

## 1. INTRODUCTION

The purpose of this Manual is to provide information and awareness to employees and agents of Companhia Brasileira de Metalurgia e Mineração (“CBMM”), allowing the identification and prevention of risks related to antitrust law.

This Manual is intended for frequent use as an aid whenever there are doubts regarding business conduct and contacts with competitors, clients and suppliers. If still in doubt, please contact the Legal Department.

## 2. ANTITRUST LAW

The purpose is to promote free competition and free initiative in all sectors of the economy. The preservation of free competition guarantees that consumers have access to goods and services with the best possible quality at the lowest possible price, obligating companies to continuously invest in the quality of their products and efficiency in their production processes.

In general, the antitrust authorities operate on two fronts: (i) in the control of structural alterations of the market, that is, analyzing transactions between companies that could somehow affect the competition dynamic of a specific segment (“merger control”) and (ii) in the repression of anticompetitive conduct.

## 3. WHY COMPLY WITH THE ANTITRUST LAWS?

In addition to the obvious practical difficulties and costs related to an investigation (fees of counsel, court costs, time and involvement by the management), a court decision for an antitrust violation carries an immeasurable cost in terms of reputation: the good image of CBMM before its clients and suppliers may be irreparably damaged due to a court decision for anticompetitive practices – or even due to mere involvement in investigations of this nature – which can lead to a loss of credibility. Likewise, antitrust investigations can also lead individuals to face extremely undesirable situations in their family or social circles, subjecting them to administrative and criminal penalties.

### ***a) Companies***

Sentenced companies are subject to the following administrative sanctions, according to the Brazilian law:

- √ Fine of 0.1 to 20% of gross sales for the last financial year in the field of corporate activity in which the violation occurred. The amount of the fine cannot be lower than the advantage obtained with the anticompetitive practice.

- √ Publication of the summary of the convicting decision in a widely-circulated newspaper.
- √ Prohibition from contracting official financial institutions and participating in public tenders with the Public Administration for a term of no less than five years.
- √ Registration in the Brazilian Consumer Defense Registry (Cadastro Nacional de Defesa do Consumidor).
- √ Compulsory licensing of patents owned thereby.
- √ Loss of tax incentives and public subsidies.
- √ Spin-off of the company, transfer of share control, sale of assets, partial ceasing of activities, or any other act or measure necessary to eliminate the effects harmful to the economic order.

#### ***b) Individuals***

Sentenced individuals are subject to the following administrative sanctions, according to the Brazilian legislation:

- √ Fine of 1 to 20% of the amount of the fine applied to the company, of personal and exclusive liability, in case the manager is directly or indirectly responsible for the violation committed.
- √ Fine of R\$ 50,000.00 to R\$ 2 billion, in the case of other individuals who do not hold management or administration positions in the company.
- √ Prohibition from performing commerce on its own behalf or as the representative of a company, for a term of up to five (5) years.

*Cartel is crime!* Penalties can vary from 2 to 5 years imprisonment AND a fine.

*INDEMNIFICATION CLAIMS:* An adverse award for antitrust violations not only results in administrative penalties on one part, and criminal penalties on the other, but can also result in indemnification claims filed by consumers, suppliers and competitors financially injured by the violation committed by the companies and individuals sentenced.

#### **4. POCKET GUIDE: Good Practices**

- ◆ NEVER enter into or allow anyone to enter into with competitors, formally or informally, verbally or in writing, any type of commitments intended to reduce competition or commitments related to prices, quantities, areas of operation, sales conditions, technological innovations or any other business variables, such as costs, installed or idle capacity, product types, technological innovations, competitive differentials.
- ◆ NEVER discuss, share or allow anyone to discuss or share with competitors, verbally or in writing, historical or future information on prices, quantities, areas

of operation, sales conditions, technological innovations or any other information of a business nature, such as costs, installed or idle capacity, types of products, technological innovations, competitive differentials, among others, on any level. If you are present in a meeting when this type of discussion occurs between third parties, protest and record your exit in the minutes.

- ◆ NEVER refuse to supply a product to a client without economic justification and support.
- ◆ NEVER condition, explicitly or implicitly, the sale of a product or service to the sale of another product or service.
- ◆ Do not grant discounts that are not justified by costs.
- ◆ NEVER enter into exclusivity agreements with clients or suppliers that can compromise a relevant portion of the market and harm competition;
- √ BE CAREFUL while preparing internal or external documents and communications;
- √ REMEMBER that the antitrust laws of other countries can also be applied to CBMM and that an investigation started in one country shall result in investigations in other locations;
- √ ALWAYS ensure that all business decisions are made independently and to the exclusive benefit of CBMM, its collaborators and its clients and suppliers;
- √ ALWAYS ensure that meetings with competitors are guided by a clear and legitimate agenda and that the minutes reflect the content of the meeting;
- √ ALWAYS ensure that the business policies of CBMM present legitimate economic justifications, previously consulting the Legal Department whenever necessary.
- √ ALWAYS ensure that the people acting on behalf of CBMM before third parties (such as commercial representatives) are aware of and observe the antitrust legislation and the guidelines by CBMM regarding the matter.
- √ ALWAYS consult the Legal Department in case of doubt or concern regarding the convenience or lawfulness of a practice.
- √ ALWAYS immediately report to the Legal Department upon becoming aware of any activity that appears inconsistent with the guidelines of this Manual.

## 5. POCKET GUIDE: Preparation of Documents

It is very important that all documents prepared internally, including emails, letters and any type of communication, including telephone communications, are clear and duly contextualized in order to avoid the risk of “false appearances” and incorrect interpretations. To do so:

Think BEFORE you write. It is important to use common sense in internal and external communications. Any documents which are incongruent or contain dubious language may be extremely harmful within the context of an investigation.

*Be careful with your words.* Avoid excessive use of euphemisms and adjectives. Always write in the clearest manner possible, reflecting reality with care in order to avoid individual, and not necessarily correct, interpretations.

**Guidelines:**

- √ ALWAYS pay double attention when referencing competitors, competition, market information and prices:
  - Market information and sensitive data must always have their source clearly mentioned.
  - Do not use words with a specific legal meaning, such as, for instance, “relevant market”, “market power”, “dominant position” and “tie-in sale”.
  - There is no problem in making reference to aggressive competition, but it is necessary to exercise care in order to avoid inferences to predatory competition. Do not use terms such as, “annihilate”, “eliminate”, “destroy”, “monopolize”, “conquer”, “dominate” and “break”.
  - Never make reference to “gentleman’s agreements,” “truces with agents”, “betrayal of the agreement”, or “recant your statements”, among others.
  - Do not use phrases that call attention, such as: “delete after reading”.
- √ ALWAYS presume that the document will be read by an authority. In an investigation, no document is private. The basic rule is: don’t say or write anything you would not like to see published in a court decision or on the front page of the news.
- √ ALWAYS pay attention to exaggerations, euphemisms, brief statements that may be misinterpreted and jokes regarding market matters.
- ◆ NEVER supply third parties with any information related to:
  - Current or future price strategies (including discounts and other price components) for specific products;
  - Information on the terms of agreements with clients and suppliers;
  - Detailed information on prices and costs;
  - Current and future promotion and marketing strategies;
  - Information on the development of products and innovations.
- √ REMEMBER that no document is private in case of a possible investigation.
- √ REMEMBER that the recommendations above also apply to telephone conversations.

## 6. POCKET GUIDE: Participation in Trade Associations

### a) Before the Meeting:

- √ Verify the matters to be discussed at the meeting and, if necessary, consult the Legal Department regarding the legality of the matters to be addressed;
- √ Verify who will be present at the meeting;
- √ Ensure, whenever possible, that the representative of CBMM is not an employee of the commercial or sales sector;

- √ If possible, only participate in “formal” meetings and avoid informal meetings before and after the meeting;
- √ Recommend that the Trade Association or Union publish the agendas and order of the day for meetings;
- √ Verify if the Trade Association or Union adopts clear member admission and exclusion criteria.

**b) During the Meeting:**

- √ Ensure that someone is preparing the minutes or taking notes of the matters discussed at the meeting;
- √ Keep to the matters in the order of the day.
  - Avoid any discussion regarding any sensitive competition information, such as: prices; biddings; margins/cost; capacity; market interest; clients; sales and marketing strategies; and
  - Allocation of businesses.
- √ If it is necessary to provide CBMM data to the Trade Associations or Unions, ensure such data is of a public nature or, if not, adopt the following precautions: (i) provide the data in an aggregate manner, (ii) provide only historic data, collected in the past (generally one year in advance, but, depending on the market dynamic, such data may be more recent); or (iii) provide the data through a confidential mechanism for depositing information, under the responsibility of an external and independent audit;
- √ If you feel uncomfortable with the matters discussed during the meeting, express your discomfort and ask to return to the matters on the agenda;
- √ Certify that your objection is recorded in the minutes or, at least, in your notes;
- √ If the discussion persists, remove yourself from the meeting and ensure your exit is recorded in the minute or at least in your notes. If this is not done, seek the Legal Department.

**c) After the Meeting:**

- √ Discuss any concern arising from the meeting with the Legal Department.
- √ If the concern persists, send an email containing a summary or the minutes of the meeting to the meeting organizer and the participants, clarifying your discomfort with the matters discussed and the moment you exited the meeting (prior to sending the email to the meeting organizer and participants, revise the draft of the email with the Legal Department).
- √ Avoid unnecessary contacts/meetings with members of the Association in order to avoid any opportunity to exchange undue information and possible suspicion regarding your behavior.

## **7. POCKET GUIDE: Search and Seizure**

In case of surprise inspections or measures for the search and seizure of documents by the authorities:

- √ Make emergency contact with the persons indicated on the list provided by the Legal Department and, to the extent possible, await the arrival of the attorneys or responsible individuals indicated;
- √ If no representative of the Legal Department is available to do so, always verify the identification (functional identity) of the civil servants requesting access to the facilities of CBMM, without any type of hostility. Verify if the objectives and details of the search and seizure order and only then allow the authorities access to the facilities of the company;
- √ Do not allow the authorities to transit unaccompanied throughout the company. Certify that an employee of CBMM is always accompanying them. Offer the authorities a reserved room (such as a meeting room, for example), and suggest that the documents to be analyzed be taken to this room;
- √ Seek the guidance of an attorney regarding the need to respond to any question orally formulated by the authorities, including regarding the location of files or documents. Avoid, to the maximum extent possible, talking to the authorities and do not provide your personal opinion regarding any matter, even if informally;
- √ Do not destroy any documents, not even electronic files. Also, remember that such documents can almost always be recovered by computer technicians or experts;
- √ Only make available to the authority's documents produced by attorneys or external consultants of the company under the guidance of an attorney;
- √ Observe and take note of all questions made by the authorities;
- √ Request a list of the documents and assets collected by the authorities and provide copies and back-ups;
- √ Maintain discretion and confidentiality over the inspection procedure until advised by the attorney. Do not speak to third parties regarding the procedure. Only authorized persons may communicate with the press;
- √ Keep calm and seek to maintain the serenity of the environment.

## **8. ANTICOMPETITIVE CONDUCT**

Technically speaking, any conduct that can limit or harm competition in any way, regardless of fault, intent or the production of effects, is punishable within the administrative sphere and is therefore prohibited. Anticompetitive conduct can occur unilaterally, through the abuse of market power by a certain company, or through an agreement between competitors (cartels).

### ***(i) Unilateral Conduct***

The market power of a company is a key concept in the analysis of potentially negative effects of a given conduct on the market. The practices and policies of companies that hold market power have a much greater potential to negatively or positively affect the competition. Market power is the “ability to impose, in a lucrative manner, small, yet significant and permanent, increases in price”.

The concept of market power may be referred to in various forms: “dominant position”, “monopoly power”, “price maker”, among others. In Brazil, market power is presumed whenever a company or group of companies controls 20% or more of a certain market. This percentage may be altered by the authority according to specific sectors of the economy.

It is important to clarify that the conquer of market share resulting from a natural process of greater efficiency of the company compared to its competitors is not an antitrust violation, the problem lies in the abuse of this market power. The exercise of unilateral manipulation of market conditions can characterize abuse and, only then, be subject to prosecution by the antitrust bodies.

The policies and practices of CBMM before its competitors, clients and suppliers must always be handled with great care, observing the limits imposed by the antitrust law, in view of the characteristics of the markets in which it operates and its market shares.

The two main negative competition effects associated with unilateral conduct are (i) market foreclosure and (ii) increase of rivals’ costs.

- √ Market Foreclosure (exclusion): This occurs when competitors are denied access to a significant portion (normally understood as greater than 30%) of the distribution network and clients (in relation to the demand) or the purchase of inputs (in relation to the supply), as a result of the conduct by the dominant company. The classic examples of potentially problematic conduct are the exclusivity agreements with clients or suppliers;
- √ Artificial increase of the barriers to entry or expansion of competitors (increasing rivals’ costs): This occurs when competitors are relegated to knowingly less efficient distribution channels or input suppliers (greater costs, less benefits) as a result of conduct by the dominant company. An example of potentially problematic conduct consists of monopolizing the production of the main suppliers, making access to raw materials difficult and increasing the costs for its rivals since they are forced to seek other, more costly, sources.

### ***(ii) Agreements between Competitors (Cartels)***

Cartels are formal or informal agreements which reduce the level of competition in the market. They represent the most serious anticompetitive conduct, being characterized as “the classic villain of the right to competition”, since they only generate negative effects, without any increased economic efficiency, and are thus extremely harmful to the wellbeing of consumers, increasing the final price of products and stimulating the inefficiency of economic agents. Typical cartel examples (the so-called classic or hard core cartels) involve market or area of operation division agreements, explicit price fixing or the maintenance of market interests.

The practice of a cartel can take countless forms, all equally illegal. It can simply occur through understandings or a simple exchange of information regarding prices and margins, quantities produced, installed capacity, the allocation of clients or regions of operation, definition of winning bidders in public or private biddings, boycott of suppliers seeking a decrease in the acquisition price of inputs, among others.

The punishment for the practice of a cartel is not contingent on evidence of the existence of an express and duly delivered “agreement” and, by rule, also does not rely on the isolated sales or market share of the competitors involved. An adverse award for the practice of a cartel occurs through the joint observation of the market structure, associated with the existence of indications of such behavior by the competitors and the existence of contact between them. Within this context, in certain markets, the verification of frequent contacts between competitors, in and of itself, is already sufficient to raise suspicions, even if it is not individually sufficient to result in sentences.

Within this context, despite being necessary and organized for legitimate and legal purposes, trade associations and unions are frequently involved in investigations and even conviction resulting from this type of antitrust violation. Trade associations provide a proper environment for the exchange of relevant competition information for suspect purposes and, therefore, participation in these associations requires particular attention on the part of its members. It must be remembered that, even if many of the participants of an association do not act in an anticompetitive manner within the context of the association, the information exchanged in these types of meetings are very sensitive.

## **9. APPENDICES**

Appendix 1 – History of Revisions.



**HISTORY OF REVIEWS**  
**APPENDIX 1**

Nº: ADM-DECE-08

Version: 2.0

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VERSION	ITEM	HISTORY OF REVIEW	REVIEW DATE
1.0	All	Issuance of document.	14.12.17
2.0	-	There is no change in the content of the document. The new version was generated only for SAP system training record.	13.02.20