Report

Dynamo 37

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Being Transparent

In today's world, transparency is a fundamental attribute and a basic requirement to any modern public institution. Whether this is seen as accountability to the society or simply as a clear manifestation of legitimacy, transparency is the touchstone of democratic commitment. In clear contrast, ambiguous data and filtered statistics are far closer to totalitarian regimes.

Public companies have become increasingly aware of the need for heightened corporate transparency due to their greater exposure to shareholder scrutiny. On the other hand, in their capacity as private and profit-oriented organizations, their status as corporations requires specific standards of approach to this matter. Our intention in this Report is to pursue an in-depth analysis of this issue in the context of the Brazilian capital market.

First, a note on semantics: As a general rule, in academic literature, disclosure is the word most often used when one is referring to the to data or information divulged by companies. Then there is the distinction between mandatory disclosure (when such disclosure is required by official authorities) and voluntary disclosure (when information is voluntarily disclosed by the company). In Dynamo Report 35, we pointed out the distinction between disclosure and transparency. Companies with a good disclosure policy are not always seen as being transparent. In fact, the word disclosure bears a connotation of restricted range and is associated with only partial permission for access to something hitherto secret, the selective *des clausure* of that which is confined. Transparency suggests a more ample sense, one of reaching beyond, rendering everything visible through the superficiality of that which is merely apparent. In brief, disclosure is a permission for partial sight, while transparency is an invitation to the whole view.

Our Performance

After a 40.3% return in 2002, shares in Dynamo Cougar's declined 0,86% during the first quarter of 2003.In the same period, the *Ibovespa* inched 0.02% and the *FGV-100* dropped 0.71%). The positions that had a positive impact in our results were Klabin, Alpargatas, and Itausa; conversely, the performance of Caemi and Coteminas shares dragged Dynamo Cougar down.

Since inception on September 1st, 1993, Dynamo Cougar has accumulated a return of 922.6% in US dollars, compared with the *FGV-100* at 100.6%, and the *Ibovespa* at 16.1%. In this period of almost ten years, the annual compounded return of Dynamo Cougar was 27.5% versus 7.5% and 1.6% for the *FGV-100* and the *Ibovespa*, respectively. In other words, a US$ 10,000 investment made when Dynamo Cougar started operations, would be worth US$ 102,265 by the end of the first quarter of 2003. The same investment in *FGV-100* and *Ibovespa* would have earned US$ 20,050 and US$11,606 respectively.

As pointed out in our last report, our portfolio currently has a higher than normal concentration in shares of companies that benefit from a devalued foreign exchange rate. During this first quarter, the Real appreciated by 5.10% (R$ 3,53 to R$ 3,35) and this is the main reason for the fund's relatively weak performance in this period.

However, it is important to note that this concentration in exporting companies was not an option based exclusively on the prospect of a further devaluation of the Real or even the maintenance of the exchange rate prevailing during the last quarter of 2002. We invested in these companies because we identified a substantial difference between their value and their share prices. Accordingly, we expect the portfolio to perform well even with the exchange rate at its current levels. We also believe that the improved competitiveness of Brazilian exporting companies is structural and not just temporary.

We stick to our policy of investing in well managed quality companies involved in good businesses, with a corporate design that aligns the interests of all shareholders and management, and with a promising perspective. Over the long run, these positive features will most certainly be reflected in their share prices.

CAEMI

Caemi is one of the Fund's most important positions. The company has recently undergone major corporate changes and, for this reason, we present below some comments about its current situation.

Almost three years ago, Caemi's former controlling shareholders decided to sell their stake , 60% of the voting shares. Mitsui, a Japanese commodities trading company, held the remaining 40% of voting shares plus 40% of the preferred shares as well. They also had a shareholders' agreement which, among other rights, guaranteed them a preferential right to buy over the controlling shares. In February 2001, the Australian company BHP was announced as the winner of the initial bidding contest but the conclusion of the sale was still subject to Mitsui's decision whether or not to exercise their right. In July of the same year, Mitsui announced its decision to, in partnership with Vale do Rio Doce, buy out the shares from the former controlling shareholders provided only that the transaction was approved by the European Community. This approval was finally granted at the end of October of the same year. Accordingly, the control of Caemi was split between Vale and Mitsui, each one holding 50% of its common stock.

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Transparency means full disclosure. Throughout this Report we shall give preference to the word transparency, based on its more positive and wider ranging scope, and will use the word disclosure specifically in reference to mandatory disclosure.

Transparency and and the Economy

Any decision to buy shares involves risks associated with the respective company's future performance, chiefly in relation to its capacity to create and equitably distribute value. By making data available, a company ensures that the decisions of such potential buyers of its shares are less inexact. Armed with increased knowledge of the assets and their future prospects, investors can more thoroughly analyze its fundamentals. The trend will be for the share price to rise, usually accompanied by increased liquidity, thereby potentially reducing the company's cost of capital[1]. Furthermore, compliance with more strict transparency criteria, discourages insider traders, who are predators of the normal functioning of markets, thereby protecting the other investors.

Improving the quality of available information is also crucial for investors to follow the evolution of operating fundamentals of companies, thus enabling them to more efficiently monitor their investments and check the process of creation and distribution of value. Lastly, better knowledge of the assets has the potential to increase the likelihood of more accurate investment decisions. Such efficiency in the allocation of scarce capital is also essential for economic development. Thus, added to the known and desirable microeconomic impacts, rest solid macroeconomic efficiency factors. As stated in the text of the specific Sarbanes-Oxley Act[2], "Greater transparency will thus enable investors to make more informed investment decisions and to allocate capital on a more efficient basis" [3].

Reducing cost of capital and increasing liquidity of stocks are primary targets for a healthy corporate environment. So why is there no corner solution[4]? Why aren't companies continuously improving, to the limit possible, their transparency levels?

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As we understood it, Vale's original agreement with Mitsui involved, among other requirements, a commitment from Vale to merge MBR (Caemi's iron ore subsidiary) with Ferteco, another iron ore company bought by Vale from Thyssen in 2001. The structure for such merger would be discussed and agreed upon during 2002. They also agreed that, over time, it was their intention that Vale would own the same percentage of total capital that Mitsui owned, that is, 43,37% (the 40% preference and common stock originally held, plus the 10% of common stock acquired when the right of first refusal was exercised).

Mainly due to these two commitments, throughout 2002, Caemi had no clear defined plan from the point of view of corporate governance. The merger of MBR and Ferteco could have occurred in a number of different ways. Accordingly, there was some discussion regarding the real value of Ferteco, and its value relative to MBR (a relevant information in case the company was to be incorporated rather than acquired by MBR). The Ferteco equation also had an impact in the stated objective of Vale holding a stake equal o Mitsui's in the total capital of Caemi.

In addition to Ferteco, there was also some debate regarding Cadam, a Caemi subsidiary that produces kaolin. Vale, which owns a stake in PPSA, another kaolin producer, could have some interest in Cadam. An transaction with Cadam could be part of the financial engineering for addressing the Ferteco matter. However, according to the press, there was no consensus on the value of Cadam and, for this reason, Vale was no longer interested in pursuing this transaction.

The solution to these issues matters differed entirely from what was negotiated during most of 2002. Last March, Mitsui entered into an agreement to sell its investment in Caemi to Vale. In parallel, Mitsui made an announcement that it had also signed an agreement with Bradespar to purchase part of the latter's common stock in Valepar, the holding company that controls Vale and of which, among others, Previ and Bradesco are also shareholders.

Adding to all these pending issues, was the fact that, ever since Vale purchased the first 50% voting stock of Caemi in 2002, there has been considerable speculation as to whether the company would remain public. This speculation grew as the second operation with Mitsui was under way especially since Vale would now own all of its competitor's common stock.

In the light of all these uncertainties, it was practically impossible for Caemi to take an objective position *vis a vis* the capital markets. The truth was that the company had no answers for a number of important questions from the point of view of an investor trying to analyze and understand the company in these particular circumstances.

For all of the above reasons, we see as a positive sign the fact that a solution for this corporate instability has, at last been, found. With these new definitions for the company, Caemi will be able to build a pro-active relationship with its investors. Vale expressly declared that its intention is for Caemi to *"continue to be a publicly-traded company, with its own independent administration and run in line with best corporate governance practices, thereby assuring its principles of transparency and accountability"* (text quoted from the relevant notice (fato relevante) released by Caemi).

Based on what we see as a valid argument involving the difficulties of managing the inherent conflicts of interest, some skeptics are still wary about Caemi being controlled by a direct competitor. There is no doubt that this is a *sui generis* situation, and we would also be extremely concerned were it not for the fact that the controlling shareholder is a listed company that implements one of the highest standards of corporate governance in Brazil. For Vale, governance is a matter of paramount importance and the company has

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(1) *An ancillary item to this association (more data on the assets, better share pricing, thus leading to lower capital costs for the company) is the assumption that absence of information is interpreted as bad news. In other words, when a company fails to disclose important information, investors assume that it has something to hide and, accordingly either demand an ex-ante discount or refuse to negotiate. (In dedicated literature, circumstances in which a company is obliged to disclose information is known as an unraveling result). Thus, the act of disclosing information per se, positively impacts investor risk perception and, consequently, the share price and its cost of capital. In practice, it is possible to imagine a scenario where the information to be disclosed is worse than the market discount. In this event, the share price could drop if the positive signalling effects described below, are insufficient to offset the negative circumstances.*

(2) *The 2002 Corporate Responsibility Law, better known as the Sarbanes-Oxley Act, in reference to its first sponsors, is recognized as the most important act of legislation in the US capital market since the 1933 Securities Act.*

(3) *SEC, Final Rule, Release 33-8182; 34-47264; item V letter D.*

(4) *An expression used in economic literature for circumstances in which an agent's decision produces results on the limtis of the constraints involved.*

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recently invested a lot of time and energy to perfect its system.

We can't help but register our enthusiasm at the prospects of having Caemi replicate the quality of corporate governance and an investor relations policy of Vale. It should be noted that we are not talking about a company, that by using Vale as a benchmark, could upgrade the quality of an existing structure. We are talking about a company whose own governance had come to a halt for the reasons explained above, one that was shunning contact with investors (although being entirely open with any investors who took the initiative of contacting the company), so as not to be embarrassed by its lack of answers for key questions. Thus, for Caemi, the impact of applying a corporate government system and an investor relations policy in line with Vale standards, is unquestionably substantial.

The background for this sequence of corporate events is a business with solid fundamentals that has greatly improved over the last few years, despite the recent devaluation of the *Real*. This will be the last year of Caemi's robust investment program, which included the substitution of its principal mines and increased production capacity from 25 million tons of iron ore in 1998 to 36 million in 2003. The iron ore market has heated up in response to an increased demand from China, where Caemi has a meaningful presence. A price increase of almost 10% was recently announced for 2003. Ebitda should improve considerably and, beginning in the second half of this year, the company will generate a significant volume of free cash flow. It is reasonable to expect that Caemi will adopt the same policy as its controlling shareholder concerning dividends, that is, it should pay out a significant portion of this free cash flow. Last, but not least, in our opinion, management has been doing a very good job running the company especially with regards to the investment program and increase in sales in the Far Eastern markets.

Despite this unquestionable improvement to the company's structure, speculation around the possibility of Vale de-listing Caemi has been the main driver of Caemi's share price for a long time. It was for this reason that the price dropped sharply when Vale published a so-called Relevant Notice stating its decision to retain Caemi as a publicly listed company, thereby frustrating the short-term speculators that were only looking to make a quick profit.

Even considering the impacts of the recent increase in the value of the Real on the company's results, the latest drop in the share price would only be justifiable in the context of a company with poor fundamentals and shaky corporate governance practices. But, since, as pointed out above, we believe neither is the case, we have taken this opportunity to increase our stake.

Moreover, let us also examine a few figures to obtain a good reference for the value of Caemi. When Mitsui and Vale exercised their preferential rights over the former controllers' common stock, they paid almost US$ 423 per share. In April 2003, Vale declared its commitment to purchase the Mitsui shares (43.4% of its capital) for US$ 250 per share. This represented an aggregate payment by Vale of US$ 705.1 million for 60.2% Caemi's total capital total, or US$ 299 per share. In a recent presentation to its investors, Vale showed a table of indicators which should serve to prove their point that the acquisition of Caemi was an excellent deal. We reproduce this table below.

Market Multiples	EV/ Ebitda
Paid by CAEMI	5,0
Paid by SAMITRI (2000)	6,5
Paid by FERTECO (2001)	7,0
CVRD 2002 realized	6,8
CVRD 2003 forecast	5,9
"Peers"2003 forecast	7,8

Source: Vale do Rio Doce

So, mostly due to the uncertainties described above, Caemi's share prices are currently trading at approximately US$ 135, and at a multiple of the forecast *EV/Ebitda* of close to 2.7 for the present year, and below 2.0 for 2004 (Dynamo estimates). In other words, there is still substantial room for reducing the company's cost of capital through the implementation of corporate governance practices which are compatible with the project announced in the Relevant Notice published by Caemi.

Firstly, because several have no intention of so doing. The controlling shareholders are happy with the private benefits deriving from their position of corporate information monopolists. According to their particular economic calculations, handling data to their own benefit is more advantageous than striving for a reduction in the company's cost of capital.

Secondly, and more important, information is not free. It involves certain costs, such as i) "Production" costs – related to the gathering, processing, communicating, auditing, and publishing the information supplied; ii) Litigation costs – related to the increased likelihood of legal action being taken against the company and its executive officers based on greater exposure of declared corporate goals; and iii) Proprietary costs – related to the utilization of information to the detriment of the company by the competition, governments, unions, suppliers, or customers.

Experience has shown us that marginal "production" costs are, in fact, low, since the information is likely to be included in internal management reports, so the only action missing would be to make them public. Litigation costs also seem to be reduced, since, to date, law suit culture is still uncommon in our market. However, we understand that, eventually, proprietary costs might be relevant. In this case, a parsimonious attitude towards disclosing specific information becomes a prudent and expedient administrative policy for all shareholders. Having said that, it is worth reminding that the plead for increased transparency is not a demand for disclosure of chemical formulas, or for a detailed description of production process or even for the company's marketing strategy dossier or details of its strategic planning. Basically, the demand for transparency consists of a commitment by companies to submit a set of accurate, timely, and relevant data that enables their investors to carry out a reliable diagnosis of the true situation of the company and its business. We will return to this point later.

Thus in addition to the positive effects of reducing cost of capital, increasing stock liquidity, and the public good arising from more efficient investments, other factors come into play in the entrepreneur's private decision over the volume of information to be disclosed to the public, complicating this non trivial trade-off equation. Would it be the case to search for tools to catalyze this decision in a direction socially desirable ? What would such tools be ? How can companies be exogenously motivated to take the path of transparency ? Two possibilities come to our mind: governance and regulation.

Transparency and Governance

Given that information is not a free product, its availability is conditional upon the degree of demand in the marketplace. Consequently, the primary ally for increased corporate transparency levels is the existence of a legitimate market that gives value to additional information, 'consumers' willing to pay a price for information. In an environment such as this, companies will compete to produce additional information, thereby continuously raising levels of transparency. To a large degree this dynamic is present in the American market but not here in Brazil.

The chief reason for this difference lies in company ownership and governance structure. In the US market, where the shareholder model dominates, ownership is widespread and management is independent. So all shareholders have no other source of corporate information but the official channel of the Investor Relations department. A significant number of shareholders, each individually representing a minimal portion of total capital, seek access to public information.

In markets where the stakeholder model prevails, such as ours, ownership is concentrated and the board of directors is elected by the major shareholders. Insider management information navigate through private channels of communication towards a small (but powerful) group of shareholders thereby meeting on an off-market basis a demand for information from a substantial percentage of capital. Such structure, besides reducing the importance of the potential market demand, consolidate an assimetry of information that eventually transform minority shareholders in outsiders.

Improved corporate governance practices could partially offset this distortion. For example, institutional investors could create their own "transparency scores", along the lines of what Calpers (the largest US pension fund) has done, as a pre-condition to ensure access to their resources. Professional fund managers should assign greater importance to transparency practices as investment criteria. An example is the UK fund Hermes that has chosen "communication" as its first "investment principle", reminding that "companies should seek an honest, open and ongoing dialogue with shareholders"[5].

In fact, the relationship between governance and transparency is symbiotic. Empirical studies point out that companies implementing best governance standards also show greater transparency[6]. This, in turn, encourages improved corporate practices, since it increases management exposure and commitment. The demand for increased transparency in the US market is an effective mechanism for reducing agency costs, allowing small shareholders to maximize their oversight of management, to monitor the achievement of announced goals, and watch out for any abuse of stock option plans. It is in this context that *Bovespa* decided to make improved information disclosure a prime requirement for companies willing to move their listing to Novo Mercado or Levels 1 and 2 of corporate governance. In summary, better patterns of transparency works as an investor's monitoring tool and as a thermometer for entrepreneurial and executive commitment.

Transparency and Regulation

Another route towards reducing the asymmetry of information in the market would be to impose regulations. Here, the basic universal premise is that well-informed investors are adequately protected. Regulating company's disclosure policies is always synonymous with seeking to assure investor confidence and capital market integrity. Once again, the US market prevails as an example.

In 2001, in the aftermath of the dotcom share *débacle*, the SEC introduced the Reg FD (Regulation Fair Disclosure) basically aimed at rectifying two problems: different levels of access to company information and the respite of financial institutions compliance areas. In 2002, in the wake of several corporate scandals, regulatory reaction materialized with the approval of the Sarbox Act, which provisions were incorporated into a number of complementary regulations already approved. An example is release 33-8182, regulating the disclosure of management discussion and analysis — MD&A, which requires comments on all off balance sheet transactions, arrangements, obligations and operations. Release 33-8177, requires the presence of at least one financial specialist (whose qualifications must be disclosed) on the audit board, in addition to demanding the publication of a code of ethics to be followed by senior executive officers. Then there is the so-called *Reg G*, whose purpose is to reconcile *pro-forma* data with US GAAP. Additionally, there is: i) disclosure of transactions involving executive management and majors shareholders (Section 403) ii) rules setting minimum internal control procedures applied in the preparation of financial statements and iii) obligation to disclose in a "rapid and current" fashion, all information material to the company's financial position and its operations.

While Reg FD primarily addresses the problem of preferential/selective access to information, the concern of the Sarbox Act is mainly with the extent/scope of the information disclosed.

The recent scandals involved ethical deviations of omission and manipulation of information by companies with the acquiescence of their auditors. Within that context, the Sarbox Act dedicates three whole chapters to the treatment of accounting and corporate fraud penalties, emphasizing the fundamental matter of regulatory enforcement. It is enforcement that ensures the legitimacy, the veracity, and the seal of reliability of published financial statements. The countless lawsuits against the executives and directors of companies involved in these iniquitous corporate scandals, in addition to a recent billionaire settlement that the investment banks signed with the SEC, are clear evidence that financial statements must be increasingly credible, from now on.

One example is a very interesting survey[7] of the factors influencing the quality of the information disclosed in East Asian markets, specifically, Hong Kong, Sin-

(5) *Hermes Principles, in* Hermes Governance Code, www.hermes.co.uk

(6) *We have selected three: Forker, J. 1992 Corporate Governance and Disclosure Quality,* Accounting and Business Research, *vol. 22, n. 86, pp 111-124; Arcay, M., Vázquez M., 2001 The relationship between corporate disclosure, governance rules and other characteristics of the company,* Working Paper, Universidad de Santiago de Compostela *and Wright, D. 1996 Evidence on the relation between corporate governance characteristics and the quality of financial reporting,* Working Paper.

(7) *This survey led to the publication of two articles: Ball, R., Kothari, S. P., Robin, A. 2000 The effect of international institutional factors on properties of accounting earnings,* Journal of Accounting & Economics *29, 1-52 and Ball, R., Robin A , Wu, J. 2000 Incentives versus standards: properties of accounting income in four East Asian countries, and implications for acceptance of IAS.* Working Paper. University of Rochester.

gapore, Malaysia, and Thailand. It shows that, despite the existence of good accounting standards and a Common Law framework, the level of financial statement transparency is low. The authors reached the conclusion that this arises from a lack of consistent demand for transparency (concentrated ownership as in Brazil) and minimal enforcement.

The joint action taken by the US Congress and the SEC suggests three regulatory targets for disclosure treatments: equal access to information, minimal scope of the information disclosed by companies, and practical applicability of the penalties provided for failure to obey the letter of the law. As we saw in the preceding section, in Brazil, given the patterns of company ownership and control, the question of preferential access to information becomes a priority. With the issue of its Instruction n. 358, the CVM specifically addresses this topic. CVM's limitations on enforcement are well known, since the appropriate penal/criminal treatment is usually handled by unspecialized sectors of our Justice system.

However, imposing regulation on the scope of disclosure, is a very delicate matter. Given the different competitive organizational structures of the various sectors involved, optimum disclosure standards vary on a case-by-case basis. For example, detailed data on technological research investments can be immaterial in the mining sector, but represent highly strategic information for IT companies. Market share data is less significant in the power utility sector, but absolutely paramount for consumption goods market investors. Accordingly, identical information can generate a wide variety of content, and thus impact each market very differently.

Furthermore, any policy regulating the scope of corporate disclosure is based on the premise that appropriate accounting standards are in place. The US market recommends US GAAP, the European Union prefers the IFRS. The truth is that, to date, no empirical evidence exists guaranteeing the definitive superiority of either system. Recent studies have actually criticized the geographic domination of these standards and suggest the possibility that companies should freely choose between them both[8]. Regardless of such options, what is needed is any accounting standard based on the following two requirements: wide acceptance and credibility.

The regulatory bodies' primary concern has been to protect investors without undermining companies competitiveness. Given the relatively conservative level of information required in our market, we believe that there is still reasonable space for regulatory incentive to this effect, without presenting serious risks to the companies.

Dynamo Cougar x Ibovespa x FGV-100
Performance up to march/003 (in R$)

Period	Dynamo Cougar	FGV-100	Ibovespa
60 months	288,68%	160,64%	-5,26%
36 months	67,88%	21,19%	-36,50%
12 months	22,87%	10,23%	-15,56%
6 months	16,71%	24,30%	31,95%
3 months	-0,86%	-0,71%	0,02%
NAV/Share on 03/31/2003 = 35,726814116			

A Transparency Agenda

Transparency is a communication process and, as such, must follow certain rules. From the corporate communication point of view, empirical studies show that, frequently, the receivers (investors, analysts) are dissatisfied with the standards of quality of the message offered. Conversely, the issuers (entrepreneurs, senior management) are frustrated by the perceived response to their efforts[9]. The challenge of satisfactorily balancing the informative content of corporate transparency policy is a practical agenda of significant importance to any market.

PricewaterhouseCoopers has developed an interesting model to aid companies in improving their corporate communication[10]. According to this script, information content should cover four major areas:

i) Market view: Description of the economic, competitive, and regulatory environment, including not only a picture of the current scenario, but fundamentally, management's expectations. The purpose here is to allow shareholders to infer if management is optimistic or pessimistic, based on its perception of the dynamics of the industry and on the company's competitive position in this environment.

ii) Value Strategy: A clear explanation of company strategy for creating sustained long-term value for its shareholders. Here, the idea is to present value creation objectives and goals, risk management strategy, and an organizational design compatible with stated strategic targets. An explanation of the alignment of shareholder interest structures is essential, such as, for example, performance-related incentive systems for senior management.

iii) Value Management: Analysis of the financial indicators utilized to monitor financial risk performance and the creation of value by the different business areas. This chapter explains how financial management is linked to value creation strategy. Criteria such as cost of equity, return on invested capital, economic value added, should also be present in this analysis, as should a detailed breakdown of performance and risks associated with each business unit.

iv) Value Platform: Account of management action to carry out its value creation strategy. This should include information on the critical vectors determining the company's future value. Examples are innovation, trademark development, consumer relations, supply chain, people culture, and corporate reputation.

Ideally, shareholders should be able to make their investment decisions based on the same information on which management decisions are taken. As a second best, the basic idea would be to enable investors to identify the corporate goals, understand the value creation strategies, and evaluate management action on a timely basis.

(8) *Example: Benston, G., Bromwich, M., Litan, R., Wagenhofer A., 2003* Following the Money: The Enron Failure and the State of Corporate Disclosure, *R. R. Donneley, Virginia and Steil, B. 2002* Building a Transatlantic Securities Market. *Council of Foreign Relations, New York.*
(9) *For example, see: DiPiazza Jr., S., Eccles, R., 2002* Building Public Trust: The Future of Corporate Reporting, *John Wiley & Sons, New York and PricewaterhouseCoopers, 2002* Casting Value: Improving Corporate *Disclosure* in the Metals Industry.
(10) *ValueReportingFramework™*, in www.valuereporting.com

This would be a general guideline. Naturally, the information content of the communication material must take into consideration the nuances of each sector and the company's own peculiarities. It is the role of the Investor Relations area to find the ideal format for this. As assiduous readers of financial statements, our experience at Dynamo has shown that certain absences – some of which occur regularly – represent sensitive gaps that jeopardize a better valuation of companies. For example: the statement of cash flow, consolidated statements of quarterly results, analysis of comparative advantages and competitive strategy, clarification of criteria for provisions, corporate and environmental balances, performance segmented by business unit, criteria to evaluate and remunerate executives, detailed analysis of non-recurring effects, detailed description of the nature and terms of related party transactions.

The recently published AmBev annual report is a good example of communication for a public company. Important features of the four areas described in the previous page are all present in the report: Description of growth and value creation strategies, identification of corporate goals, insights into the practical decisions for attaining such goals, explanation of non-recurring results, presentation of corporate culture, explanation of the performance measurement systems, description of the criteria for distributing results. It is interesting to note that, for each corporate goal (increase in revenue), an opportunity is identified (increasing the "stomach share"[11]), showing the tactic visualized by the company to reach it (associating beer with meals), and the method for putting this into practice (working together with the fast food industry). The message to the shareholders gives a detailed description of the company's long-term corporate strategy: to take advantage of opportunities for improvement in the industry's value chain, to increase the distribution network's efficiency, to ensure the increased profitability of the soft drink business via practices that were successful in the beer sector, to take full advantage of all cost reduction opportunities. The bottom line is that "Everyone in Ambev is focused on attaining long-term sustainable results"[12].

A number of factors are involved in pricing shares properly: one of these is corporate transparency. It is no coincidence that AmBev is constantly negotiated at a premium over other companies in our market. Following this example, we would recommend for companies anxious to reduce their costs of capital to consider following the transparency route.

Rio de Janeiro, July 24th, 2003

(11) *Expression used to designate the amount of beer in the total consumption of liquids ingested by Brazilians.*
(12) *Ambev, Annual Report, page. 5.*

Dynamo Cougar x Ibovespa x FGV-100
(in US$ dollars)

Period	DYNAMO COUGAR* Quarter	Year to Date	Since 01/09/93	FGV-100** Quarter	Year to Date	Since 01/09/93	IBOVESPA*** Quarter	Year to Date	Since 01/09/93
1993	-	38,78	38,78	-	9,07	9,07	-	11,12	11,12
1994	-	245,55	379,54	-	165,25	189,30	-	58,59	76,22
1995	-	-3,62	362,20	-	-35,06	87,87	-	-13,48	52,47
1996	-	53,56	609,75	-	6,62	100,30	-	53,19	133,57
1997	-	-6,20	565,50	-	-4,10	92,00	-	34,40	213,80
1998	-	-19,14	438,13	-	-31,49	31,54	-	-38,4	93,27
1999	-	104,64	1001,24	-	116,46	184,73	-	69,49	227,58
1stQuar/00	6,15	6,15	1068,96	11,53	11,53	217,56	7,08	7,08	250,77
2ndQuar/00	-2,43	3,57	1040,57	-6,26	4,55	197,67	-9,03	-2,59	219,10
3rdQuar/00	4,68	8,42	1093,99	0,88	5,47	200,31	-6,10	-8,53	199,63
4thQuar/00	-4,98	3,02	1034,53	-7,69	-2,63	177,23	-10,45	-18,08	168,33
1stQuar/01	-0,98	-0,98	1023,40	-10,06	-10,06	149,33	-16,00	-16,00	125,39
2ndQuar/01	-6,15	-7,07	954,28	-1,76	-11,64	144,95	-3,73	-19,14	116,97
3rdQuar/01	-27,25	-32,40	666,97	-33,81	-41,52	62,12	-36,93	-49,00	36,84
4thQuar/01	38,52	-6,36	962,40	55,88	-8,84	152,71	49,07	-23,98	103,99
1stQuar/02	13,05	13,05	1101,05	3,89	3,89	162,55	-2,76	-2,76	98,35
2ndQuar/02	-19,15	-8,60	871,04	-22,45	-19,43	103,60	-31,62	-33,51	35,63
3rdQuar/02	-22,31	-28,99	654,37	-31,78	-45,04	38,90	-44,17	-62,88	-24,28
4thQuar/02	29,76	-7,86	878,90	38,00	-24,15	91,67	45,43	-46,01	10,12
1stQuar/03	4,47	4,47	922,65	4,63	4,63	100,55	5,39	5,39	16,06

(*) The Dynamo Cougar Fund figures are audited by KPMG and returns net of all costs and fees, except for Adjustment of Performance Fee, if due.
(**) Index that includes 100 companies, but excludes banks and state-owned companies. (***) Ibovespa average.

For any further information, visit our web site:

www.dynamo.com.br

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