanwhile, Garcia continued his activities in car dealership management with his brothers and one of his sons. During the 1970s, due to changes in the Brazilian legal system, CTBC was prohibited from expanding into new areas. This restriction led to direct investments into other segments of the economy, especially components industries for telecommunications and computers.

During the 1980s, the various companies owned by the Garcia family were consolidated into a holding company. The administration of this process was handled by Alexandrino Garcia and his youngest son, Luiz Alberto Garcia. This was a period marked by innovative activities, accelerated growth and the constant search for new business opportunities. Of the more than 60 companies under their control, some functioned independently while others were integrated into the activities of the parent company. In 1982, the various companies were consolidated into a holding company:

⁶ The businesses Rio Quente Resorts and Comtec are 50% owned by the Algar Group. Algar Telecom has minority stockholders (approximately 10% of total capital), which is reminiscent of the model of self-financing for telephony expansion plans, according to the applicable legislation in effect during the 1970s and 1980s.

ABC EMPAR *Empreendimentos e Participações S/A*. The conglomerated company became known as “*Grupo ABC*” – the ABC Group.

1.2 A new model of management surges from crisis

During this time of growth and expansion, the ABC Group experienced a period of difficulty which altered the course of activities and prompted the development of a company policy on corporate governance. In the 1980s, Brazil was burdened by a serious economic crisis with elevated levels of inflation and great economic instability. At the same, in 1987, Alexandrino Garcia became ill and his son, Luiz Alberto, assumed control of the businesses.

Luiz Alberto decided to hire a professional manager to help with the financial recuperation of the businesses. Initially, the decisions of the owning family were ignored in the interest of implementing necessary changes. Some businesses were closed, others were sold or consolidated. Employees at all levels were fired, including family members. Unprofitable business activities were discontinued. The results demonstrated improvement and gradually the Group recovered its financial standing.

The first professional CEO of the Algar Group, Mario Grossi, was responsible not only for the professionalization of management but also for preserving the organizational culture and values of the company’s founder, Alexandrino Garcia. He was also charged with the implementation of a new philosophy of business organization: “*Empresa Rede*” – the Business Network. Employees became known as “*associates*” and each company of the conglomerate had a “*Results Center*” with autonomy to compile and deliver their own agreed results, annually. It was during Grossi’s term that the first Shareholder Agreement was formulated (1991) and an “*Advisory Board*” was established (1995), initially composed of friends of the Garcia family. Eventually, the existing ABC Group was changed to “*Grupo Algar*” (Algar Group) in honor of its founder (Alexandrino Garcia).

Toward the end of the 1990s the Algar Group again decided to make structural changes. The decision was made to withdraw from industrial activities and become one of the most active participants in Brazil’s telecommunications market, adding the operation of two new B Band regions of telephone service for cellular phones. In 2000 the company decided to concentrate its activities on only four segments. Once again, some businesses were closed or sold while others were established. The changes resulted in better control of debt, improved focus on more profitable activities and the development of planned, sustainable growth.

1.3 Operational performance

As a brief presentation of the various dimensions of the Algar Group, the following data has been taken from the 2012 Annual Sustainability Report:

- **Business segments and Companies:**
 - IT / Telecom: Algar Telecom, Algar Tecnologia, Algar Mídia and Engeset
 - Agribusiness: Algar Agro
 - Turism: Rio Quente Resorts
 - Other businesses: Algar Aviation, Algar Segurança and Comtec;
- **Number of “associates” (employees):** 20,714

- **Number of cities served:** approximately 1,000 counties in all of Brazil's states, with offices in Minas Gerais, Goiás, the Federal District, São Paulo, Rio de Janeiro, Mato Grosso do Sul, Paraná and Maranhão.

Algar Group has returned to its corporate vision of "People Serving People". Its mission involves the development of sustainable businesses and business relations, with the generation of perceived value. The company's corporate values reflect the lessons from the company's founder:

- Client, our reason to exist;
- Belief in Brazil;
- Sustainability; and
- Promotion of Human Talent and Integrity.

The organizational culture is an integral part of Algar's business strategy. It is disseminated through continuing educational programs, promoted by Unialgar, the company's corporate university. Furthermore, the Institute Algar, in operation since 2002, coordinates corporate initiatives in two areas: social issues, including programs devoted to the improvement of elementary education in public schools; and environmental issues, with programs aimed at reducing the emission of greenhouse gases from companies that form Algar Group.

Since 1988, Algar has been audited by an independent firm among the so-called "Big Four". Since 2009, the financial statements of all companies of the Group have been prepared in line with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and accounting practices adopted in Brazil.

In 2012, Algar's consolidated net revenue amounted to R\$3.7 billion, representing a 22% growth over 2011. The growth occurred in all business segments, particularly in the agribusiness and information technology segments. In 2012, the Algar Group generated R\$534 million of operating cash as measured by the EBITDA (earnings before interest, taxes, depreciation and amortization), a 4% increase from the R\$512 million reported the previous year. The final consolidated result of the Algar Group for 2012 was a net profit of R\$171 million. This represents a 14.5 % decrease from the R\$200.3 million reported the previous year. Neutralizing the non-recurrent events, the net profits of both years come to the same amount. In 2012, investments totaled R\$435 million, 11% less than 2011, and exports amounted to US\$367 million, an increase of 20% from the previous year.

In November 2012, Algar Telecom, a subsidiary of the Algar Group, issued and subscribed nonconvertible debentures amounting to R\$294 million, in two series with five and seven year-terms, respectively. The demand was 1.5 times the initial offer and the operation framed in the fixed income market as "Novo Mercado" (maximum of 20% per investor). The debentures are registered with the Brazilian Securities and Exchange Commission (CVM – Comissão de Valores Mobiliários).

2. The Current Corporate Governance Practices of Algar

Even during the 1980s, Algar's founder, Alexandrino Garcia, foresaw the importance of separating business from family, a principle embraced by the next two generations.

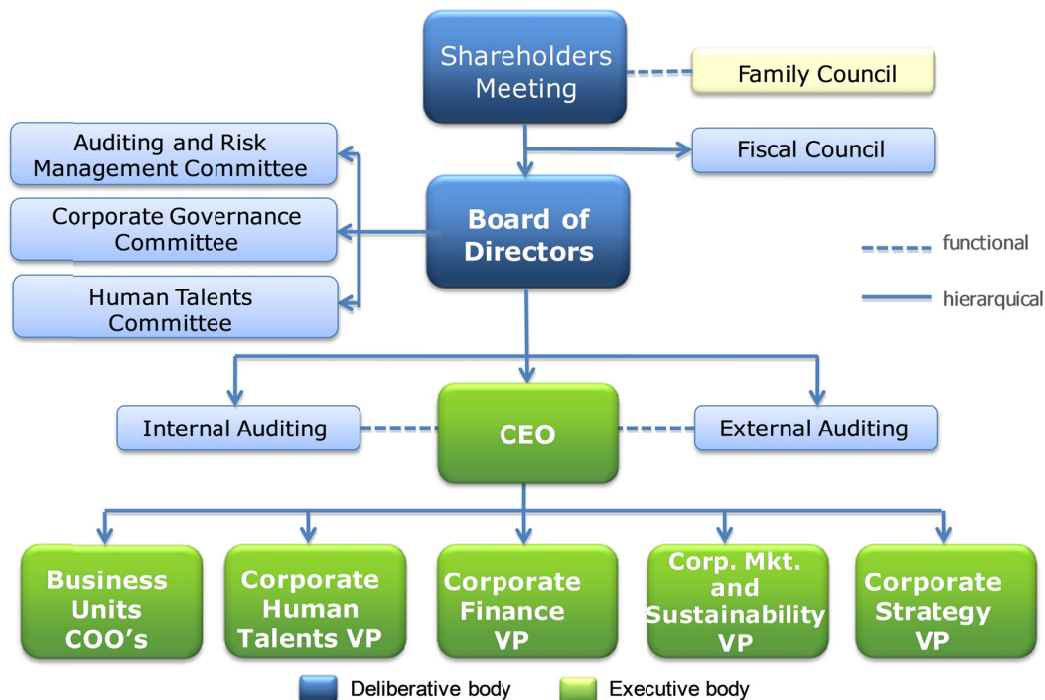
In 1999, with the support of the *Fundação Dom Cabral* (Dom Cabral Foundation), discussions were initiated to establish limits of power and autonomy among the Board of Directors, the executive management and the shareholders. Following the Group's transformation over the previous years, a natural conflict of interests arose among the executives, shareholders and other family members. The company's senior management recognized that the potential for conflict could be minimized by establishing clear roles and responsibilities, to be agreed upon by the relevant parties.

This deliberation resulted in the creation of the Board of Directors, presently chaired by Luiz Alberto Garcia, the majority stockholder. It was his political insight that provided the incentive for the creation of the Board, and has made it possible for decisions to be taken in a collegiate manner, by the majority of the independent members.

The General Shareholders Meeting represents the most senior members of the Algar Group for the participation of all stockholders. The General Meeting delegates the responsibility for the strategic direction, definition of corporate objectives and accountability to the Board of Directors. As such, the CEO is responsible for the executive management of the Algar holding company. The chief operating officers of the various companies are subordinate to the holding company (see Figure 1).

The adoption of governance practices has been motivated by the assurance of growth and the perpetuation of the Algar Group. Thus, the model transcends personal interest.

Figure 1. The Corporate Governance Structure



2.1 The Board of Directors

The Board of Directors is composed of nine members. The majority of them are independent as defined in the company's bylaws, which is uncommon even for companies listed on the stock market.

The Board is principally responsible for the company's strategic directives and for monitoring the achievements of the agreed goals and objectives. Executives are prohibited from participating on the Board in order to guarantee that the autonomy of decisions will be maintained. This means that the CEO cannot also be the Chairman.

One indicator of the Board's success is the fact that the major stockholder, Mr. Luiz Alberto Garcia (the current Chairman), was the principal force in encouraging the company to adopt the professionalization and best practices of corporate governance. He sensed the need to share decision-making with his colleagues in order to rationalize the process, focusing on results and maintaining the standards of widely accepted governance. Board members are elected annually using the definition of independence in agreement with IBGC, the Brazilian Institute of Corporate Governance. According to this definition, a person is independent if they do not have any emotional attachment or professional involvement with any of the Garcia businesses. In addition to seniority and the possession of complementary experience, the members of the Board must support the values of the Algar Group so as to act as true members of the corporation.

In order to streamline decision-making, the Board of Directors makes use of three advisory committees: Auditing and Risk Management, Human Talents (People) and Corporate Governance. The role of the committees is to analyze the topics relevant to each of these areas and provide the Board with appropriate information for making decisions. The committees provide in-depth knowledge, objectivity and agility for the meetings of the Board. They are composed of a mix of independent board members, preferably specialists, and experts within or outside the company. The following provides a brief description of the roles of each committee:

Auditing and Risk Management: has as its mission the assurance of quality, integrity, transparency and the guarantee of credibility for the financial reports of the Group's various firms, as well as the internal control and compliance according to applicable legislation. The committee coordinates and supervises both internal and independent audits. Committee members also oversee management practices for adequacy and effective risk control. The committee is composed of five members including four specialists. They meet every three months.

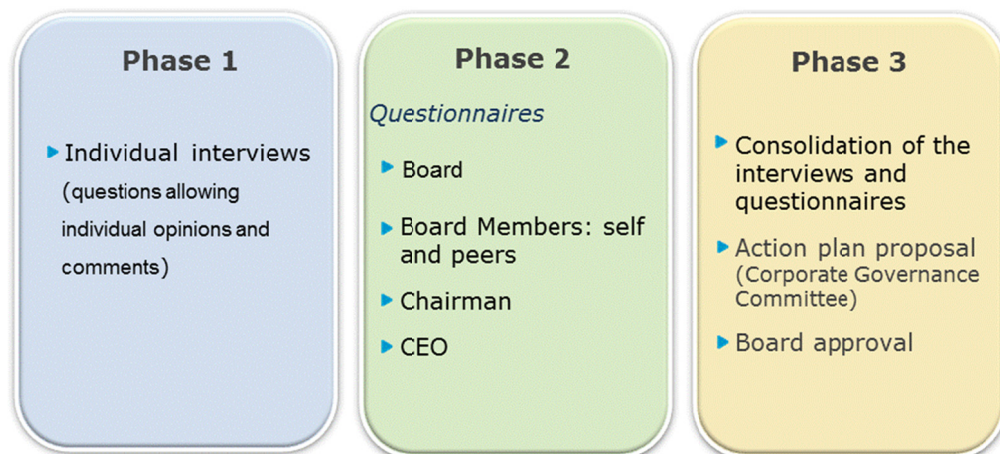
Human Talents: has as its objective the assurance of policies that value employees and plan for their development. This is achieved by adopting best practices in strategic management of human talent, and considering the various business activities of the Algar Group and its plan for the future. The committee is composed of four members, including one independent board member and one external specialist. Among the permanent issues evaluated by the committee are: the addition of development programs for potential successors; leadership training; the organizational climate; the preservation of the organizational values; and the monitoring of the Brazilian labor market.

Corporate Governance: analyzes, measures, monitors and proposes improvements and efficiencies in corporate governance policies, all based on the principles of transparency, equity, accountability and corporate responsibility. There are five members on the committee, two of whom are independent board members and three from the Garcia family.

The committee is also responsible for analyzing the process and results of the Board evaluation. This self-evaluation has been in place since 2005, and is currently carried out in three phases (see Figure

2). In Phase 1, individual interviews are conducted using open-ended questions, making personal opinions and comments possible. In Phase 2, through questionnaires, each member of the Board makes an analysis of: the effectiveness of the Board and its functioning process; his/her personal contribution and the contribution of each of the other members; the CEO; and, the Chairman and the committees. The individual interviews are conducted by the corporate governance officer together with a specialized professional of Unialgar, the corporate university. In Phase 3, the consolidated evaluation is analyzed and discussed by the Corporate Governance Committee. Results of the discussions are formalized as proposals for improvements.

Figure 2. Board Self-evaluation Process



The evaluation is designed to improve the efficiency of the Board of Directors. Strategic discussion at this level can help define a vision for the entire organization, creating strategic alignment and increasing control for reaching company objectives. The process also improves risk management within the company, by helping minimize unforeseen difficulties.

The establishment of the Board of Directors' distinct roles, responsibilities and limits has helped create an ordered discipline for planning, identifying strategic direction and accountability, as well as minimizing conflicts – both among stockholders and within the executive management of the holding company and its businesses.

In principle, Board members' remuneration should be of a magnitude so as not to cause financial dependence. Compensation is based on a fixed amount per participation in meetings of the Board and its committees. Directors' total compensation is disclosed in the notes to the company's financial statements, in a separate group from the executive management's remuneration.

2.2 Family Council

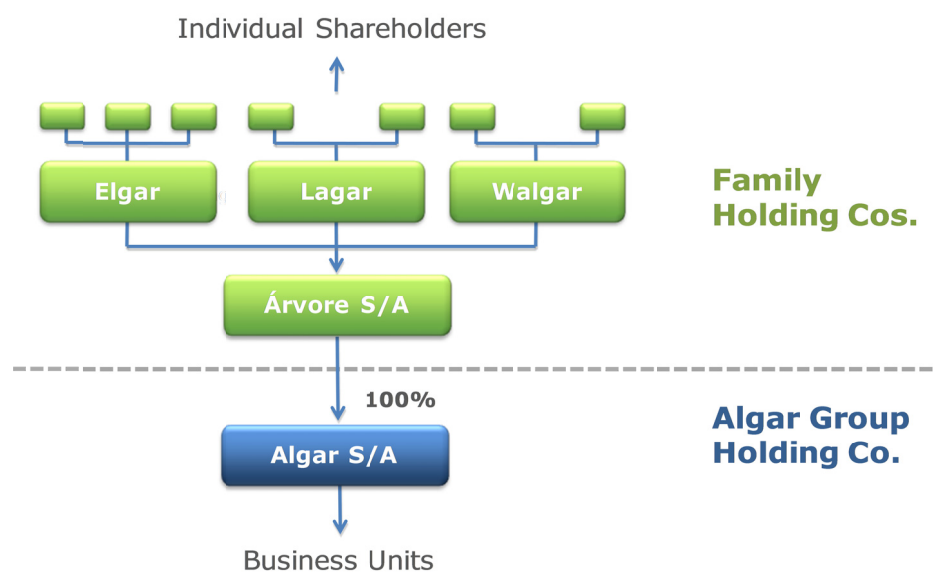
In line with the creation of the Board of Directors, stockholders have been organized into a Family Council, presently chaired by Eleusa Maria Garcia Melgaço, who is part of the family's third generation. Following a series of workshops, a "Family Constitution" was created which considers the three roles of founder Alexandrino Garcia's heirs: as family members, as stockholders and as working participants.

This Constitution addresses a series of topics including provision for stockholders to work in any of the Group’s companies, as well as rules about succession, training and education. It also establishes stockholders’ roles and responsibilities in terms of managing corporate assets and reducing internal risks and conflicts.

The Family Council’s principal mission is to guide and direct the members of the family in the exercise of their three roles. The Council’s main responsibilities are: 1) to validate and put into practice the Family Constitution, 2) to plan the training and educational programs of each individual stockholder, their wives/husbands and other heirs (in terms of their preparation for roles as stockholders and to contribute to the development of a “Life Plan”) and 3) to promote events that retain family integration and preserve the legacy of the business.

The Family Council meets bimonthly and is open to all members of the family. Presently, the Garcia family is in its fifth generation. Three levels of family holding companies, representing the first three generations (see Figure 3), have been structured. A total of 46 people compose the Garcia family. Of these, 33 are direct descendants of the founder, Alexandrino.

Figure 3. Stockholder Structure



Since its creation in 2002, the Family Council has achieved significant results. One of these achievements was the development of a Shareholders’ Agreement, in its second version, to minimize possible corporate risks. In addition, a Liquidity Fund was established to provide resources for the family when a member decides to leave the company. An Educational Fund provides financial resources for the personal development of all family members. All of the stockholders, as well as the heirs, have individual, personal educational programs based on their career and ‘life project’ and which prepare them for possible employment in one of the companies of the Group or for an external career.

A present challenge for the family business is attracting the interest and commitment of members of the younger generation. Due to the entrance barriers established for participation in the various

companies – established in the Family Constitution – many younger members of the family have lost interest in participating in an educational plan. In order to motivate these younger members, a trainee program has been established in which stockholders or heirs have the opportunity to work within the Group, under the guidance of a mentor and with the support of Unialgar, the company's corporate university. In this way it is believed that a rapprochement with the businesses will occur in a professional manner, based on the criteria of performance and meritocracy. This approach has already produced results – two of the younger Garcias are currently participating in the program.

The Family Council is linked, in a functional manner, to the General Meeting, where family members participate as stockholders. The processes of communication have been established and are respected, with minimal risk of conflict. The construction of family unity has required a significant investment of time and effort but today, each member respects the roles and responsibilities of the others. The chairpersons of the Board of Directors and of the Family Council possess formal relations by which the latter can solicit and receive information from the former for any necessary clarifications.

The Board of Directors and Family Council act independently, without any overlap. Each one has clear responsibilities and the autonomy to exercise them. Documents that establish formal limits for both bodies are fundamental to minimizing risk as they manage conflicts that occasionally occur within the group.

2.2 Executive management

Twenty-four years have passed since Agar began its process of professionalization. During this time, four individuals have occupied the position of CEO. The position is responsible for the executive management of the Group, with power delegated by the stockholders through the Board of Directors. The current CEO is Luiz Alexandre Garcia, who has held his position for the past six years. Luiz Alexandre is part of the third generation of stockholders, and a direct descendent of the founder, Alexandrino Garcia.

The CEO acts as a link between the Board of Directors and the executive management of the various companies of the Group. During regular meetings, each manager presents the results of their business unit directly to the holding company. The holding company is responsible for coordinating the activities of the component companies. Each company, however, is autonomous within the directives and plans approved by the Board.

The holding company's executive committee is composed of five professionals: the executive president (CEO) and four corporate vice presidents: Human Talents, Marketing and Sustainability, Finance and Strategy. For more than 20 years, all mid- and high-level executives in the Group have undertaken a 360° evaluation. Employees' remuneration is based on corporate policy and is presently composed of a fixed component, which represented, in 2012, approximately 50% of total salary. Nearly 40% is derived from the attainment of short and long range objectives. The remainder is comprised of benefits.

The corporate university, Unialgar, was founded in 1999. Its emphasis is on the formation of an educated, entrepreneurial leadership. In 2012, the university delivered 385 courses for 11,931

participants in classrooms and 19,391 participants via e-learning methods. In March 2012, Unialgar received an award from the International Quality and Productivity Center (IQPC) for being the “Best Corporate University in Brazil”. The total investment in 2012 was R\$11.4 million.

3. The Impacts of Corporate Governance

Corporate governance policies have resulted in numerous benefits for the Algar Group and its component companies although these benefits have not always been tangible. In the area of People Management, for example, there has been a substantial increase in motivation and commitment on the part of those employees (referred to as “associates”) who seek real prospects for professional development and share a sense of pride and commitment to their efforts. These individuals are also encouraged to share and promote organizational values. As a result, all have significantly benefited from improvements in efficiency and productivity. Annual organizational climate surveys are conducted in all of the companies. The level of corporate satisfaction identified in 2012 was 74%. Although a relatively high score for most companies, this result in fact represented a decrease in the satisfaction level compared to the previous year. Action plans have been implemented in each company to help improve corporate satisfaction.

The value of the Algar Group is increasing, with a clear and well-established vision of the future and business practices characterized by transparency – both in moments of success and during difficult phases. The group’s risk management practices are consistent with this vision and contribute to its consolidation as well as to any necessary changes of course.

For an unlisted corporate group under family control, one of the greatest benefits of corporate governance is the minimization of conflict among stockholders and between management. The decision-making structure is well-defined and transparent. Accountability is clearly executed and regularly audited. Policies of responsibility and meritocracy, whereby each individual is responsible for their own personal growth and development, form the basis of promotion. Corporate governance also promotes equilibrium between the corporate interests of stockholders and managers, with consideration given to the interests of the diverse stakeholders involved.

The Algar Group has a solid reputation that comes from the identity it has constructed together with its customers. Good governance practices have contributed to this reputation by reinforcing elements of corporate identity, especially transparency in its relations.

All aspects of the Group and its organizational structure have facilitated access to capital for investment by making business risks known to the market, as well as the capacity of individual companies to be true to their commitments. The group’s corporate governance model incorporates the competitive differentiation of the Algar Group, establishing a positive position in the national scenario.

The positive results produced by Algar have been recognized by IBGC – *Instituto Brasileiro de Governança Corporativa* (Brazilian Institute of Corporate Governance) – with an award for Algar Group’s good governance practices. The award was given in the category of “Non-listed companies” in 2009. The following year Algar was recognized by the Order of Economists of Brazil, in the same

category. In 2011, the Hoeft Consulting Firm honored Algar as “standing out” as a “Family Business”. Algar has been a member of the Latin American Companies Circle since 2010.

The Algar Group continues to encounter challenges in its practice of good corporate governance. It seeks to: find and maintain the best talent to perpetuate the organization; maintain clarity of objectives and discipline, principally among the leadership of the stockholders, Board of Directors and executives; and to identify, train and engage new generations of responsible stockholders. The demands of a family business require creating cohesion and maintaining the founding principles and values among new generations. Corporate governance and family governance are complementary processes and must follow similar lines of action.

Although the 2008 economic crisis did not have a great impact on Brazil, it prompted the Algar Group to perform a critical review of business risks and examine new challenges in terms of current practice. The Auditing Committee became the “Auditing and Risk Management Committee”, amplifying its role of monitoring and accompanying risk management, which had previously been more informal. A general review was undertaken of all documents that defined levels of required approval, clarifying the limits and responsibility of each manager. All company bylaws and internal regulations were also reviewed. The global financial instability compelled the company to adopt a more rigorous posture regarding control and decision-making.

According to a survey conducted by the company in 2012 with major financial institutions, the two most important attributes of Algar are sustainability and reliability. This positive result once again demonstrates the substantial impact that transparency, one of the principles of good corporate governance, can have on a company’s reputation. The company’s commitment to the adoption of good governance practices has contributed to Algar’s success story and prospects for sustainable growth. The compounded annual growth of net revenue in the last five years was 14% and of the net income was 20%. The investments in the last five years totaled R\$1.8 billion (equivalent to about US\$1.0 billion).

3.1 Structure

The Algar Group has a Corporate Governance Officer, who is responsible for a series of activities including:

- support to the Board of Directors and its committees;
- support to the executive management;
- help monitoring the deliberations of the Board of Directors and of its committees;
- control of the annual agenda;
- updating, as necessary, the internal regulations of the Board and of the Committees;
- management of the portal of governance;
- providing relevant information to Board members;
- managing the new Board member introduction program;
- participation in the elaboration of the annual sustainability report;
- review of policies regarding competence of approvals at all levels; and
- improvement of practices of Governance.

The officer also manages the Board Evaluation process. Together with the CEO, the Corporate Governance Officer is Algar's representative to the Companies Circle – in 2011/2012, the current officer was a member of the Steering Group. Additionally, since November 2010 the officer participates in the Governance Secretariat Commission of the IBGC.

Since March 2012, Luiz Alexandre Garcia, the CEO of Algar Group, is an elected member of the Board of Directors of the IBGC. In March 2013, he was nominated vice-chairman. He also coordinates the Board's People Committee of the Institute. In October 2012, he was named Chairman of the Companies Circle.

The Garcia family is a cofounder of the Family Business Network (FBN), Brazil Chapter. Presently, the entity is chaired by Eleusa Maria Garcia Melgaço, a member of the third generation of the Garcia family, who also chairs the Family Council.

4. Future Steps

The intention of the Algar Group is to constantly evolve in terms of its practices of corporate governance. In 2012, the company adopted, for the first time, the international standards of the Global Reporting Initiative (GRI). The firm began at "Level C" to publish, in its 2011 Annual Sustainability Report, the challenges and conquests that occurred during the year as well as its perspectives in terms of vision for the future. This information was made available on the Algar website, in both Portuguese and English. Over the next year the goal is to progress to "Level B".

Although Algar is a non-listed company on the stock market, on its own initiative the company began a series of "road shows", which have been presented to Brazil's principal financial institutions two times a year since 2007. These presentations include the financial performance of the company achieved during the period, relevant strategies and plans for the future. Algar is committed to conducting regular road shows whatever its financial situation.

All of the companies of the Algar Group have started using the "Balance Score Card" methodology as a form of promoting improved monitoring of corporate strategies.

Management of Risk is also a focus for improvement that needs to be implemented in all of the companies of the Group. Presently five of the nine companies have adopted the standards defined by the Board to the Group.

Another future challenge is the simplification of the corporate structure to increase transparency and operational control.

4. Final Considerations

With more than 80 years of history, the Algar Group has maintained some specific features that reflect its effective model of corporate governance. For example, Algar is committed to helping the development of cities and regions in which its companies operate. Furthermore, the company is dedicated to "client focusing", which encourages continued expansion into new investments. In addition, Algar supports the practice of consistent management, based on transparency, integrity, accountability and good relations with all of its stakeholders.

During his time as head of the firm, founder Alexandrino Garcia spoke of Corporate and Family Governance, albeit using different terminology. From the beginning, Garcia recognized the need to separate the interests of managers, stockholders and family. This approach is one of the secrets that has guaranteed the longevity of the Algar Group.



GRAÑA Y MONTERO S.A.A.

1. Profile

GRAMONVEL was founded in 1933, initially operating solely as a construction company until 1949, when it merged with Morris y Montero and acquired the capacity to execute asphaltting and land movement. Subsequently, the company became Graña y Montero S.A.

In 1983, after 50 years in business, The Graña y Montero Families decided to diversify and incorporate additional engineering activities. These changes were made largely in response to client demand for a company capable of undertaking each element of construction work, with the benefit of reducing costs and shortening timeframes. The company was now able to offer engineering, construction, and assembly services, as well as the general administration of the construction work. Throughout the following years, the Graña y Montero families founded various subsidiaries such as GMP, an oil and gas subsidiary in 1984, GMD, an IT services subsidiary in 1985 and in 1987, a real estate development business, currently known as Viva GyM.

On 12 August 1996, Graña y Montero S.A.A., the holding company of the Graña y Montero Group, was created with engineer Mario Alvarado as its Chief Executive Officer. The shareholding composition was dominated by two families – the Grana family (with 42.92%) and the Montero family (with 9.91%) and this company became the main shareholder of all the above mentioned subsidiaries.

In 1997, Graña y Montero became the first construction company to be listed on Lima's Stock Market. The listing raised their capital to S/.77 million (approximately US\$ 29 million)⁷.

In 1998, Graña y Montero received the Business Creativity Award for the Larcomar Project started under the company's "Antes del Plazo" ("Before Deadline") policy⁸.

Later, in 2003, the company issued US\$50 million in securitized bonds in the local capital market.

Until today, Graña y Montero has increased 110.8% compared to a 17.7% increase on the Lima Stock Exchange Index (IGBVL).

In 2003, 2006 and 2007, the company was awarded concessions for the construction, operation and maintenance of Novial, Canchaque and Survia toll roads, respectively.

⁷ Currency conversion as of July 1997 at www.oanda.com

⁸ http://www.gym.com.pe/quienes_valores.aspx

In 2011, Graña y Montero acquired 75% of CAM, a leading company in the electricity sector based in Chile, and formerly part of the Latin American power generation and distribution company Enersis of Grupo Endesa. In 2012, Graña y Montero acquired 77.2% of Vial y Vives, an engineering and construction company specializing in the Chilean mining sector.

In 2012 the company began operating the Lima Metro, Peru's first electrical train.

On 30 May, 2013 Grana y Montero's Board of Directors in use of the powers delegated by the Shareholders' General Meeting of 26 March, 2013, agreed to issue of common shares through a public bid of " American Depository Shares " (ADSs) registered in the New York Exchange Commission of the United States (Securities and Exchange Commission – "SEC").

According to the agreement above mentioned, the Company issued in 24th July 2013, 97,674,420 new common shares, equivalent to 19,534,884 ADSs with an unitary price of US\$ 21.13 for ADS that are being trade as GRAM in the New York Stock Exchange.

Today, the total of the Company's common shares issued are represented by 19,534,884 ADSs in the New York Stock Exchange and 558,284,190 in the Lima Stock Exchange.

Now, Grana y Montero is the largest engineering and construction company in Peru, and the largest publicly-traded engineering and construction company in Latin America (as measured by market capitalization as of 31 December 31 2012) as well as the third Peruvian company and the first Engineer and Construction Company from Latin America listed in the New York Stock Exchange, with strong complementary businesses in infrastructure, real estate and technical services.

Graña y Montero has developed an extensive and talented team, including more than 3,500 engineers, which gives the company the capability and scale to undertake large and complex projects. Graña y Montero puts significant emphasis on promoting the company's core corporate values of quality, professionalism, reliability and efficiency, and abides by the highest corporate governance standards.

2. Ownership structure

Today, Graña y Montero's main shareholders are: GH Holding Group, a company owned by the Graña Miró Quesada family, with 21.05%; Bethel Enterprises, owned by Carlos Montero with 6.05%; and the Pension Funds with 38.29% of the company's shares. The percentage of the variable shares that are listed on Lima's Stock Market is 34.61% (the main shareholder is GH Holding Group).

As of 30 June 2013, GyM's issued and standing share capital was comprised of 558,284,190 common shares of a nominal value of S/. 1.00 (US\$ 0.38), of which 34.61% are owners of less than 5% of the share capital, as seen in the following chart:

Name	Number of shares	Percentage
GH Holding Group	117,538,203	21.05%
Prima AFP	65,789,092	11.78%
AFP Integra	63,800,035	11.43%
AFP Horizonte	52,204,775	9.35%
Bethel Enterprises S.A.	33,785,285	6.05%
Profuturo AFP	31,998,888	5.73%
Other shareholders	193,167,912	34.61%
Total	558,284,190	100.00%

9

3. Corporate governance

In order to include other experiences and to encourage different points of view, the company's Board of Directors is composed of nine members, seven external (four of them fully independent) and two internal; all of them are men. At present, the Chairman is Jose Graña Miro Quesada and the Chief Executive Officer and first executive of the company is Mario Alvarado Pflucker. The Board devotes a specific session to a self-assessment evaluation of its own functioning and the quality of its work.

The Board compensation is distributed the following way: S/. 7,000.00 (US\$ 2455) as a fixed payment for each Director per assisted session and S/. 3,500.00 (US\$ 1227) for participating in meetings of the Board's Committees. Additionally, the Directors receive a variable remuneration according to a formula approved at the Shareholders' General Meeting on 31 March 31 2008: S/. 35,000.00 (US\$ 12275) per S/. 100 million of net income¹⁰.

Furthermore, the CEO and the management team's remuneration in relation to the income is:

	Fixed rate	Variable remuneration	Remuneration (%)
Chief Executive Officer	X	X	0.0226%
Executive Officers	X	X	0.085%

The Graña y Montero Group is also administrated by three Control Board Committees and four Operational Committees:

- **Audit and process committee**

This committee is responsible for the appointment, compensation, retention and oversight of any external accounting firm hired by the company. The committee is also in charge of evaluating the suitability of internal procedures, and transparency in all the company's financial actions. Furthermore, its members are charged with resolving disagreements

⁹ This shareholder structure does not reflect the recent issuance in the New York Stock Exchange.

¹⁰ Conversion rate as of July 2013 by www.oanda.com

between management and any external accounting firm, establishing policies and procedures following external audits and the company's compliance with the internal audit and ensuring a good corporate governance policy. The committee is composed of three members, all of them independent. The Internal Auditor reports to this committee.

- **Human resources and social responsibility committee**

The main function of this committee is to report to the Board about appointments and cessations of executive officers and subsidiaries. The committee is also responsible for ensuring compliance with the Social Responsibility Policies and dictating policies, boards and/or instructions regarding human resources and social responsibility. This committee also approves the CEO's bonus and reviews executive officers' bonuses. It also evaluates related party transactions between the company or the subsidiaries and executive officers, to ensure they are closed at market value. The committee has three members, all independent.

- **Investments and risks committee**

The main function of this committee is to approve the annual plan of projects and authorize specific projects that require more than a US\$ 5 million investment, taking into account the available financing sources and the potential impact on both the company's and the subsidiary's consolidated balance. It is composed of three members, all external.

- **Operational committees**

The main goal of these committees is to supervise the operation of subsidiaries that comprise each segment and to ensure the Board has a better knowledge of the business and operations of the different companies that form part of the Group. At present, there are four operational committees:

- Engineering and Construction Committee
- Technical Services Committee
- Infrastructure Committee
- Real Estate Committee

- **Executive commission**

The commission is responsible for the coordination of business requirements among the subsidiaries and the company such as the annual budget, the annual strategic plans, the annual capital expenditure, and human resources projects. It is composed of the company's executive officers, including the CEO, who is the Chair of the Commission.

The Graña y Montero Group's executive officers are chosen on merit and currently include the following:

Mario Alvarado Pflucker	Chief Executive Officer
Monica Miloslavich Hart	Chief Financial Officer
Claudia Drago Morante	Chief Legal Officer
Antonio Rodríguez Canales	Chief Investment Officer
José Carlos Ascarza	Chief Human Resources Officer
Juan José Arrieta Ocampo	Corporate Responsibility Officer

Dennis Gray Febres	Investors Relationship Manager
Jorge Luis Izquierdo Ramirez	Corporate Learning Center Manager
Antonio Cueto Saco	Corporate Country Manager Chile
Hernando Graña Acuña	Executive President GyM
Francisco Dulanto Swayne	Executive President GMP
Gonzalo Ferraro Rey	Infrastructure Manager
Juan Manuel Lámbarri	GyM CEO
Luis Díaz Olivero	GMP CEO
Jaime Dasso Botto	GMD CEO
Walter Silva Santisteban Requejo	GMI CEO
Jaime Targarona Arata	CONCAR CEO
Rolando Ponce Vergara	Viva GyM CEO
Klaus Winkler Speringer	Executive Vice President Cam
Cesar Neyra Rodriguez	Manager of Internal Auditing & Management Processes

In accordance with internal regulations, GyM appoints a Board Secretary whose main function is to ensure that corporate governance criteria and principles are being observed, as are the company's statutory and regulatory provisions. The Board Secretary is also tasked with maintaining documentation of the meetings, to certify the agreements of the corporate bodies. Additionally, the Secretary ensures the legality of the Board's actions, and that the procedures and rules of governance are respected. Finally, the Secretary bridges the relationship between the company and its Directors in all matters relating to the functioning of the Board, in coordination with the Chairman.

- **Ethics commission**

In 2013, the Board of Directors created the Ethical Channel, as a way to receive all the complaints and worries of our employees regarding our Letter of Ethics and Code of Conduct. The Ethic Commission evaluates and resolves these worries. When these complaints are related to members of the Ethic Commission or related to audit and accounting matters, the complaints are evaluated directly in the Audit and process committee. This Commission is formed by the Chief Legal Officer, the Chief Executive Officer and the Corporate Responsibility Officer.

4. Employees

As at 31 December 2012, the company had a total of 28,257 full-time employees, including almost 12,000 manual laborers, a number that fluctuates depending on the backlog of projects. The following table sets forth a breakdown of the company's employees by category as of 31 December 2012.

Employees	As of December 2012
Engineers	3,657
Other professionals	1,918
Technical Specialists	5,824
Manual Laborers	11,885
Consortium employees	4,973
Total Employees	28,257

GyM also works with 4,973 employees of subcontractors and has access to a network of 40,000 manual laborers throughout Peru that can supplement the company's workforce when required. Moreover, GyM has the flexibility to assign its own workers on projects outside Peru.

5. Prizes and awards

Because of Grana y Montero's commitment to good business practices, it has been recognized by various bodies who have granted the company the following awards:

Year	Prizes
2006	Best Annual Report –Procapitales Contest
2009	Good Corporate Governance Index – Stock Lima Exchange Key
2010	Good Corporate Governance Index – Stock Lima Exchange Key
March 2012	Corporative Reputation Index. First place in the Construction Sector, Opinion Leaders Category (Arellano Marketing and PUCP)
October 2012	Latin American Prize for Social Responsibility for GyM awarded by Federación Interamericana de la Industria de la Construcción (FIIC) and CAF
October 2012	Listed as one of the 10 most admired companies in Peru by Price Waterhouse Coppers and Revista G de Gestión
November 2012	Managerial Creativity – Service to Client Category for Linea 1 (Metro de Lima) awarded by UPC
November 2012	Managerial Creativity- Commitment with the Society Category for Graña y Montero Infrastructure awarded by UPC
November 2012	Managerial Creativity – Tourism Category for Graña y Montero Infrastructure awarded by UPC
November 2012	Position 7th position in the ranking of the 100 companies for best reputation awarded by Monitor Empresarial de Reputación Corporativa (Merco) and KPMG
November 2012	Position 15th position in the ranking of the 100 companies for best

	social responsibility awarded by Monitor Empresarial de Reputación Corporativa (Merco) and KPMG
December 2012	Great Place to Work – 9th position in the “between 30-250 workers” category for Viva GyM awarded by GPTW Institute
December 2012	Great Place to Work – 14th position, in the “ between 251-1000 workers” category for Viva GMP awarded by GPTW Institute
December 2012	Prize Peruvian Model Company Prize Category for Graña y Montero Group awarded by Camara de Comercio de Lima

6. Results

Throughout its history, GyM has witnessed and endured many economic crises in Peru, a common situation in the entire region. Although the 2008 global financial crisis affected the company’s economic situation, it did not significantly impact the company’s overall performance. Although the projects’ execution started at a slower pace at the beginning, the situation improved in the following quarter. To avoid exposing GyM, the company put a halt to some investments and focused only on those necessary to fulfill existing commitments.

In that order of ideas, the information on the following chart compares the financial results for 2010, 2011, and 2012 in millions of Nuevos Soles:

As of and for the year ended December 31,				
	2010	2011	2012	2012
	(in millions of S/.)			(in millions of US\$)
Revenues	2,503	4,241	5,229	2,050
Adjusted EBITDA	542	664	773	303
Net income	253	289	290	114
Net debt	340	128	67	26
Net debt/EBITDA ratio	0.6x	0.2x	0.1x	
Backlog	5,290	8,293	11,667	4,574

As a result, as of 31 December 2012, Graña y Montero’s market capitalization was S/. 5,415 million (US\$ 1,898 million)¹¹.

Date	In Million (S/.)	Change (%)
31/12/2007	2,569.34	
31/12/2008	1,116.57	-56.54%
31/12/2009	1,579.25	41.44%
31/12/2010	3,712.59	135.09%
31/12/2011	3,740.50	0.75%
31/12/2012	5,415.36	44.78%

¹¹ Conversion rate by www.oanda.com

As of December 31, 2012, Graña y Montero's share price was:

Date	In S/.	Change (%)
31/12/2007	4.60	
31/12/2008	2.00	-56.52%
31/12/2009	2.83	41.50%
31/12/2010	6.65	134.98%
31/12/2011	6.70	0.75%
31/12/2012	9.70	44.78%



Grupo Los Grobo

1. Company and Corporate Governance History

Grupo Los Grobo (GLG) was founded in 1984 as a small family-run business, primarily focused on agriculture and commodity production. Over the following decade, GLG rapidly expanded, leading to the realization that external professionals – such as agronomical engineers and accountants – were needed to increase the company’s working capacity, while still ensuring that all major decisions were supported by the family owners. GLG’s ability to stimulate and manage its own growth during this period is demonstrated by the fact that the company currently employs over 1000 people throughout Argentina, Brazil and Uruguay.

In 1988, huge floods covered lands in Argentina rendering them unsuitable for traditional agriculture and decreasing cattle production viability. The company saw an opportunity to expand its business by renting these lands and applying what is now the new paradigm of agriculture: the no-tilling system, the use of new technology and inputs and a profound knowledge-based decision-making system. Opportunities for leasing land appeared in different towns and cities at significant distances from the central headquarters. In these new areas, different and distinct geographical and agro-ecological characteristics demanded an effort to adapt technology and agronomic practices, but at the same time, they introduced a new trait to the company’s strategy through the use of climate risk mitigation by diversification.

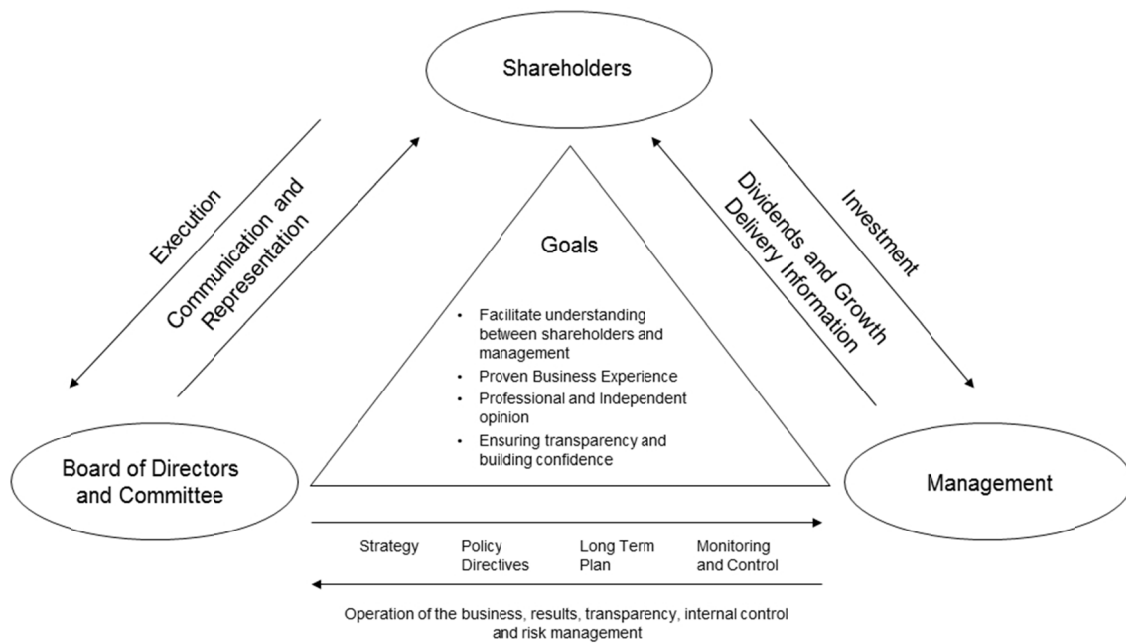
Throughout the 1990s, GLG’s senior management devised ways to develop business clusters, through the creation of networks of clients and suppliers, and through the outsourcing of critical services, such as harvesting, sowing, or spraying. This network structure avoided the need for the company to invest in costly assets, and paved the way towards vertical integration. New links in the business were incorporated –including grain transportation, grain storage, futures and hedging – as well as input commercialization. GLG had transformed into a “network”.

This growth phase was accompanied by several good practices for business development, such as process certification with ISO Quality Standards, external financial audits, and reporting practices. Social responsibility and sustainability also became major areas of focus for the company. In addition, the company’s growing complexity necessitated the development of policies and standards for good practices in corporate governance.

In 2000, the founding family members and sole shareholders – Gustavo, Andrea, Gabriela and Matilde – decided to merge the four separate companies, their father Adolfo had created just in case their sons decided not to work together, in order to create a single, larger holding company. In 2008, ahead of the company’s expansion into Brazil, GLG associated itself with a Brazilian fund which now owns 22% of the company. This fund was chosen in line with GLG’s core company strategy of doing business with local partners, who have in-depth knowledge about the local operating environment.

As the family and business grew, it was necessary to continue improving governance mechanisms and incorporate global standards and frameworks for good practices. One of the first initiatives was to introduce independent Directors to Board meetings, improving decision-making, communication, and systematizing and standardizing the information considered during Board meetings. The Board of Directors was an “Executive Board” (EB) since most of its members were part of the company’s management. The EB also evolved, with a decision-making process underlined by a tension model (figure 1). Within this model, the main function is to try to integrate the company’s business decisions and professional values (profitability, efficiency, and transparency) with the company’s family values (belonging, permanence, and personalization).

Figure 1.



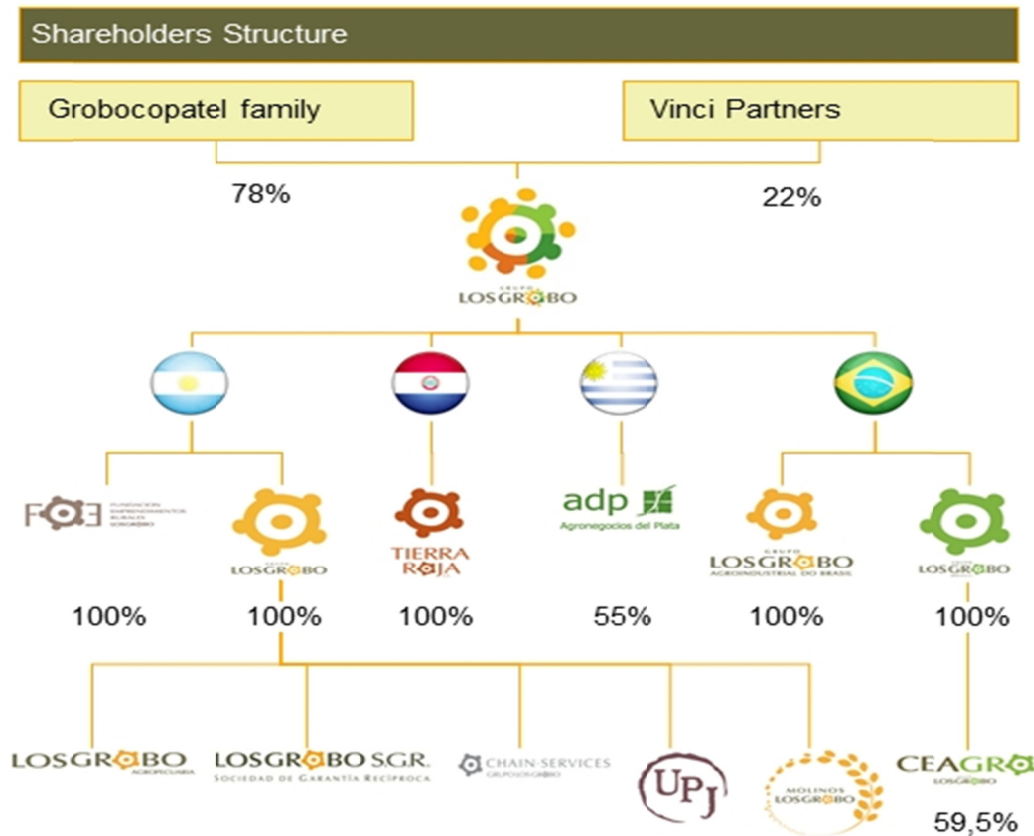
The professional decision-making process used by the Board has helped the company balance its business needs with the founding members’ family values, including for example, decisions about where to base the company’s administrative headquarters. As outlined above, the growth of GLG internationally, horizontally and through integration and diversification – along with a growing shareholder portfolio with different backgrounds, expertise and cultures – intensified the need to set clear governance rules. Therefore, it is interesting to consider the specific motivations behind the adoption of good corporate governance practices.

One of the core motivations for improving corporate governance within GLG was to encourage professional decision-making based on technical, objective and unbiased considerations, and to create transparency among the members who administer and govern the EB. Another motivating factor for creating a solid governing framework was the increasing need to work with partners in other countries, with different management profiles and cultures. Lastly, the adoption of good corporate governance practices has helped improve GLG’s access to finance, both in local and

international capital markets, which expect companies to have transparent and clear rules that can be audited.

As outlined below (figure 2), the ownership structure is very diverse, in keeping with the GLG's values and strategy:

Figure 2.



Brief description

Grobocopatel family

- More than 90 years of agribusiness experience
- In 1984 Adolfo founded Los Grobo Agropecuaria composed by 2 employees, Andrea and Gustavo, and 3k ha and became a Professional company at the first half of the 90's decade, managing today more than 1K employees
- Under Gustavo's management, Los Grobo was the first agro company in the world to obtain the ISO 9001, becoming also a Harvard Business Case, farming in more than 260K ha

Vinci Partners

- One of the most successful history in private equity in Brazil
- Started as an investment vehicle of Banco Pactual's former partners
 - Pactual was the largest investment bank in Brazil and one of the largest Asset Managers...sold to UBS for US\$ 3.1Bn in 2006
- Vinci is Partners is one of the main shareholder of:
 - PDG Realty, the largest real estate company in Brazil by market cap
 - Equatorial Energia, a leading Brazilian energy company
 - Ethanol business in Brazil through CMAA
 - The retail /fashion business through InBrands

Local partners

- Paulo Fachim, partner in Brazil, founded Ceagro in 1994, and has more than 20 years of experience in the Brazilian agricultural market
- Marcos Guigou, partner in Uruguay, founded ADP in 2004, and has over 16 years of experience in agribusiness

Mitsubishi Corporation

- Mitsubishi Corporation is a global integrated business enterprise that develops and operates businesses across virtually every industry and that recently acquired a participation in Ceagro.

One of the most significant recent developments in the company's corporate governance was an IPO performed in 2011 in Brazil. This IPO required many changes to be made to the company. The IPO also necessitated an extensive schedule of events (meetings, conference calls to investors, financial results) and complete transparency regarding the company's financial figures. One of the outcomes of this process was a reconfiguration of GLG's global and local decision-making. Local Boards would have more power and autonomy, while the LLC¹² Board would be responsible for macro-level and strategic decisions. In the end, the IPO did not result in a public offer due to an unfavorable market context. Nevertheless, the process helped accelerate changes that were necessary to advance the company's global practices and implementation.

Currently, the founding family members are no longer members of GLG's management team nor do they take part in executive roles. However, they participate in the Board as independent members due to their relevant skills, experience and knowledge about the company's history, which helps add value to the company's strategy and direction. Throughout GLG's evolution, the family founding members have discovered that having family members on the Board helps other managers feel inspired and more committed to the company's performance.

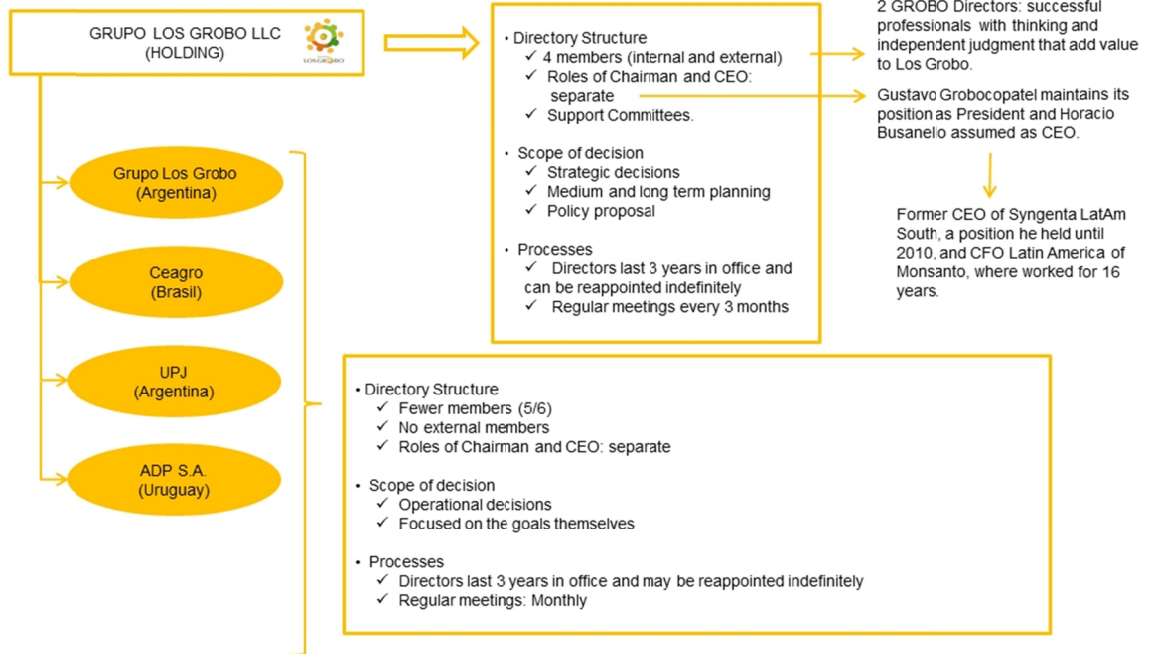
As with many other companies, the global financial crisis of 2008 affected GLG's growth, particularly as it was coupled with a tough climatic context (periods of intense droughts and below freezing temperatures) that reduced crop productivity, one of the company's main activities. Despite the slowdown of high growth rates GLG had been experiencing, that period also became an opportunity for internal reorganization. Senior management provided EB members with a clearly defined focus, and at the local level, specific company Boards were strengthened so as to have a closer connection to management activities and decisions. During this phase, the EB also took the opportunity to redefine GLG's growth plan.

2. Current Company Governance Practices

2.1. Board Composition

Up until 2011, the Board of Directors consisted of 12 members. The company's founding Directors were family members Adolfo Grobocopatel, Gustavo Grobocopatel, Andrea Grobocopatel, Gabriela Grobocopatel, Paula Marra and Juan Carlos Goyeneche, as well as Carlos Etcheverrigaray. In 2003, Marcos Guigou and Jorge Forteza joined the Board, while Carlos Martins, Gilberto Sayao, and Alessandro Horta joined in 2008. Within this configuration, the Board included three women and three Independent Directors. In determining new EB members, senior management looked for candidates with different professional backgrounds and visions, so as to generate new ideas and constructive dialogue. In 2012, shareholders decided to reduce the number of board members to four, in order to improve the Board's flexibility and agility. The following figure (figure 3) provides a description that explains corporate governance on a global and local level:

¹² The Limited Liability Company "Grupo Los Grobo LLC" was incorporated in Delaware in 2008 and acts as a holding company for those in Argentina, Uruguay, Paraguay and Brazil.



Another important development occurred in 2011, with the incorporation of a new CEO, replacing the dual function that the Board Chairman previously held. Furthermore, the board members created Board Committees to discuss and manage specific subjects and company issues. The following figures depict the structure and interrelation of these committees with the Board (figure 4 & figure 5):

Figure 4. Committees were strengthened

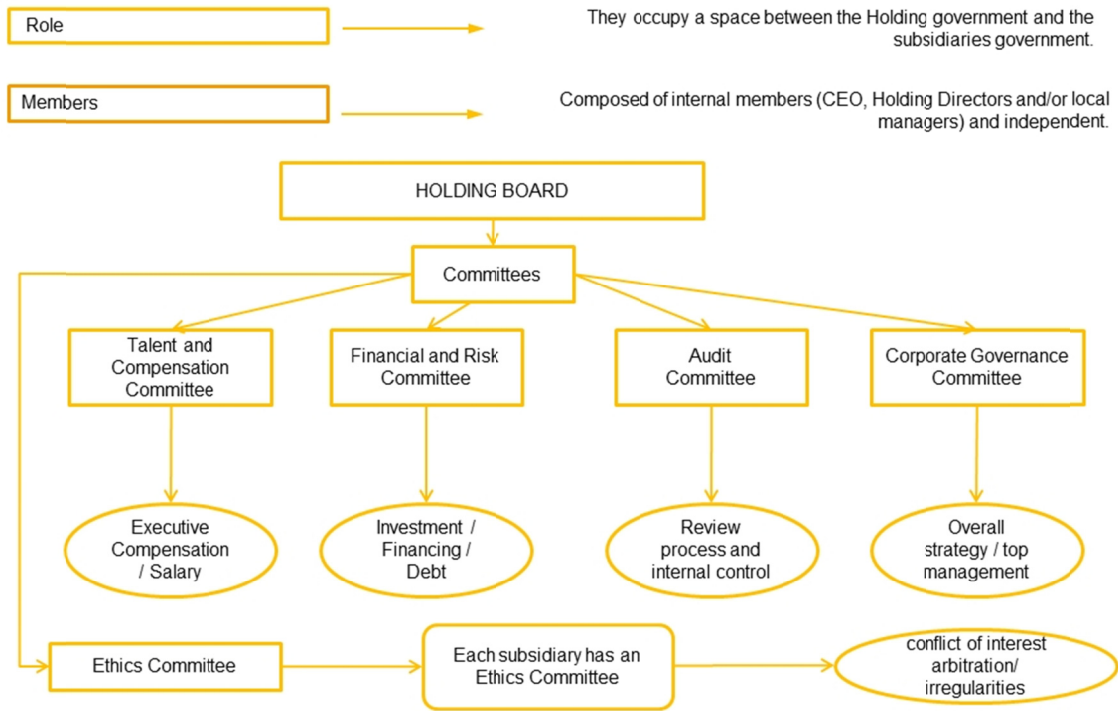
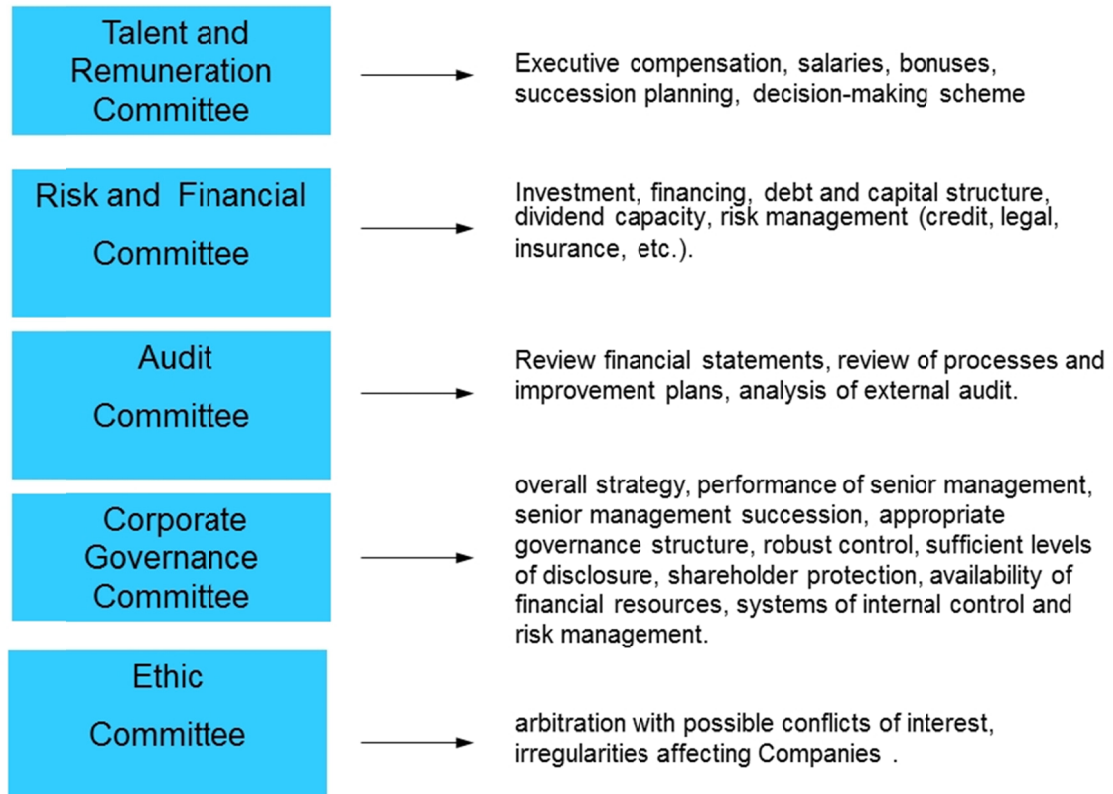


Figure 5.



2.2. Other Executive Board Practices

- **Board Evaluation:** An annual evaluation is carried out of the Board's performance. However, this evaluation does not include a Committee evaluation, an evaluation of individual Directors or an internal evaluation through an external facilitator.
- **Board Remuneration Policies:** Directors who are also shareholders do not receive a salary, but independent Directors do. For management, compensation is composed of a fixed value and a variable salary (paid annually) that depends on both the manager's ability to achieve yearly set goals and specific company performance indicators. This compensation may include purchase options related to the value of the company's shares.
- **Corporate Governance institutional membership:** The Shareholders Directors participate in various corporate governance associations such as IAGO, FUNDECE and LIDE.
- **Governance Program:** The Board Committee with the assistance of the Chairman and Vice-Chairman is in charge of overseeing the governance program.
- **Governance Specialist:** GLG has appointed a Director to handle all corporate governance issues whose duties include: overseeing the entire current corporate governance system applied by GLG; reporting to the Board on corporate governance issues and developments; and following the evolution of, and recommending the best international practices in, corporate governance.
- **Family Governance Policies:** The company has agreed on the following principles: no family member can occupy a position simply because they are a family member; family members may work within the company only if they are qualified for the job; and family members must apply for a job opportunity in the same way as any non-family member applicant.

3. Grupo Los Grobo Stock Market and Operation Performance Indicators

GLG currently uses the International Financial Reporting Standards (IFRS).

Financial Results for the 2011 – 2012 period:

- Net Income = USD'000 (1.570)
- Net Operating Revenues = USD'000 (868.759)
- Net Cost and Expenses = USD'000 (763.940)
- Net Cash = USD'000 (32.284)
- Projected Cash for 2012 = USD'000 (50.000)
- Other non-financial results = USD'000 (4.093)

4. Impacts of Corporate Governance

GLG has identified major impacts that corporate governance practices have generated for the company. The most relevant ones are:

- Reduction of the cost of capital and improving the chances of acquiring external partners;
- Improved company environment and management control;
- Strengthening sustainable development practices; and
- Improved transparency and organizational efficiency, which has strengthened the company's reputation and facilitated access to financing.

5. Next Steps in Corporate Governance

The next major steps to help improve the company's corporate governance are to make changes to the governance structure and to develop a policy of risk management to help strengthen internal monitoring and controls.

The incorporation of good corporate governance practices has shaped the future direction of GLG. In the early stages of the company's development, founding family members postponed significant issues related to legal and internal responsibilities, as well as decisions related to capital management.

However, the continued growth of the company required the family members to increasingly participate in the firm's governance. This shift from executive tasks to governance functions enabled family founding members to focus more on the company's financial outlook. This decision involved assuming voluntary commitments, resulted in embedding practices of auto-regulation within the Board, and gave Board members access to participate both in institutions of good corporate governance as well as strengthening relationships with the state.

Since its inception in 1984, the company has undergone a gradual and progressive institutional redesign to eventually become a holding company. The objective behind this change was to achieve greater flexibility, persistence and professionalism within the organization. The development of a corporate governance structure both on global and local levels, reaped several added benefits. It allowed more flexibility and freedom for the founding family members in regards to their obligations with the company. It generated confidence in the market, allowing for the incorporation of new professionals and shareholders. It also provided a greater degree of flexibility and simplicity in company management and helped the company achieve a simpler model of ownership and control.

In terms of the impact on business operations, the new governance structure has facilitated foreign investment, allowing GLG to evolve from a small, family-run business into a large company with professional, well-structured decision-making mechanisms that ensure overall quality.



Ultrapar

1. Profile

Over its 75 years in business, Ultrapar – one of the largest business groups in Brazil¹³ – has developed leading positions in its markets. The company operates in fuels distribution through Ipiranga and Ultragas, in the chemical industry with Oxiteno, and in the liquid bulk storage services through Ultracargo. By the end of 2012, Ultrapar had 9,000 direct employees and its operations involved approximately 80,000 indirect employees.

The company maintains operations throughout the entire Brazilian territory and has, through Oxiteno, industrial plants in Mexico, Venezuela and the United States, as well as commercial offices in Argentina, Belgium, China and Colombia.

Since 1999, Ultrapar's shares have been listed on the São Paulo Securities, Commodities and Futures Exchange (BM&FBOVESPA) and on the New York Stock Exchange (NYSE). In August 2011, Ultrapar's shares began to be traded on the Novo Mercado, a special listing segment of the BM&FBOVESPA, with the broadest corporate governance rules. The market value of Ultrapar as of December 2012 was R\$25 billion (US\$12 billion).

2. History and development of Ultrapar – the impact of its corporate governance on the company's strategy and value creation growth

At the end of the 1960s and the beginning of the 1970s, the main business of Ultrapar Participações S.A. (Ultrapar) was the distribution of liquefied petroleum gas (LPG) through Ultragas, the business on which the company had been founded in 1937. Shortly thereafter, the company entered into a new phase of entrepreneurship and diversification when Pery Igel, the son of Ernesto Igel, the company's founder, assumed control of the company. Pery Igel took advantage of opportunities for the company's expansion and growth presented by developments occurring in Brazil at that time. Investments were made to expand the company's petrochemical and chemical segments, as well as the fertilizers, transport, engineering, animal breeding and warehousing industries.

As a result of the increasing complexity of its business lines and mounting competition in their respective market segments and industries, Ultrapar experienced a period of intense professionalization of management and staff in the 1970s. During this process, Pery Igel set out to implement an unparalleled set of corporate governance initiatives beginning in the mid-1980s, when the expression "corporate governance" was not a commonly known term in the region.

¹³ <http://www.ultra.com.br>

As part of that effort, in 1984, Pery Igel issued restricted stock to company managers as part of a 20-year employment contract. The objective was to align management's interests with those of shareholders and ensure that executives would, in their new position as long-term owners/managers, help build a solid company over time. During the following decade, the company decided to divest non-core businesses and focused on three sectors: LPG distribution, chemicals and logistics for liquid bulk, mainly chemicals. This process was followed, in the late 1990s, by an international initial public offering (IPO), resulting in the listing of company's shares on BM&FBOVESPA and the NYSE.

One year after the IPO, Ultrapar was the first Brazilian company to grant tag-along rights at a 100% of the offering price to all shareholders. Another initiative to reinforce alignment of interests between shareholders and executives was the implementation of variable compensation linked to value creation targets in 2002 and the extension of the stock-based compensation scheme to the new generation of executives in 2003. With the support of the capital market, Ultrapar invested R\$9 billion during the ten-year period after the IPO.

Also during this period, the company's corporate governance principles based on the alignment of interests between shareholders and executives – leading the latter to focus on creating value for the company – were essential to the pursuit and realization of acquisitions of high strategic impact, such as Ipiranga, Texaco and União Terminais. Moreover, in 2007, Ultrapar separated out the roles of the Chairman of the Board of Directors and the Chief Executive Officer, allowing the current incumbent, Paulo Cunha, to devote himself exclusively to the work of the Board. Pedro Wongtschowski was nominated as the new CEO.

Ultrapar has always considered the capital markets as an important enabling agent of growth and endurance for the company. Capital markets are viewed not only as a source of funds for the company's investments but also as a source of the continued development of a delegation and accountability culture, a meritocratic management style and the alignment of interests. The implementation of a new corporate governance structure in 2011 improved Ultrapar's investment capacity, allowing for the conception of even more audacious projects for the coming years. In addition, the restructure was a definitive move towards the professionalization of the company's management, which now has its future untied to the specific issues of any one particular shareholder.

3. Impact of the 2008 crisis

The 2008 global financial crisis confirmed that good corporate governance practices help companies manage their way through times of difficulty. Ultrapar's corporate governance mechanisms proved extremely valuable, especially the Risk and Financial Committee and the Risk and Financial Policies. In 2008, while many companies faced major losses due to the sharp slowdown in the economy, Ultrapar was able to keep its growth on track. The company's positive performance was the result of prudent financial approach maintained over several years and discipline in capital allocation. For example, in June and August 2008, Ultrapar announced two acquisitions, namely União Terminais and Texaco. The deepening of the crisis in September 2008 did not impact these acquisition plans as Ultrapar had the necessary capital and potential for continued growth as the result of good investments over time and the resilient nature of its businesses.

4. New corporate governance structure

In 2011, Ultrapar took decisive steps to deepen the alignment of interests among all shareholders and endure the company's growth. It announced a new corporate governance structure to help the company continue its trajectory of expansion and value creation.

The transition involved converting preferred shares into common shares at a 1-to-1 ratio. This move was not connected with any equity offering or restructuring, making Ultrapar the largest company without a defined controlling shareholder in the country. During this process, the company adhered to the standards of the Novo Mercado, a segment that sets the highest benchmarks of corporate governance in the Brazilian market. In addition, provisions modeled on international standards were included in the company's bylaws, covering practices that go beyond the requirements of Novo Mercado. These practices included those originally planned by the BM&FBOVESPA in the proposed new regulations of the Novo Mercado, which although not approved, were considered valuable for Ultrapar's current stage of development and conditions.

With the adoption of these even more robust practices (that go beyond the ones of Novo Mercado), Ultrapar aimed to strengthen its corporate governance bodies in an environment of dispersed ownership. The company established that at least 30% of the members of Ultrapar's Board of Directors must be independent, as compared to Novo Mercado's requirement of 20%. This measure helped expand the representation of shareholders not affiliated with the company.

Another innovative development was the formation of the company's statutory Compensation Committee, whose functions are to: oversee the company's senior management compensation policy (aimed at ensuring alignment between management and the company's strategy); ensure that a model of competence and leadership prevails to promote the attraction, retention and motivation of executives; and ensure adequate preparation of the company for the succession of its executives. An Audit Committee was also formalized in the bylaws, whose responsibilities include ensuring the balance, transparency and integrity of the company's published financial information, through the supervision of its financial reports. To avoid duplication and potential conflicts of scope, the Audit Committee is not elected whenever the Fiscal Council is set up at the request of shareholders.

The company's bylaws also include the provision of mandatory tender offer for the shares of the company ("Tender Offer") in the event of a relevant acquisition (20% of capital) of the company's shares. The acquirer must conduct a Tender Offer to 100% of the shareholders, for the highest price per share paid by the acquirer within the last six months. The Tender Offer for the acquisition of relevant participation is a tested model in Europe and is part of the European directive for capital markets. The goal of the Tender Offer is to prevent a shareholder from acquiring shares enabling them to change the governance and direction of the company, without giving other shareholders – who may not agree with the new strategy – the opportunity to sell their shares. In addition, the bylaws contain no poison pills, entrenched provisions, provision of limiting voting rights or special treatment for current shareholders.

Ultrapar has also established in its bylaws a mechanism under which it guarantees that any candidates for the Board of Directors proposed by shareholders will be given the same publicity as the one proposed by management.

Ultrapar's new corporate governance structure is the result of successive developments in corporate governance, characterized by innovative actions. The Chairman of the Board, CEO and CFO all oversee the company's governance program. The CFO and his staff also perform the Corporate Secretary functions. The periodic re-evaluation of Ultrapar's corporate governance, in order to account for internal and external changing conditions, has encouraged solid growth, with expansion in Ultrapar's markets and the strengthening of its leadership positions in each market segment within which the company operates.

Ultrapar's growth has been characterized by extensive movements in large growth steps, in constant search for differentiation in its markets, always based on innovation in new products, new services creation and the opening of new markets that Ultrapar companies pioneer. With transformative ideas in various parts of its operations, Ultrapar has succeeded in its objective to create a sustainable and solid business.

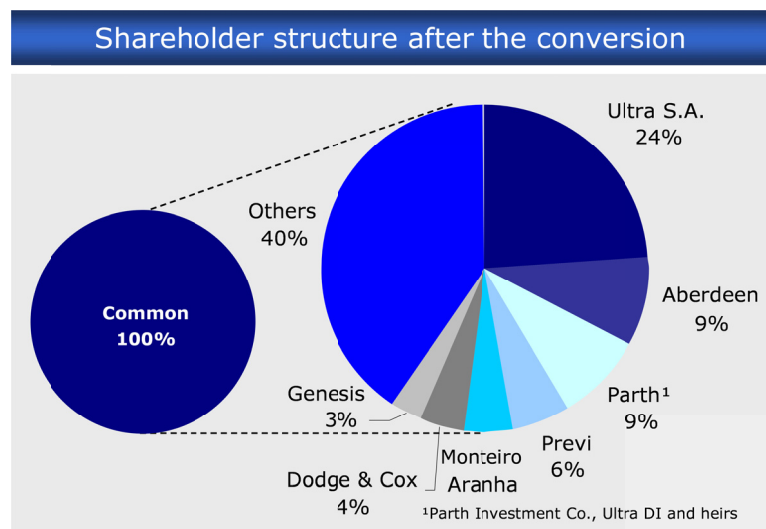
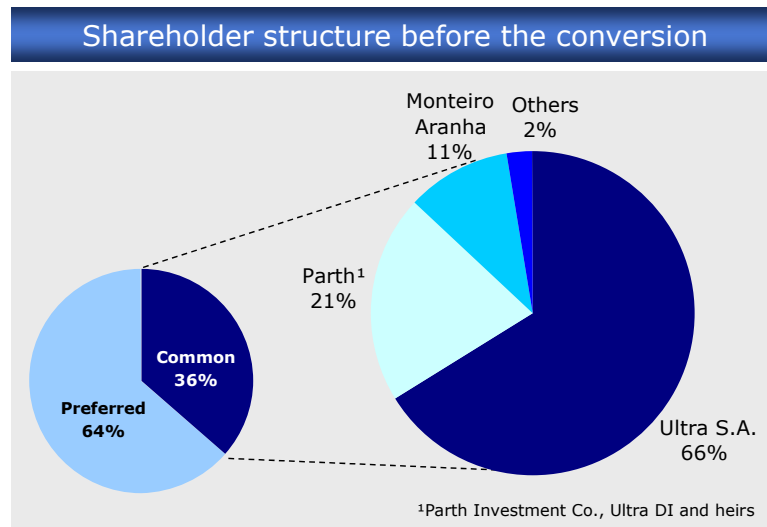
The shareholders' return in 2012 followed the trend witnessed since the initial public offering: from 1999 to 2012, Ultrapar shares had an average appreciation of 24% per year, with reinvestment of dividends – an appreciation much higher than that presented by the Ibovespa index.

5. Ownership structure after the implementation of the new corporate governance structure in 2011

To make the new structure feasible, the controlling shareholders of Ultrapar effectively waived the controlling power, promoting the conversion of all preferred shares into common shares at a 1-to-1 ratio. With this conversion, each share allows one vote at shareholders' meetings and, as such, all shareholders now have the same economic and political rights. There was no goodwill or overpricing in this process, nor a link to any offer of shares or subsequent restructuring, highlighting the innovative character of the initiative.

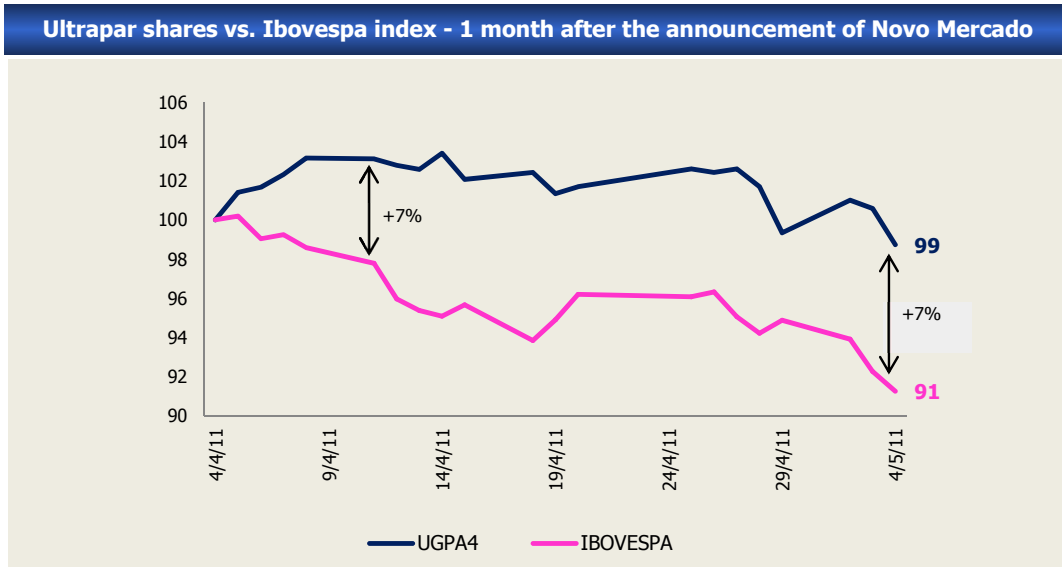
Prior to the conversion in August 2011, Ultra S.A., the then controlling shareholder of Ultrapar, owned 66% of the company's voting shares, representing 24% of the total shares. Since the conversion, Ultra S.A.'s stake in Ultrapar corresponds to 24% of the voting and total capital.

Thus, free-float is now theoretically 100%, although in practical terms certain shareholders who have long-term interests in the company do not frequently trade their shares.



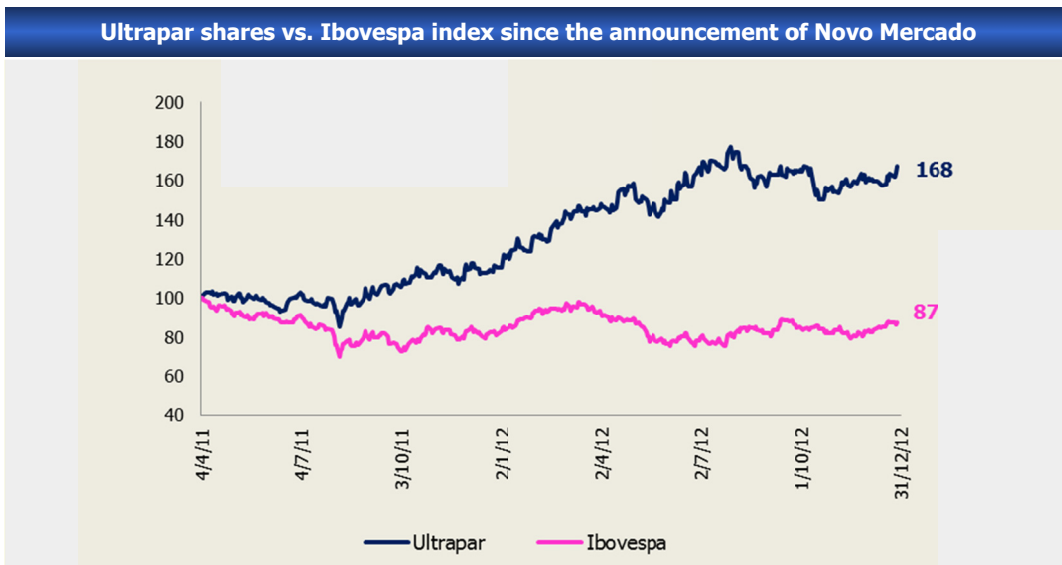
6. Impact of corporate governance – Ultrapar’s shares performance after the implementation of the new corporate governance structure

While it is usually a challenge to quantify the influence of corporate governance changes in a company’s value, upon the announcement of Ultrapar’s new corporate governance structure, a defined positive effect in the company’s share price was identified, as demonstrated in the graph below (Ultrapar share price vs. Ibovespa index, base 100).



A week after the announcement of the new corporate governance structure on 4 April 2011, Ultrapar’s share outperformed the Ibovespa index by 700 basis points, and kept this premium for the following 30 days. At that time, the only major reason to explain this premium was the upgrade in corporate governance practices and the consequent market recognition.

Looking at a longer period, since the announcement of the new corporate governance structure, Ultrapar’s shares significantly outperformed the Ibovespa index, as shown below:



While a number of other factors influenced Ultrapar’s performance during this period – including the company’s continued earnings growth while the world and Brazilian economies worsened – the 4 April 2011 corporate governance announcement was one of the defining factors that led to the

company's strong share price performance over the last 18 months, therefore confirming the positive reaction of the first four weeks.

7. Board of Directors

Under the company's bylaws, Ultrapar's Board of Directors must include at least five and no more than nine members, each for a unified term of two years with the possibility of reelection. The current Board of Directors (whose term of office runs from April 2013 to April 2015) is comprised of five independent members, in accordance with the independence criteria set by BM&FBovespa.

Name	Age	Position	First election date	Independent member
Paulo Guilherme Aguiar Cunha	73	Chairman	11/20/1981	No
Lucio de Castro Andrade Filho	68	Vice-Chairman	04/30/1998	No
Ana Maria Levy Villela Igel	70	Member of the Board of Directors	10/08/1998	No
Ivan de Souza Monteiro	52	Member of the Board of Directors	04/10/2013	Yes
Nildemar Secches	64	Member of the Board of Directors	04/29/2002	Yes
Paulo Vieira Belotti	80	Member of the Board of Directors	10/08/1998	Yes
Olavo Egydio Monteiro de Carvalho	71	Member of the Board of Directors	04/29/2003	Yes
Renato Ochman	53	Member of the Board of Directors	04/27/2001	Yes
Pedro Wongtschowski	67	Member of the Board of Directors	01/01/2013	No

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8. Management compensation / Board remuneration

Ultrapar's management compensation policy and practices aim to align the interests between management and shareholders (based on the principle of sharing risks and returns), align individuals' goals with the company's strategy, and recognize the contribution of and retain professionals, based on market references. As such, Ultrapar adopts a differentiated and competitive management compensation plan, that includes the use of value creation metrics to establish variable compensation targets and a deferred stock ownership plan.

- **Board remuneration** - Ultrapar offers fixed compensation, according to market standards, in order to recompense Board members for the responsibility and complexity of their position. The Chairman

¹⁴ Mr. Pedro Wongtschowski is the former CEO of Ultrapar, and assumed Mr. Thilo Mannhardt's position in the Board of Directors when Mr. Mannhardt assumed Ultrapar's CEO position in January 2013.

and the Vice Chairman receive more than the other directors in recognition of their additional responsibilities. Ultrapar also pays an additional amount for participation in specialized committees, equivalent to one third of a Director's compensation, independent of their position on the Board of Directors. If a Director is appointed to more than one specialized committee, the monthly amount is equivalent to 50% of the Director's compensation.

- **Variable remuneration of executives linked to EVA® growth targets** - In line with the above philosophy, in 2002, Ultrapar implemented the concept of the Economic Value Added (EVA®) management system, linking variable compensation to EVA® growth targets and strengthening the alignment of interests between management and shareholders. EVA® growth targets are established every three to four years and are compatible to a certain expected shareholder return over the period.
- **Stock ownership plan - main executives with a significant stake in the company** - To help align the long-term interests of the company's executive officers and shareholders, and to help retain key executives, since the 1980s Ultrapar has adopted a deferred stock ownership plan. In the most recent plan, started in 2003, the executive receives the beneficial ownership of shares held in treasury for a period of five to ten years, after which the ownership of the shares is effectively transferred, provided that the relationship between the executive and the company or its subsidiaries has not been interrupted. Participation in the stock ownership plan is based on the executive's performance, on the expectation of future contribution, and on long-term retention, aimed at materializing projects and future results.

9. Key indicators (1)

R\$ million	IFRS					CAGR 2008-12
	2008	2009	2010	2011	2012	
Ultrapar (2)						
Net sales	28.268	36.097	42.482	48.661	53.919	18%
EBITDA (3)	1.079	1.430	1.855	2.032	2.405	22%
Net earnings	390	441	765	855	1.018	27%
Investments	1.516	1.941	815	1.090	1.491	0%
Dividends declared	238	279	429	525	627	27%
Earnings per share (R\$) (4)	0,72	0,82	1,43	1,59	1,89	27%
Dividends per preferred share (R\$) (4)	0,44	0,52	0,80	0,98	1,17	27%
Number of employees (end of the year)	9.496	9.429	8.883	9.055	9.282	
Ipiranga						
Sales volume ('000 m ³)	12.075	17.214	20.150	21.701	23.364	18%
Net sales	22.676	30.486	36.483	42.224	46.833	20%
EBITDA (3)	603	830	1.149	1.353	1.640	28%
Investments	229	222	383	591	942	42%
Productivity (EBITDA R\$/m ³)	50	48	57	62	70	9%
Oxiteno						
Sales volume ('000 ton)	567	634	684	660	761	8%
Net sales	1.926	1.916	2.083	2.409	2.929	11%
EBITDA (3)	210	171	218	261	350	14%
Investments	516	163	227	107	115	
Productivity (EBITDA US\$/ton)	202	135	181	236	235	
Ultracargo						
Effective storage ('000 m ³)	335	461	552	582	614	16%
Net sales	283	337	293	267	301	2%
EBITDA (3)	51	104	145	118	145	30%
Investments	56	79	62	108	84	
Ultragaz						
Sales volume ('000 ton)	1.601	1.589	1.608	1.652	1.681	1%
Net sales	3.339	3.441	3.661	3.767	3.847	4%
EBITDA (3)	211	281	300	280	243	4%
Investments	167	105	157	182	157	
Productivity (EBITDA R\$/ton)	132	177	187	170	145	
Capital markets						
Average daily trading volume (R\$ 000) (5)	26.476	26.961	32.953	34.646	55.498	20%
Price at BM&FBOVESPA (R\$/share) (4)	12,71	20,03	26,28	32,01	46,29	38%
Price at NYSE (US\$/ADR) (4) (6)	5,62	11,73	16,16	17,20	22,28	41%

(1) Except where otherwise indicated, figures in R\$ millions. Information on IFRS from 2009

(2) Except where otherwise indicated, Ultrapar's figures in this report include the consolidation, from April 2009, of the assets acquires from Texaco.

(3) Except where otherwise indicated, Ebitda's figures in this report, includes sale of assets and earnings (losses) of affiliates (as set forth in CVM Instruction N° 527).

(4) The number of shares was retroactively adjusted to reflect the 1:4 stock split of the shares issued by the Company approved by Extraordinary General Meeting in February 10th, 2011.

(5) Considers the combined trading on the BM&FBOVESPA and the NYSE.

(6) 1 ADR = 1 common share.

10. Awards and Recognitions

Year	Award / Recognition	Entity
2013	4 th place in the ranking of "World's Most Admired Companies" in energy sector	Fortune Magazine
2012	Best public meeting of 2012 by APIMEC São Paulo	APIMEC SP (Association of Capital Market Analysts and Investment Professionals)
2012	IBGC Corporate Governance Award - Category Evolution for Publicly Listed Companies 2012 ("Prêmio IBGC de Governança Corporativa - Categoria Evolução Empresas Listadas de 2012") - Company with the best evolution in corporate governance in a 3-year period	Brazilian Institute of Corporate Governance (IBGC)
2012	Recognized for investor relations, including best CEO, CFO, IR Manager and IR team in the segment of Oil, Gas and Petrochemicals by sell-side analysts	Institutional Investor
2012	2 nd place in the ranking "The Best Companies for the Shareholders"(As Melhores Companhias para os Acionistas) - companies with market capitalization over R\$ 15 billion	Capital Aberto Magazine
2012	Top hundred world's most innovative companies in the ranking of "The World's Most Innovative Companies"	Forbes
2012	Winner of "Prêmio As Melhores da Dinheiro 2012" in Fuels, Oil and Gas category	ISTOÉ Dinheiro
2012	4 th place in the ranking of "Prêmio Destaque Agência Estado" and winner in Sustainability category	Agência Estado / Econômica
2012	Honorable mention in the Best Corporate Governance category in the IR Magazine Awards Brazil 2012	IR Magazine Awards Brazil
2012	5 th place in the ranking of "World's Most Admired Companies" in energy sector	Fortune Magazine
2011	8 th place in the ranking of "Prêmio Destaque Agência Estado" and winner in Sustainability category	Agência Estado / Econômica
2011	Best Corporate Governance, Brazil (World Finance Corporate Governance Awards 2011)	World Finance
2011	Honorable mention in the Best Corporate Governance category in the IR Magazine Awards Brazil 2011	IR Magazine Awards Brazil
2011	Honorable mention in the Best Annual Report category in the IR Magazine Awards Brazil 2011	IR Magazine Awards Brazil
2011	Best Corporate Governance in Brazil	Euromoney
2011	Best Managed Company in the Chemicals & Petrochemicals Sector - Latin America	Euromoney
2010	Honorable mention in the Best Corporate Governance category in the IR Magazine Awards Brazil 2010	IR Magazine Awards Brazil
2010	Honorable mention to André Covre in the best performance in Investor Relations by a CEO or CFO category in the IR Magazine Awards Brazil 2010	IR Magazine Awards Brazil

2009	Winner of the Abrasca 2008 Value Creation Award	Brazilian Association of Publicly Held Companies (Abrasca)
2009	IBGC 2009 Corporate Governance Award - Winner in the Innovation category	Brazilian Institute of Corporate Governance (IBGC)
2009	2008 Annual Report Award - Second best Annual Report, with honorable mention in the Earnings Review category	Brazilian Association of Publicly Held Companies (Abrasca)
2009	Top 10 in APIMEC 2009 Quality Award	APIMEC (Brazilian Capital Markets Analysts and Professionals Association)
2008	Second Most Shareholder-Friendly Company	Institutional Investor Magazine
2008	Sector Leader in the Chemical and Petrochemical Sector - Pedro Wongtschowski	International Leaders Forum

11. Next steps in corporate governance

After the significant changes to the company's corporate governance structure in 2011, Ultrapar's priority is now to consolidate its practices in light of the new state of affairs. One of Ultrapar's plans is to implement initiatives related to shareholder participation in general meetings. In 2012, Ultrapar held its first two general meetings after converting all non-voting shares into voting shares. Although Ultrapar had a fairly good presence – over 70% of the total capital – in these meetings, the company believes that shareholder discussion and the general levels of interest in participating and voting could and should be improve

Latin American Corporate Governance
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