

DEDUCTIBILITY OF INTEREST AND OTHER FOREIGN REMITTANCES

A - Remittance of interest

- 1 - The interest paid to related parties resident or domiciled abroad will be deductible at the determination of the tax basis IRPJ (Corporate Income Tax) and CSLL (Social Contribution on Net Income), whenever these payments are necessary to the company activities and cumulatively if:
 - 1.1 - The interest is paid to related parties, individuals **or legal entities**, resident or domiciled abroad, not established in a tax-favored country or having tax-favored regime and **having equity interest** in a legal entity resident in Brazil (direct equity interest), as long as the amount of indebtedness at the appropriation of the interest is not greater than twice the equity interest amount of all related parties in the net worth of the legal entity resident in Brazil;
 - 1.2 - The interest is paid to related parties, individuals **or legal entities**, resident or domiciled abroad, not established in a tax-favored country or having tax-favored regime and **not having equity interest** in a legal entity resident in Brazil (direct equity interest), as long as the amount of indebtedness at the appropriation of the interest is not greater than twice the equity interest amount of all related parties in the net worth of the legal entity resident in Brazil; N.B.:
 - a) In both cases mentioned above, the sum of the indebtedness incurred with related parties abroad may not be greater than twice the sum of the equity interest amount of all related parties in the net worth of the legal entity resident in Brazil;
 - b) In case the indebtedness is incurred with related parties abroad that have no equity interest in the legal entity resident in Brazil, the sum of the indebtedness incurred with the related legal entities abroad may not exceed twice the net worth of the legal entity resident in Brazil.
 - 1.3 - The interest is paid to related parties, individuals or legal entities, resident or domiciled abroad, not established in a tax-favored country or having tax-favored regime, as long as the sum of the total indebtedness incurred with entities located in a tax-favored country or jurisdiction or having a privileged tax regime does not exceed 30% of the net worth of the legal entity resident in Brazil.
- 2 - All financing forms and terms will be considered for the calculation of the indebtedness, regardless of contract registration at the Central Bank of Brazil (BACEN).
- 3 - All indebtedness operations of the legal entity resident or domiciled in Brazil, in which the guarantor, endorser, proxy or any other intervening party is a related party resident or domiciled abroad, whether being quota holder/ shareholder or not, will be considered for the calculation of the indebtedness.
- 4 - In case of indebtedness above the limit established in article 1, the amount of surplus interest will be considered as unnecessary expense or cost, therefore nondeductible for the purpose of the tax basis of IRPJ and CSLL.

B - Other remittances

- 1 - The amount paid, credited, delivered, employed or remitted in any way, directly or indirectly, to individuals or legal entities resident or established abroad and subjected to a treatment of a tax-favored country or jurisdiction or having a privileged tax regime is not deductible in the determination of the tax basis of IRPJ and CSLL.
- 2 - The above mentioned is applicable, unless the following conditions are presented, cumulatively:
 - 2.1 - Identification of beneficiary of the entity abroad, receiver of such amounts;
 - 2.2 - Proof of operational capacity of the individual or legal entity abroad to carry out the transaction; and
 - 2.3 - Substantiating documentation of payment of the respective price and receipt of the goods, rights or the use of the service. N.B.:
 - a) The beneficial owner abroad of the remitted amounts is the individual or legal entity that has not been established with the sole purpose of taxation economy and that obtains these values by itself and not as an agent, trustee or proxy for a third party.
 - b) The operational capacity of the individual or legal entity abroad to perform the transactions is not applicable if:
 - b.1) The transactions have not been performed with the sole purpose of taxation economy;
 - b.2) The transactions whose beneficiary of the amounts paid, credited, delivered, employed or remitted on the basis of interest is a wholly-owned subsidiary, office or branch of the sender legal entity domiciled in Brazil and whose profits are taxed by controlled or associated companies on the date of the balance sheet in which they were ascertained (taxed in Brazil for the purpose of the determination of the tax basis of IRPJ and CSLL).