MidLarge Cap (MLCX) and Small Cap (SMLL)

BM&FBOVESPA Indexes

BM&FBOVESPA
The New Exchange

BM&FBOVESPA MidLarge Cap Index MLCX

Presentation

Created by BM&FBOVESPA, the BM&FBOVESPA MidLarge Cap Index (MLCX) and the BM&FBOVESPA Small Cap Index (SMLL) were developed to measure the performance of the companies listed in the Exchange segmenting them by market capitalization: the BM&FBOVESPA MidLarge Cap Index measures the return of a portfolio composed by the large and mid market capitalization companies, whereas the BM&FBOVESPA Small Cap Index measures the return of small capitalization companies. The component stocks are selected among the Exchange's most actively traded securities in terms of liquidity, and are weighted according to the outstanding shares' market value (free float).

Shares Eligible for the Index

Companies that together represent 85% of the Exchange's total market value are eligible to participate in MLCX index. The remaining companies that are not included in this universe are eligible to participate in SMLL index. Companies which are issuers of BDRs or which are under judicial reorganization or bankruptcy are not included in the eligible universe.

Criteria for Inclusion in the Portfolio

The indexes portfolios include the stocks that meet cumulatively the following criteria, measured in the twelve months preceding the reevaluation:

- to be included in the group of stocks whose negotiability indexes added represent 98% of the total value of all individual negotiability indexes;
- to have a 100% trading session presence in the period.

The same company can have more than one type of stock included in the portfolio, as long as each stock type meets separately the inclusion criteria.

Companies with less than twelve months of listing will only be eligible if they have more than six months of trading, and if they have a 100% trading session presence measured in the six months preceding the reevaluation.

Criteria for Exclusion from the Portfolio

A share will be excluded from the portfolio, during the periodical reevaluations, if it no longer meets any inclusion criteria.

If, during the life cycle of the portfolio, the issuing company enters a regime of judicial reorganization or files for bankruptcy, its shares will be excluded from the index portfolio. In such cases, the necessary adjustments will be made to ensure the continuity of the index.

Term of the Portfolio

The theoretical portfolios are valid for four months, for the periods of January to April, May to August and September to December.

The portfolios are recalculated at the end of each four-month period, according to the procedures and criteria of this methodology.

Weighting Criterion

MLCX and SMLL indexes measure the return on a theoretical portfolio consisting of the securities that meet all the criteria described above, which are weighted according to the outstanding shares' market value (of the type included in the portfolio), that is, their free float.

The free float excludes the securities held by the controlling group and/or by people linked to them; the securities held by companies' directors; the securities held by the company's treasury; and the special class of preferred stocks that assure differentiated political rights, are untransferable and are held exclusively by the government privatization agency.

The bases for MLCX and SMLL have been set at 1,000 points for the date of April 30th 2008. In order to adapt to the initial base, the portfolios' market value have been adjusted using a reducer (adjustment coefficient), designated by μ in the index formula. That is,

Initial index = Value of portfolio / μ = 1,000

The reducer for the index will be modified whenever necessary to accommodate inclusions or exclusions from the portfolios, on the occasion of the periodical rebalancing or on the occasion of any adjustments arising from benefits/events given by the companies, so that the index is automatically adjusted.

The specific weight of each share in the index may be altered during the term of the portfolio, due to the price evolution of each share and the benefit distribution by the issuing company.

When the issuing companies of component shares distribute benefits, the necessary adjustments will be made to guarantee that the index reflects not only the share price variations, but also the impact of the benefit distribution. Because of this methodology, MLCX and SMLL are considered to be indexes that evaluate the total return of the shares comprising their portfolios.

Index Calculation

BM&FBOVESPA calculates MLCX and SMLL during the regular trading hours, taking into consideration the prices of the last trades carried out on the cash market (round lot) with the component shares of its portfolio.

Suspension of Trading

When a component stock is suspended, it remains in the index at the last traded price before the trading halt. If trading resumes but company is under judicial reorganization or if suspension lasts for more than 30 trading sessions, the stock will be excluded from the portfolio at the end of the first trading day after resumption, at the closing price of that day.

In case there is a rebalancing before the resumption of trading, the stock will remain in the rebalanced portfolio (at the last traded price before trading halt) until trading resumes, when it will be excluded at the closing price of the resumption day. In case trading is still suspended and there is a second rebalancing after the suspension, the stock will be excluded from the portfolio at this second rebalancing at a value equal to zero, and the index value will be reduced in number of points equivalent to the participation of the excluded stock.

Procedures for Rebalancing

In the four-month rebalancing the following procedures will be adopted:

1. The rebalancing of the index's theoretical portfolio will occur after the closing of the last trading session of the four-month period and will adopt the index closing value of this day as its base.

2. Once selection of the companies that will compose the portfolio for the coming four-month period has been concluded, the respective market value of each share is calculated – by multiplying the number of outstanding shares by their closing price –, and the results are summed up. That is, the economic value of the new portfolio is calculated according to the closing prices of the day.

3. The reducer adjusted for the new portfolio is reached by dividing the economic value, calculated in accordance with item 2, by the closing index of the four-month period.

4. The adjustment of the reducer aims to ensure the continuity of the index, in such a way that the number of index points does not change because of rebalancing. Thus, both the division of the "new market value" of the index theoretical portfolio by the new reducer, and the division of the "market value of the previous theoretical portfolio" by its respective reducer, result in the same index in terms of points.

Portfolio´s Previews

Aiming at helping the market participants who use MLCX and SMLL portfolios as instruments to elaborate their investment polices, BM&FBOVESPA regularly discloses three previews of the new compositions 30 days before, 15 days before and 1 day before of the new portfolio for the next four months. In special situations, however, BM&FBOVESPA may anticipate the previews disclosure and/or increase their number.

Index Adjustments

So as to measure the total return on their theoretical portfolios, MLCX e SMLL will be adjusted for all benefits distributed by the issuing companies of the shares composing the portfolio.

Adjustments for benefits in shares of the same type – Bonuses / Splits / Reverse Splits

After the last trading day prior to the benefit distribution, the free float of the component share/type is recalculated. For that purpose, the theoretical quantity adjusted to the distributed benefit and the "ex-theoretical" price (calculated based on the closing price of the last trading session before the ex-date) are used. The value thus obtained will be the basis for comparing the price evolution of this share on the following trading session.

Example:

Let us consider company XPT which distributed a share bonus of 50% on the share type, being D0 the last trading day before the benefit distribution.

Date	Price (R$)	Qty. XPT shares in the index	Market value of XPT share (R$)	Variation (%)	Index (*)
D0 **(1)**	300.00	1,000,000	300,000,000.00	-	100
$D0_A$ **(2)**	200.00	1,500,000	300,000,000.00	-	100
D+1 **(3)**	220.00	1,500,000	330,000,000.00	+ 10.0	110
D+2	230.00	1,500,000	345,000,000.00	+ 4.5	115

(1) Closing position of the component share/type on the last trading day before the benefit distribution, that is, the quantity of shares before distribution of the benefit multiplied by the last asset price registered for that day.
(2) Adjusted closing position of the component share/type on the last trading day before the benefit distribution, that is, considering the new quantity of shares and the "ex-theoretical" price. This data will be used as a basis for comparison for the following day.
(3) Closing position of the component share/type on the first "ex-rights" trading day, taking into consideration the new quantity of shares and the "ex-market" closing price.
(*) If necessary, the index reducer will be adjusted to guarantee that the number of index points suffers no alteration due to the adjustment to the benefit.

In the case of reverse splits, the theoretical quantity will be reduced on the proportion determined by the company and a special "ex-theoretical" price will be calculated in order to maintain the economic value of the component share/type unaltered.

Adjustments for benefits in shares of the same type – Rights Offering

The indexes will only be adjusted for rights offering if the shareholders have preference to buy the new shares, and if the issuance price of the new shares is lower than their ex-theoretical price.

In this case, after the last trading day prior to the benefit distribution, the free float of the component share/type is recalculated. For that purpose, the theoretical quantity adjusted to the proportion of the rights offering and the "ex-theoretical" price are used. The value thus obtained will be the basis for comparing the price evolution of this share on the following trading session.

The index reducer will also be adjusted to guarantee that the number of index points suffers no alteration due to the adjustment for the rights offering. It will be calculated by division of the "new market value" of the theoretical portfolio (new quantity multiplied by ex-theoretical price) by the index closing value of the day of the adjustment.

Benefits in cash or other events

After the closing of the trading session of the last trading day prior to benefit distribution, the free float of the component share/type is recalculated, maintaining the theoretical quantity of this share in the portfolio unaltered and using its "ex-theoretical" price. This value will serve as a basis for comparison of the share price evolution on the following day.

Example:

Let's consider company ABC which distributed a dividend of R$ 30.00 per share, being D0 the last trading day before the benefit distribution.

Date	Price (R$)	Qty. ABC shares in the Index	Market value of ABC share (R$)	Variation (%)	index (*)
(*)					
D0 **(1)**	250.00	1,000,000	250,000,000.00	-	100.0
$D0_A$ **(2)**	220.00	1,000,000	220,000,000.00	-	100.0
D+1 **(3)**	230.00	1,000,000	230,000,000.00	+ 4.5	104.5
D+2	235.00	1,000,000	235,000,000.00	+ 2.2	106.8

(1) Closing position of the component share/type on the last trading day before the benefit distribution, that is, the position calculated with the last price of that day.
(2) Adjusted closing position of the component share/type on the last trading day before the benefit distribution, that is, considering the same quantity of shares and the "ex-theoretical" price. This data will be used as a basis for comparison for the following day.
(3) Closing position of the component share/type on the first "ex-rights" trading day, taking into consideration the "ex-market" closing price.
(*) The index reducer will be adjusted to guarantee that the number of index points suffers no alteration because of the adjustment to the benefit.

Special Procedures

Adjustments in the Case of Company Spin-off

a) Announcement/execution of the spin-off

The announcement of the issuing company's decision to make a spin-off does not alter its situation in the index theoretical portfolio.

Once the spin-off has been made and while awaiting the resulting companies to be operational and registered, these companies will be considered as a trading unit and will remain in the index portfolio.

For the purposes of trading on BM&FBOVESPA, the execution of the spin-off means the act by which the shares of the companies resultant from the spin-off start to be traded on the trading session.

b) Beginning of trading on the stock exchange of the companies resulting from the spin-off

The index theoretical portfolio will include the companies resulting from the spin-off.

For example, company A was spun-off, giving rise to companies B (which holds 45% of the net worth of A), C (which holds 30%) and D (25%). Supposing that the participation of A in the index was 20%, the situations immediately prior to and subsequent to the start of trading of the spun-off companies would be as follows:

Closing of the trading session prior to the start of trading of the spun-off companies:

Component stocks	Free float - share quantity (1)	Share prices (2)	Share weights (1)*(2)	Participation (%) in the index
A	1,000	2.00	20,000,000	20.0
Other stocks	-	-	80,000,000	80.0
Total of stocks	-	-	100,000,000	100.0
Reducer			100,000	
Total index points			1,000	

Opening of the trading session of the first trading date of the spun-off companies:

Component stocks	Free float - share quantity (1)	Share prices (2)	Share weights (1)*(2)	Participation (%) in the index
A	10,000,000	0.90	9,000,000	9.0
B	10,000,000	0.60	6,000,000	6.0
C	10,000,000	0.50	5,000,000	5.0
Other stocks	-	-	80,000,000	80.0
Total of stocks	-	-	100,000,000	100.0
Reducer	-	-	100,000	
Total index points			1,000	

Note: The example supposes that, in the spin-off, there was no reduction in the number of shares, but rather the distribution of shares of the companies resulting from the spin-off, in a quantity equivalent to that previously held. If the deliberation of the company is different the procedures will be adapted, but the logic behind the adjustment will be identical.

c) Next four-month re-compositions

For the selection of the companies/shares that cumulatively meet the criteria for inclusion, the following procedures will be adopted:

- the companies resultant from the spin-off will be treated as a trading unit and their negotiability data will be considered in conjunction with those of the spun-off company for the last twelve months;
- in the next rebalancing, BM&FBOVESPA will exclude from the indexes those shares that fail to present a suitable trading profile, based on their presence on the trading session, number of trades and financial value measured in the

twelve months preceding the rebalancing;

- in order to calculate the individual negotiability index for the last twelve months, the negotiability index of the "unit" will be divided for each share as follows:
    - in the first four months of individual trading: the conjoint negotiability index of the stocks resultant from the spin-off will be divided for each stock according to its price in the last trading session, as follows: i) sum of all individual prices; ii) calculation of the participation of each price in the total sum; and iii) multiplication of the percentage of participation by the conjoint negotiability index;
    - after the first four months of individual trading: the conjoint negotiability index of the stocks resultant from the spin-off will be divided for each stock according to the individual negotiability index calculated for the period, as follows: i) sum of all individual negotiability indexes; ii) calculation of the participation of each negotiability index in the total sum; and iii) multiplication of the percentage of participation by the conjoint negotiability index.

Note: In the case of stocks resultant from a spin-off occurred less than thirty calendar days before the rebalancing date, these stocks will remain in the index portfolio until the second rebalancing when the regular procedures will be applied.

Adjustments in the Case of Tender Offers

Whenever a company launches a public offering that results in the acquisition of a significant proportion of the outstanding shares, BM&FBOVESPA may adopt one of the following procedures:

a) Issuing company announces intention to buy the whole free float

If the price of the public offering is higher than the stock's closing price of the last trading day prior to the auction day, the index will remove all stocks and the company will be excluded from the portfolio, even if the company could not buy all the shares from the market.

b) Issuing company announces intention to buy part of its free float

If the price of the public offering is higher than the stock's closing price of the last trading day prior to the auction day, depending on the result of the auction BM&FBOVESPA may adopt one of the following procedures:

- if there is no proportional distribution: the index will remove from the portfolio the percentage announced by the company, even if the company could not buy all the announced quantity;
- if there is proportional distribution: the index will remove the proportional distribution percentage determined to each participant of the auction applied over the share percentage announced by the company. For example, the company announces that will buy 1/3 (one third) of its free float, but receives from the shareholders sell offers for 2/3 (two thirds) of the total free float; in this case, each shareholder will be able to sell only half of the stocks it proposed to sell, that is, 1/6 (one sixth) of its sell offer. Therefore, the index will remove 1/6 (one sixth) of the total quantity included in the portfolio.

Adjustments in the Case of Primary and Secondary Offerings

The theoretical quantity of the stock will be altered to reflect the new free float, after the closing of the third trading session after the beginning of trading of the new shares.

Adjustments in the Case of Mergers and Acquisitions

a) Company with shares included in the index mergers with/acquires company whose shares also belong to the index

- Acquisition through shares: the shares of the incorporating company will remain in the index and its theoretical quantity will be altered to reflect the new free float, and the shares of the incorporated company will be excluded from the index (no other stock is included in substitution of the incorporated company).
- Acquisition through cash: the shares of the incorporating company will remain in the index and its theoretical quantity will remain unaltered, and the shares of the

incorporated company will be excluded from the index.
- In the case of a merger which results in a new company, the merged companies will be excluded and will be substituted by the shares of the new company when it is listed on the exchange.

b) Company with shares included in the index mergers with/acquires company whose shares do not belong to the index

The shares of the incorporating company remain in the index and its theoretical quantity remains unaltered, that is, the increase in its free float resultant from the acquisition will only be considered in the next four-month reevaluation.

c) Company with shares included in the index is incorporated by a company whose shares are not included in the index

The shares of the incorporated company are excluded from the index when delisted from the exchange, and its participation in the portfolio is redistributed among the other component stocks. It is important to emphasize that BM&FBOVESPA will analyze every situation on a case-by-case basis and will, if deemed appropriate, include the shares of the incorporating company in the index.

Adjustments in the Case of Exchange Offers

a) Offer to exchange stocks included in the index by stocks from another company not included in/not belonging the index

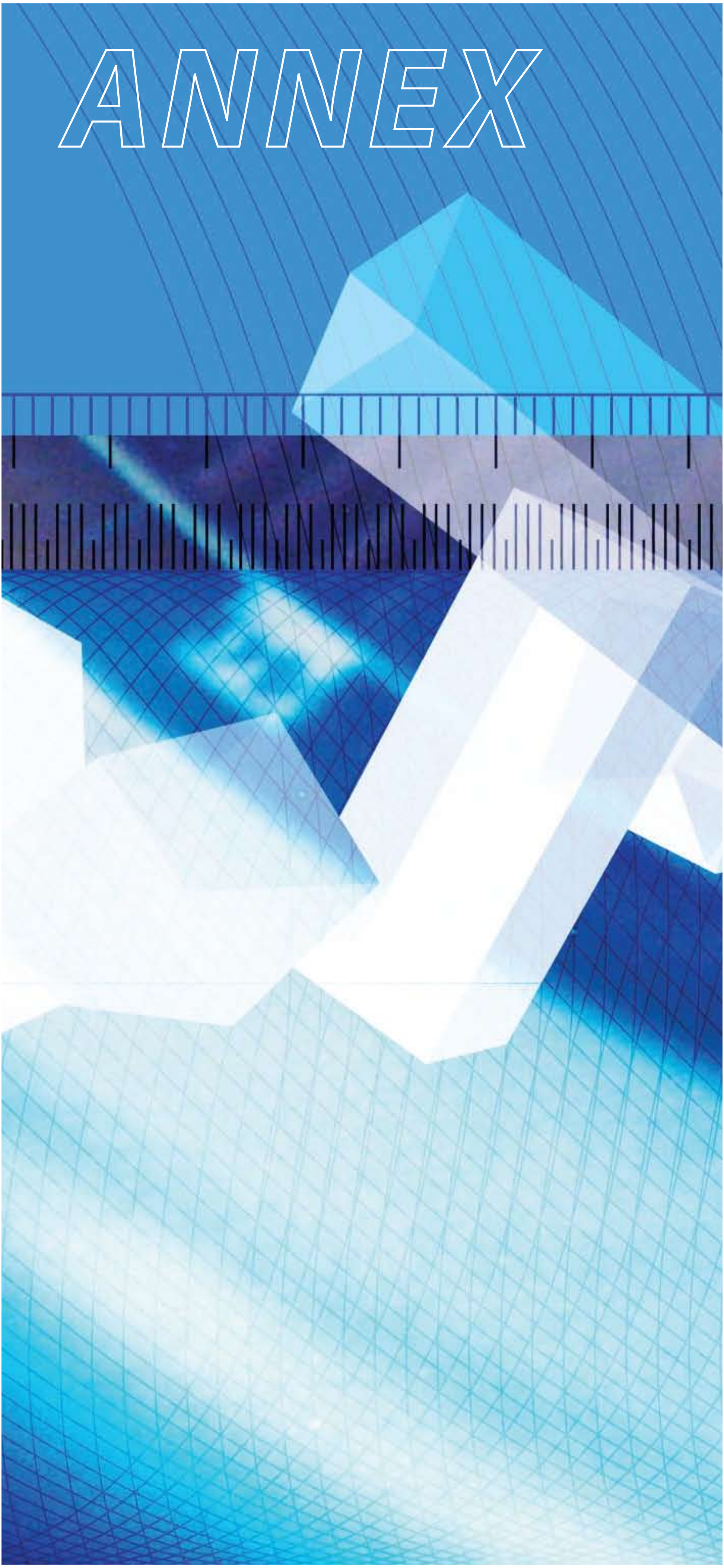
The shares of the component company are excluded from the index when delisted from the exchange, and its participation in the portfolio is redistributed among the other component stocks.

b) Offer to exchange stocks included in the index by other type of stock from the same company (for example, preferred stocks by common stocks)

The type of the stock included in the index is substituted by the type received, and its theoretical quantity is altered according to the exchange ratio.

Note: If necessary, the index reducer will be adjusted and the new share quantities will be used. Also, on the occasion of the four-month reevaluations, the negotiability data of the incorporated company will be added to those of the incorporating company.

ANNEX



CALCULATION FORMULA AND PROCEDURES

Negotiability Index

The negotiability index is calculated according to the following formula:

$$IN = \sqrt{\frac{ni}{N} * \frac{vi}{V}}$$

where:

IN = negotiability index
n_i = number of trades carried out with stock "i" on BM&FBOVESPA cash market (round-lot)
N = total number of trades carried out on BM&FBOVESPA cash market (round-lot)
v_i = financial value generated by the trades carried out with share "i" on BM&FBOVESPA cash market (round-lot)
V = total financial value of BM&FBOVESPA cash market (round-lot)

Note: In the calculation of the negotiability index, cross trades are not considered.

MLCX and SMLL Calculation Formula

MLCX and SMLL may be calculated using the following formulas:

a) without using the reducer:

$$\text{Index}_{(t)} = \text{Index}_{(t-1)} * \frac{\sum_{i=1}^{n} Qi_{t-1} * Pi_t}{\sum_{i=1}^{n} Qi_{t-1} * Pi_{t-1}}$$

where:

$Index_{(t)}$ = index value on day "t"
$Index_{(t-1)}$ = index value on day "t-1"
n = number of shares included in the index theoretical portfolio
Qi_{t-1} = theoretical quantity of share "i" available for trading on day "t-1". In the event of distribution of shares of the same type by the company, it refers to the theoretical quantity of share "i" available for trading on day "t–1", recalculated because of such benefit.
Pi_t = price of share "i" at closing of day "t"
Pi_{t-1} = closing price for share "i" on day "t-1", or its ex-theoretical price, in the case of benefit distribution on this day.

b) using the reducer:

$$\textbf{Index}_t = \frac{\text{Portfolio's total value}}{\text{Reducer}} = \frac{\left(\sum_{i=1}^{n} Pi_t * Qi_t\right)}{\alpha}$$

where:

$Index_{(t)}$ = index value at moment "*t*"
n = total number of companies (in the share/type) included in the index theoretical portfolio
Pi_t = last price of share "*i*" at moment "*t*"
Qi_{t-1} = quantity of share "*i*" in the theoretical portfolio at moment "*t*"
α = reducer used to adjust the index value to the current base

Adjustment Procedure for Benefits

The theoretical quantities of the companies in the share/type (i.e. their number of outstanding shares) will remain constant during the portfolio's year term, and will only be altered in the event of benefit distribution in shares of the same type by the issuing companies (bonuses, splits, reverse splits, subscription, etc.).

The adjustment of the theoretical quantities in the exact proportion to the distributed benefit is carried out after the closing of BM&FBOVESPA's trading session, on the last day prior to the ex-date of the corporate action.

The following formula is used:

$$\mathbf{Q_n = Q_a * (1 + B + S)}$$

where:

$\mathbf{Q_n}$ = adjusted share quantity
$\mathbf{Q_a}$ = previous share quantity
$\mathbf{B}$ = percentage of bonus and/or split, in index number
$\mathbf{S}$ = percentage of subscription, in index number

In the event that an approved benefit is partially homologated, or is not homologated, the quantity of shares in the portfolio will be proportionally reduced to reflect the real quantity of outstanding shares.

This adjustment will be carried out on the trading session after the date of receipt, by BM&FBOVESPA, of the communication expedited by the issuing company providing information of these facts. The index reducer will be adapted so that the index value suffers no alteration.

General Formula for Calculation of the "Ex-theoretical" Price

$$Pex = \frac{Pc + (S * Z) - D - J - Vet}{1 + B + S}$$

where:

$\mathbf{P_{ex}}$ = ex-theoretical price
$\mathbf{P_c}$ = last price before the benefit distribution
$\mathbf{S}$ = percentage of subscription, in index number
$\mathbf{Z}$ = issuing value of the share to be subscribed, in Brazilian currency
$\mathbf{D}$ = dividends received per share, in Brazilian currency
$\mathbf{J}$ = interest on capital, in Brazilian currency
$\mathbf{V_{et}}$ = theoretical economic value per share, resulting from benefits distributed in another share type/asset
$\mathbf{B}$ = percentage of bonus (or split), in index number

Note: The V_{et} is calculated considering the financial amount which would be obtained from the sale of shares of another type and/or other assets (debentures, shares of another company, etc.) received. For example, suppose that company A is distributing to its shareholders, free of charge, one share of company B for every two shares held of company A, and that the shares of company B are evaluated at $ 5.00/share. In this case, the Vet will be equal to $2.50.

DISCLAIMER

This publication is provided for information purposes only, not consisting in an investment advice.

To find out more information, contact an authorized intermediary. They can assist you to evaluate the risk and potential benefits of investing in the capital markets. Non-residents in Brazil may be subject to country-specific restrictions.

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