



Financial Statements

December 31, 2007 and 2006

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A free translation from Portuguese into English of Report of Independent Auditors on financial statements prepared in Brazilian currency and in accordance with accounting practices adopted in Brazil.

REPORT OF INDEPENDENT AUDITORS

**To the
Board of Directors and Shareholders of
Videolar S.A.**

1. We have audited the accompanying balance sheets of Videolar S.A., as of December 31, 2007 and 2006 and the related statements of income, shareholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

2. Except for the matter mentioned in paragraph 3, we conducted our audits in accordance with generally accepted auditing standards in Brazil, and included: (a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Company; (b) the examination, on a test basis, of the documentary evidence and accounting records supporting the amounts and disclosures in the financial statements; and (c) an assessment of the accounting practices used and significant estimates made by management of the Company, as well as an evaluation of the overall financial statement presentation, taken as a whole.

3. The financial statements of subsidiary Transvat Transportadora Ltda. for the years ended December 31, 2007 and 2006 were not audited by us. Accordingly, we were not able to form an opinion on the fairness of the balances related to this investment as of December 31, 2007 and 2006 and to the corresponding equity pickup for the years then ended, based on the shareholders' equity of this subsidiary, as mentioned in Note 7 to the financial statements.

4. In our opinion, except for the adjustments, if any, that might result from the audit of the investment mentioned in paragraph 3, the financial statements referred to in paragraph 1 above present fairly, in all material respects, the financial position of Videolar S.A. as of December 31, 2007 and 2006, the results of its operations, changes in its shareholders' equity and changes in its financial position for the years then ended in accordance with the accounting practices adopted in Brazil.

Manaus, February 1, 2008

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BALANCE SHEETS

December 31, 2007 and 2006
(In thousands of reais)

ASSETS	2007	2006
Current assets		
Cash and cash equivalents (Note 4)	42,329	123,996
Trade accounts receivable (Note 5)	62,491	90,612
Allowance for doubtful accounts	(16,015)	(11,229)
Recoverable taxes	4,376	7,619
Prepaid taxes	15,453	14,700
Inventories (Note 6)	190,939	122,775
Prepaid expenses	619	628
Deferred income and social contribution taxes (Note 14)	9,752	4,798
Other accounts receivable	4,048	14,729
Total current assets	313,992	368,628
Noncurrent assets		
Long-term assets		
Deferred income and social contribution taxes (Note 14)	6,861	5,237
Total long-term assets	6,861	5,237
Permanent assets		
Investments (Note 7)	1,316	1,076
Property, plant and equipment (Note 8)	340,648	320,167
Total permanent assets	341,964	321,243
Total noncurrent assets	348,825	326,480
Total assets	662,817	695,108
LIABILITIES AND SHAREHOLDERS' EQUITY	2007	2006
Current liabilities		
Loans and financing (Note 9)	676	8,321
Trade accounts payable	63,548	72,126
Payroll and related charges	9,669	10,989
Taxes and contributions payable	16,997	7,907
Royalties payable (Note 11)	20,212	8,351
Dividends payable	-	8,580
Interest on shareholders' equity (Note 12)	694	5,548
Deferred income and social contribution taxes (Note 14)	31	4,094
Other accounts payable	10,286	8,424
Total current liabilities	122,113	134,340
Noncurrent liabilities		
Deferred income and social contribution taxes (Note 14)	305	327
Loans and financing (Note 9)		688
Provision for contingencies (Note 10)	11,076	6,604
Total noncurrent liabilities	11,381	7,619
Shareholders' equity (Note 12)		
Capital	304,758	243,098
Capital reserves	167,152	212,842
Revaluation reserves	659	8,583
Income reserves	56,754	88,626
Total shareholders' equity	529,323	553,149
Total liabilities and shareholders' equity	662,817	695,108

See accompanying notes.

STATEMENTS OF INCOME

Years ended December 31, 2007 and 2006
(In thousands of reais, except earnings per share)

	2007	2006
Gross sales	1,205,177	1,390,758
Taxes, contributions and returns	(188,748)	(238,599)
Net sales	1,016,429	1,152,159
Cost of goods sold and services rendered	(769,655)	(875,958)
Gross profit	246,774	276,201
Operating expenses		
Administrative/human resources expenses	(32,440)	(27,848)
Selling/logistics expenses	(69,226)	(64,984)
Industrial/technology expenses	(87,277)	(74,406)
Financial income (Note 13)	26,541	26,738
Financial expenses (Note 13)	(34,662)	(32,715)
Equity pickup in subsidiaries (Note 7)		(5,451)
Other operating income, net	633	646
Operating income	50,343	98,181
Nonoperating loss, net	(711)	(989)
Income before income and social contribution taxes and employee profit sharing	49,632	97,192
Income and social contribution taxes – current (Note 14)	(43,218)	(24,035)
Income and social contribution taxes – deferred (Note 14)	6,577	4,230
Income before employee profit sharing	12,991	77,387
Employee profit sharing		(1,815)
Net income before reversal of interest on shareholders' equity	12,991	75,572
Reversal of interest on shareholders' equity	10,606	12,287
Net income for the year	23,597	87,859
Number of outstanding shares at year end	815,907	815,907
Earnings per share (R\$)	28.92	107.68

See accompanying notes.

STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2007 and 2006

(In thousands of reais)

	Capital reserves			Income reserves			Total
	Capital	ICMS incentive	Income tax incentive	Revaluation reserve	Legal reserve	Retained earnings	
Balances at December 31, 2005	114,949	265,812	57,697	17,823	8,736	75,319	540,336
Dividends paid related to prior years						(75,134)	(75,134)
Capital increase according to Annual and General Meeting on April 25, 2006	128,149	(70,452)	(57,697)				
Income tax incentive			17,482				17,482
Realization of revaluation reserve				(9,240)		12,713	3,473
Net income for the year						87,859	87,859
Management proposal for allocation of net income:							
Interest on shareholders' equity						(12,287)	(12,287)
Legal reserve – 2006					4,393	(4,393)	
Proposed dividends						(8,580)	(8,580)
Balances at December 31, 2006	243,098	195,360	17,482	8,583	13,129	75,497	553,149
Dividends paid related to prior years						(56,693)	(56,693)
Capital increase according to Annual and General Meeting on April 26, 2007	61,660	(44,178)	(17,482)				
Income tax incentive			15,970				15,970
Realization of revaluation reserve				(7,924)		11,830	3,906
Net income for the year						23,597	23,597
Management proposal for allocation of net income:							
Interest on shareholders' equity						(10,606)	(10,606)
Legal reserve – 2007					1,180	(1,180)	
Balances at December 31, 2007	304,758	151,182	15,970	659	14,309	42,445	529,323

See accompanying notes.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2007 and 2006

(In thousands of reais)

	2007	2006
WORKING CAPITAL PROVIDED BY:		
Operations:		
Net income for the year	23,597	87,859
Items not affecting working capital:		
Equity pickup in subsidiaries		5,451
Deferred income and social contribution taxes	(1,624)	(2,044)
Exchange and monetary variation and long-term interest, net		469
Provision for contingencies	4,472	6,013
Net book value of permanent assets disposed of	15,388	37,838
Depreciation	54,038	37,247
	95,871	172,833
Third parties:		
Income tax incentive reserve	15,970	17,482
	111,841	190,315
WORKING CAPITAL USED FOR:		
Dividends paid related to prior years	56,693	75,134
Proposed dividends for the current year		8,580
Interest on shareholders' equity	10,606	12,287
Acquisition of property, plant and equipment	86,023	69,180
Investments	240	12,473
Transfer from noncurrent to current liabilities	688	8,692
Increase in long-term assets		2,265
	154,250	188,611
Total working capital used	154,250	188,611
(Decrease) Increase in working capital	(42,409)	1,704
Represented by:		
Current assets:		
At the end of the year	313,992	368,628
At beginning of the year	368,628	370,511
	(54,636)	(1,883)
Current liabilities:		
At the end of the year	122,113	134,340
At beginning of the year	134,340	137,927
	12,227	3,587
(Decrease) Increase in working capital	(42,409)	1,704

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

(In thousands of reais)

1. OPERATIONS

Videolar S.A. ("Videolar" or the "Company") offers integrated product and service solutions for several entertainment companies, from large Hollywood studios to independent film distributors and phonographic segment industries. In addition to manufacturing the media and the related packaging, the Company provides a complete services and distribution chain, which verticalizes the entire production process (Authoring, Masterization, Duplication, Replication, Translation, Subtitling, Inventory Control, Storage, Billing, Handling, Distribution Logistics, and After-Sales Service). It also operates in the plastic resin segment (polystyrene) for clients of the Electric and Electronic, Plastic, Disposable Materials and Food industries, among others. It is an important manufacturer of Taped Media (CD and DVD) and Blank Media (CD-R, DVD-R, floppy disks, audio and video tapes), with the Nipponic® and Emtec® brands. Because it counts on well-known clients in the entertainment area, it was able to reach the end consumer, offering its ample and diversified catalogue to the market by means of electronic commerce and sales, through Videolar.com.

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The Company financial statements were prepared in accordance with the accounting practices derived from Brazilian Corporation Law and IBRACON Pronouncement NPC 27 – Financial Statements – Presentation and Disclosures. The financial statements for the year ended December 31, 2006, when necessary, are presented in accordance with the referred Pronouncement, for comparison purposes.

The authorization for the issuance of these financial statements was granted in the meeting of the Board of Directors, held on January 28, 2008.

The preparation of the financial statements involves the use of accounting estimates. Such estimates were based on objective and subjective aspects considering management's judgment to determine the adequate amount to be recorded in the financial statements. Significant items subject to these estimates and assumptions include selection of useful lives and impairment of property, plant and equipment, credit risk analysis in determining the allowance for doubtful accounts, deferred income and social contribution taxes, as well as the analysis of other risks to determine other provisions, including provision for contingencies, measurement of financial instruments and other assets and liabilities at the dates of the financial statements.

Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainties inherent in the estimate process. The Company reviews its estimates and assumptions at least annually.

The provision for income and social contribution taxes was

recorded based on the current legislation at balance sheet dates.

Assets and liabilities are classified as current when realization or settlement thereof will probably take place in the next twelve months. Otherwise, they are classified as non-current. Monetary assets and liabilities denominated in foreign currency were translated into Brazilian reais at the exchange rate of balance sheet dates. The differences arising from currency translation were recognized in the statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

a) Statement of income:

Revenues and expenses are recognized on the accrual basis. Revenue from sale of products is recognized in the statement of income when all risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there is a significant uncertainty regarding its realization.

b) Cash and cash equivalents:

Cash and cash equivalents include current account balances and marketable securities redeemable in up to 90 days of the balance sheet dates. Marketable securities are stated at cost, plus income recognized proportionally to the balance sheet dates, not exceeding fair market value.

c) Allowance for doubtful accounts:

The allowance for doubtful accounts is recognized in an amount considered sufficient by Management to cover any possible losses on the collection of accounts receivable. Distributed companies' allowance for doubtful accounts is recorded as a reduction to the transfers to be made to the distributed companies.

d) Inventories:

Inventories are stated at their average acquisition or production cost, not exceeding market value, less allowance for losses.

e) Investments:

Investment in subsidiary is valued under the historical cost method, due to its irrelevance when compared to the financial statements taken as a whole. Other permanent investments are recorded at acquisition cost, less valuation allowance, when applicable.

f) Property, plant and equipment:

Property, plant and equipment are stated at acquisition, formation or construction cost, plus voluntary revaluation.

Depreciation is calculated using the straight-line method at the rates mentioned in Note 8, taking into consideration the useful life of the assets.

g) Liabilities:

Liabilities are recognized in the balance sheets when the Company has a legal or constructive obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits. Due to uncertainty with respect to the timing and amount of the outflow of economic benefits required for settlement, certain liabilities are estimated as incurred and recorded as a provision. Provisions are recorded reflecting the best estimates of the risk involved.

h) Distributed companies (Licensors):

Composed of transfers due to distributed companies. Under copyright license agreements, the Company duplicates, in VHS, DVDs or CDs, the movies or songs and bills them directly to the clients of its distributed companies, receiving the funds and passing on the result under the license agreement to licensors.

i) Taxation:

Revenues from sales and services are subject to the following taxes and contributions, at the following rates:

Taxes and Contributions	Tax	Rates
Social Contribution on Corporate Revenues for Social Integration Program	PIS	0.65% to 1.65%
Social Contribution on Corporate Revenues for Social Security Financing	COFINS	3% to 7.6%
State VAT	ICMS	7%, 12% and 18%
Federal VAT	IPI	15% and 25%
Service Tax	ISS	0.5% and 2%*

* As from September 2007

These charges are presented as sales deduction in the statement of income. Noncumulative PIS/COFINS credits are presented deducting cost of products sold in the statement of income.

Income taxes comprise both income and social contribution taxes. Income tax is calculated at a rate of 15%, plus a surtax of 10% on taxable profit exceeding R\$ 240 over 12 months, whereas social contribution tax is computed at a rate of 9% on taxable income, both recognized on an accrual basis, therefore additions to book income deriving from temporarily non-deductible expenses or exclusions from temporarily non-taxable income upon determination of current taxable profit generate deferred tax assets or liabilities.

Prepaid or recoverable amounts are stated in current or noncurrent assets, based on their estimated realization.

Videolar is beneficiary of the following tax incentives granted by the Amazonas State: (i) ICMS deferral on the acquisition of imported inputs; (ii) ICMS deferral on shipment of intermediate goods to be used in the production process of industrial establishment also enjoying the tax incentive; and (iii) reduced ICMS calculation base in the acquisition of certain inputs used in production. At December 31, 2007, the Company complied with all the legal requirements to enjoy these benefits.

j) Earnings per share:

Earnings per share are calculated based on the number of shares outstanding at the balance sheet dates.

4. CASH AND CASH EQUIVALENTS

	2007	2006
Cash and banks	35,471	25,660
Marketable securities	6,858	98,336
	42,329	123,996

At December 31, 2007, marketable securities refer substantially to bank deposit certificates, bearing interest at rates that range from 100.5% to 100.8% of the Interbank Deposit Certificate (CDI).

5. TRADE ACCOUNTS RECEIVABLE

	2007	2006
Own receivables	85,496	110,621
Receivables – distributed companies	201,422	267,799
Distributed companies (licensors)	(224,427)	(287,808)
	62,491	90,612

Management understands that the classification of distributed companies (licensors) reducing accounts receivable appropriately reflect the services rendered to them. Although several risks of the operation are born by Videolar, it acts in several cases as agent of distributed companies, basically transferring the funds.

6. INVENTORIES

	2007	2006
Raw materials	64,095	37,862
Work in process	25,368	19,668
Finished goods	77,541	53,752
Printing and packaging material	5,284	5,067
Other materials	24,701	10,484
Allowance for losses	(6,050)	(4,058)
	190,939	122,775

7. INVESTMENTS IN SUBSIDIARIES (Unaudited)

a) Changes in investments

	Videolar Garin Argentina	Videolar Rio Grande Argentina	Transvat Transportadora Ltda.	Other investments	Total investments
Balances as of December 31, 2005	12,012		671	500	13,183
Acquisition of Videolar Rio Grande Argentina		12,068			12,068
Equity pickup	(1,701)	(3,750)			(5,451)
Disposal of Videolar Garin Argentina and Videolar Rio Grande Argentina	(8,695)	(8,305)			(17,000)
Loss on disposal of investments	(1,616)	(13)			(1,629)
Disposal of other investments				(500)	(500)
Audiovisual Law				405	405
Balances as of December 31, 2006			671	405	1,076
Audiovisual Law				240	240
Balances as of December 31, 2007			671	645	1,316

The Board of Directors' meeting held on December 11, 2006 decided on the sale of the investment held in Videolar S.A. (Argentina) and Videolar Rio Grande S.A., in the total amount of R\$17,000, to Matsukawa Co. LLC.

8. PROPERTY, PLANT AND EQUIPMENT

	Depreciation rate	2007			2006
		Cost	Accumulated depreciation	Net	Net
Properties	4%	75,319	(16,726)	58,593	53,869
Machinery and equipment	10%	532,254	(338,620)	193,634	181,350
Industrial plants	10%	54,270	(16,423)	37,847	14,129
Furniture and fixtures	10%	43,052	(37,249)	5,803	6,067
Molds and tools	10%	32,360	(13,150)	19,210	16,577
Other assets	10% to 20%	34,740	(28,234)	6,506	7,468
Construction in progress		20,534		20,534	40,707
Provision for fixed asset disposals				(1,479)	
		792,529	(450,402)	340,648	320,167

As of December 31, 1997, the Company performed a revaluation of its properties, machinery and equipment, industrial installations and furniture and fixtures, recording R\$131,148 as a credit to revaluation reserve in shareholders' equity. Deferred income tax, in the amount of R\$44,590, was recognized at that time, reducing the balance of such reserve. As of December 31, 2007, the balance of the revalued assets, net of accumulated depreciation, amounts to R\$995 (R\$13,004 in 2006). Management conducted an impairment analysis of assets revalued as of December 31, 2007, and understands that there is no need to write-off any of such assets and the corresponding revaluation reserve.

In 2007, Videolar discontinued the production line of its São Paulo unit. The Company made a survey of machinery and equipment that will be transferred to Manaus unit and items that are no longer expected to be used. For these items a provision for fixed asset disposal was accrued in the amount of R\$1,479.

9. LOANS AND FINANCING

Contract	Rates	Collaterals	Limit	12.31.2007	12.31.2006
BNDES	TJLP + 1.2% p.a.	Properties	38,593	676	8,948
ACC-BRADESCO	5.01% to 5.53% p.a. + Exchange variation	Promissory note	N/A	676	61
				(676)	9,009
					(8,321)
Maturing in the next 12 months					
Noncurrent liabilities					688

10. PROVISION FOR CONTINGENCIES

The Company is subject to tax, legal, labor, civil and other contingencies. On a periodic basis, Management reviews a summary of known contingencies, assesses the chances of loss and adjusts the respective provision based on the opinion of its legal counsel and other data available at the balance sheet dates, such as nature of the lawsuits and historic experience.

At December 31, 2007 and 2006, provision for contingencies breakdown was as follows:

	2007			2006		
	Provision	Judicial deposits	Net	Provision	Judicial deposits	Net
Civil	176	81	96	529	104	425
Tax	15,005	8,503	6,502	9,928	8,195	1,733
Labor	4,997	520	4,478	4,946	498	4,446
	20,178	9,104	11,076	15,403	8,797	6,604

The provision for labor contingencies refers to losses estimated based on the individual analysis of 104 labor claims, mainly related to overtime.

The provision for civil contingencies refers to estimated losses on 118 lawsuits mainly related to commercial disputes.

The provision for tax contingencies refers substantially to the Company's complaint regarding the collection of PIS and COFINS (social contribution taxes on gross revenue) on revenues earned in the Manaus free-trade zone and several ICMS tax delinquency notices.

Changes in the provision for contingencies were as follows:

	2007	2006
At the beginning of the year	6,605	2,855
New proceedings	11,691	19,455
Write-off of proceedings	(7,220)	(15,705)
At the end of the year	<u>11,076</u>	<u>6,605</u>

11. ROYALTIES PAYABLE

The Company recorded, until December 31, 2004, royalties payable on the use of patents based on contractually due amounts, which provide for the payment of a fixed amount based on the volume of DVDs and CDs sold. Based on the opinion of its legal counsel, according to which these conditions were abusive, the Company filed a lawsuit with the purpose of changing the calculation of these royalties. In 2005, the National Institute of Industrial Property (INPI) issued a certificate of registration establishing that the amount of royalties payable cannot exceed the limit of 5% of the net sales price. Based on this certificate and on the assessment of the lawsuit by its legal counsel, the Company is paying the royalties under the criteria established by INPI. The provision as of December 31, 2007 and 2006 includes the amount payable related to the months of December 2007 and 2006, respectively.

12. SHAREHOLDERS' EQUITY

a) Capital

i. As of December 31, 2007 and 2006, capital is represented by 585,470 common shares, 169,343 class "A" preferred shares and 61,094 class "B" preferred shares, totaling 815,907 shares.

ii. Class "B" preferred shares have priority in the payment of minimum dividends of 25%, and in the reimbursement of capital in case of Company's dissolution, so that no other type and class of shares may be granted higher advantages, participating in all qualified events, such as distribution of profits, including capitalization of available reserves and retained earnings for any purpose.

iii. Preferred shares have no voting right at general meetings.

iv. At the Board of Directors' meeting held on April 26, 2007, capital increase in the amount of R\$61,660 was approved, through capitalization of Income Tax and ICMS Incentive Reserves, thus changing the capital from R\$243,098 to R\$304,758.

b) Capital reserves

i. Income tax and ICMS incentive

The capital reserve is composed of ICMS (until 2003) and Income Tax (since 2004) incentives due to the fact that Videolar is located in the Manaus industrial pole, and has projects approved by the Superintendence for the Development of the Amazon (Sudam). The income tax incentive provides a reduction in this tax expense. This tax incentive, calculated based on operating income, is applied to the revenues of the Units in Manaus. As of December 31, 2007, the Company was compliant with all legal requirements to benefit from such incentives.

c) Legal reserve

The legal reserve is recognized through appropriation of 5% of net income after reversal of interest on shareholders' equity, pursuant to article 193 of Law No. 6404/76.

d) Dividends

Under the Company's articles of incorporation, shareholders are entitled to a mandatory minimum dividend of 25% of net income adjusted under article 202 of the Brazilian Corporation Law.

The minimum mandatory dividend is calculated as follows:

	2007	2006
Net income for the year	23,597	87,859
Legal reserve	(1,180)	(4,393)
Base net income for calculation of the dividend	22,417	83,466
Proposed dividend, equivalent to 25% of the base net income	5,604	20,867
(-) Interest on shareholders' equity	(10,606)	(12,287)
Dividends payable	<u>8,580</u>	<u>8,580</u>
Dividend per share – R\$	<u>6.87</u>	<u>25.57</u>

According to the decision of the Annual General Meeting held on April 26, 2007, the payment of additional dividends in the total amount of R\$56,693 related to prior years was approved.

e) Interest on shareholders' equity

At the Extraordinary General Meeting held on October 31, 2007, the shareholders approved the payment of interest on shareholders' equity, according to relevant legal provisions, in the amount before taxes of R\$10,606, paid proportionally to each shareholder on October 31, 2007.

13. FINANCIAL INCOME (EXPENSES), NET

	2007	2006
Financial income:		
Interest and gains on marketable securities	4,594	11,768
Exchange variation	22,463	14,899
Others	(516)	71
	<u>26,541</u>	<u>26,738</u>
Financial expenses:		
Interest on loans	685	1,478
Interest on shareholders' equity	10,606	12,287
Discounts granted	3,837	2,687
Bank expenses	2,663	1,555
Exchange variation	10,827	9,207
CPMF (Provisional Contribution Tax on Financial Transactions)	5,360	5,328
Others	684	173
	<u>34,662</u>	<u>32,715</u>
Financial income (expenses), net	<u>(8,121)</u>	<u>(5,977)</u>

14. INCOME AND SOCIAL CONTRIBUTION TAXES

Deferred income and social contribution taxes are recorded to reflect future tax effects attributed to temporary differences between the tax base of assets and liabilities and their respective book value. Tax assets are recorded based on the expected generation of future taxable profit. The deferred income and social contribution tax asset is composed as follows:

	2007	2006
Provision for losses on assets	2,057	1,380
Provision for contingencies	6,861	5,237
Other provisions	4,482	2,075
Other temporary differences	3,213	1,343
Total	16,613	10,035
Current portion	(9,752)	(4,798)
Noncurrent portion	6,861	5,237

Deferred income and social contribution tax liabilities were recorded upon recognition of the revaluation reserve on property, plant and equipment, and its realization is based on disposals and depreciation of the revalued assets.

The reconciliation of income and social contribution tax expenses is as follows:

Description	2007	2006
Income after employee profit sharing and before income and social contribution taxes and reversal of interest on shareholders' equity	49,632	95,377
Combined tax rate	34%	34%
Income and social contribution taxes at combined tax rate	(16,875)	(32,428)
Permanent additions:	(283)	(437)
Equity pickup (Addition) Exclusion of PIS and COFINS from the income tax base	(16,785)	16,785
Realization of revaluation reserve	(3,906)	(3,473)
Others	1,208	1,601
	<u>(36,641)</u>	<u>(19,805)</u>
Effective tax rate	74%	21%
Current income and social contribution taxes	(43,218)	(24,035)
Deferred income and social contribution taxes	6,577	4,230
	<u>(36,641)</u>	<u>(19,805)</u>

15. INSURANCE COVERAGE (Unaudited)

The Company has insurance coverage for operating risks and other involving property, plant and equipment and inventories. The insurance amount as of December 31, 2007 and 2006 is considered sufficient by its insurance advisors to cover possible losses.

16. FINANCIAL INSTRUMENTS

The Company performed an evaluation of the book value of its assets and liabilities in comparison to their fair market values or actual realization, based on available information and proper evaluation methodologies for each situation. The interpretation of market data for the selection of the methodology requires considerable judgment and estimate to reach an amount considered adequate for each situation. Accordingly, the estimates presented may not necessarily indicate the amounts that could be obtained in the current market. The use of different hypotheses for calculation of fair market value may have a material effect on the amounts obtained. The assets and liabilities presented in this Note were selected due to their materiality. Those instruments whose book value approximate fair market value and whose risk assessment is not relevant are not mentioned herein.

According to their nature, financial instruments may involve known or unknown risks, the importance being the potential of such risks, in the best judgment. Accordingly, there may be risks with or without guarantees depending on circumstantial or legal aspects. Significant market risk factors that may affect the Company's business are as follows:

a) Credit risk

The Company's client portfolio is dispersed, and the principal clients do not represent more than 20% of total sales revenue. The Company permanently monitors the level of its accounts receivable through internal controls, which limits the risk of default.

b) Exchange rate risks

The Company's trade accounts payable and liabilities denominated in foreign currency are not significant. The risk related to these liabilities results from exchange rate fluctuations that could increase these liabilities. The Company does not use derivatives to reduce such risk.

c) Contingent risks

Contingent risks are evaluated according to their likelihood of loss as probable, possible or remote. The contingencies considered as probable risk are recorded in liabilities. The details of these risks are presented in Note 10.

d) Marketable securities

Marketable securities are mostly carried out by first-line banks for periods lower than three months and the rates substantially reflect usual market conditions as of December 31, 2007 and 2006.

e) Loan risks

Loan transactions are presented in Note 9, and the contracted rates substantially reflect usual market conditions as of December 31, 2007 and 2006.

17. EMPLOYEE BENEFITS

The Company does not operate or sponsor any type of pension plan or other post-employment benefit.

According to a labor union agreement, the Company must pay profit sharing to its employees, in case certain performance goals established in the annual planning are met. Considering that these goals were not met, Management did not recognize a provision for payment of this benefit at December 31, 2007.

18. CHANGES IN THE PREPARATION AND DISCLOSURE OF THE FINANCIAL STATEMENTS FOR 2008

On December 28, 2007, Law No. 11,638 was approved, which amends and revokes certain provisions of Law No. 6,404, dated December 15, 1976, and of Law No. 6,385, dated December 7, 1976.

The requirements of this new Law are applicable to financial statements referring to fiscal years starting January 1st, 2008, and the changes thereto for the year ending December 31, 2008 shall also be applied retrospectively to December 31, 2007 for presentation and comparison purposes of the financial statements to be disclosed.

Upon the preparation of the current financial statements, it is not possible to anticipate the impacts of this new Law on the Company's operation results and financial position, to be reflected on the financial statements for the fiscal year started in January 1st, 2008 and, retrospectively, on the financial statements for the year ended December 31, 2007, upon its preparation for comparison purposes to be disclosed on the financial statements for the year ending December 31, 2008.