

VIDEOLAR

Financial Statements

December 31, 2010 and 2009 and January 1, 2009

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A free translation from Portuguese into English of Independent Auditor's Report on financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To Shareholders, Board of Directors and Officers of
Videolar S.A.

We have audited the accompanying financial statements of Videolar S.A. ("Company"), which comprise the balance sheet as at December 31, 2010, and the related income statement, statements of changes in shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Videolar S.A. as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with the accounting practices adopted in Brazil.

São Paulo, May 13, 2011.

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC-2SP015199/O-6

Antonio Carlos Fioravante
Accountant CRC-1SP184973/O-0

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Balance Sheets

December 31, 2010 and 2009 and January 1, 2009
(In thousands of reais)

	12.31.2010	12.31.2009 (Restated)	01.01.2009 (Restated)
Assets			
Current assets			
Cash and cash equivalents	49,407	14,475	22,589
Trade accounts receivable (Note 4)	81,275	79,563	77,342
Allowance for doubtful accounts (Note 4)	(17,713)	(18,476)	(19,580)
Recoverable taxes	4,860	5,884	4,360
Prepaid taxes	2,835	7,251	10,831
Inventories (Note 5)	124,537	149,244	203,054
Prepaid expenses	504	224	507
Advances to suppliers	26,724	18,460	10,915
Other accounts receivables	4,917	10,179	4,425
Total current assets	277,346	266,804	314,443
Noncurrent assets			
Judicial deposits (Note 9)	30,773	21,499	13,429
Deferred income and social contribution taxes (Note 16)	24,960	18,964	17,603
Investments	-	-	645
Property, plant and equipment (Note 6)	430,982	448,825	448,273
Intangible assets	1,161	681	963
Total noncurrent assets	487,876	489,969	480,913
Total assets	765,222	756,773	795,356
Liabilities and shareholders' equity			
Current liabilities			
Loans and financing (Note 8)	-	1,377	59
Trade accounts payable	25,727	34,153	103,693
Payroll and related charges	8,202	11,406	8,696
Taxes payable other than on income	3,002	9,742	5,959
Royalties payable (Nota 11)	27,276	19,052	17,944
Dividends payable	-	1,352	-
Taxes payable in installments (Nota 10)	6,177	-	5,325
Commissions payable	691	925	1,025
Freight payable	3,209	2,492	3,536
Other current liabilities	7,739	8,699	8,238
Total current liabilities	82,023	89,198	154,475
Noncurrent liabilities			
Deferred income tax (Note 16)	53,467	41,443	41,317
Taxes payable in installments (Note 10)	1,544	13,899	19,821
Loans and financing (Note 8)	42,892	38,113	16,078
Provision for contingencies (Note 9)	32,983	25,136	19,877
Total noncurrent liabilities	130,886	118,591	97,093
Shareholders' equity (Note 12)			
Capital	465,465	460,488	471,910
Capital reserves	-	4,977	-
Other comprehensive income	79,712	79,957	80,202
Income reserves (accumulated losses)	7,136	3,562	(8,324)
Total shareholders' equity	552,313	548,984	543,788
Total liabilities and shareholders' equity	765,222	756,773	795,356

See accompanying notes.

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Statements of Income

Years ended December 31, 2010 and 2009
(In thousands of reais, except earnings per share)

	2010	2009 (Restated)
Net operating revenue (Note 13)	794,963	854,700
Cost of goods sold and services rendered (Note 14)	(672,326)	(686,957)
Gross profit	122,637	167,743
Operating expenses		
Administrative / Human Resources (Note 14)	(53,302)	(21,417)
Selling / logistics (Note 14)	(33,973)	(54,458)
Industrial / technology (Note 14)	(17,587)	(67,732)
Financial income (Note 15)	11,928	34,435
Financial expenses (Note 15)	(7,789)	(25,846)
Other operating expenses, net	(5,459)	(589)
Income before income and social contribution taxes and employee profit sharing	16,455	32,136
Current income and social contribution taxes (Note 16)	-	(5,189)
Deferred income and social contribution taxes (Note 16)	(6,028)	1,234
Net income before employee profit sharing	10,427	28,181
Employee profit sharing	-	(2,587)
Net income for the year	10,427	25,594
Number of outstanding shares at year end	815,907	815,907
Earnings per share (R\$)	12.57	31.37

See accompanying notes.

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Statements Of Changes in shareholders' Equity

Years ended December 31, 2010 and 2009 (On thousands of reais)

	Capital reserves		Other comprehensive income	Income reserves		Retained earnings (accumulated losses)	Total
	Capital	Income tax incentive		Legal reserve	Retained earnings		
Balances at January 1, 2009 (restated)	471,910	-	80,202	-	-	(8,324)	543,788
Other comprehensive income	-	-	(245)	-	-	245	-
Capital decrease according to minutes of Annual and Special Shareholders' meeting of April 30, 2009	(11,422)	-	-	-	-	11,422	-
Dividends paid in advance	-	-	-	-	-	(20,398)	(20,398)
Net income for the year (restated)	-	-	-	-	-	25,594	25,594
Allocation:							
Income tax incentive	-	4,977	-	-	-	(4,977)	-
Legal reserve	-	-	-	1,279	-	(1,279)	-
Retained earnings reserve	-	-	-	-	2,283	(2,283)	-
Balances at December 31, 2009 (restated)	460,488	4,977	79,957	1,279	2,283	-	548,984
Capital increase according to minutes of Annual and Special Shareholders' meeting of April 29, 2010	4,977	(4,977)	-	-	-	-	-
Dividends paid in advance according to minutes of meeting of May 24, 2010	-	-	-	-	-	(7,098)	(7,098)
Other comprehensive income	-	-	(245)	-	-	245	-
Net income for the year	-	-	-	-	-	10,427	10,427
Allocation:							
Legal reserve	-	-	-	522	-	(522)	-
Retained earnings reserve	-	-	-	-	3,052	(3,052)	-
Balances at December 31, 2010	465,465	-	79,712	1,801	5,335	-	552,313

See accompanying notes.

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Statements of Cash Flows

Years ended December 31, 2010 and 2009

(In thousands of reais)

	2010	2009 (Restated)
Cash flow generated by operating activities		
Net income for the year	10,427	25,594
Adjustments to reconcile net income to cash generated by operating activities		
Deferred income and social contribution taxes	6,028	(1,234)
Depreciation	22,746	54,264
Net book value of property, plant and equipment written off	81	3,009
Interest and monetary variation	(3,226)	9,280
(Reversal) of loan with Banco Fortis	(36,164)	-
Loss on disposal of noncurrent assets	-	645
Provision for writte-offs and losses on fixed assets	60,805	3,582
Accrual of (Reversal of) provision for contingencies	7,847	(1,522)
Allowance for doubtful accounts	(763)	(1,104)
	67,780	92,514
(Increase) decrease in assets		
Trade accounts receivable	(1,712)	(2,221)
Recoverable/prepaid taxes	5,440	2,056
Inventories	24,707	53,810
Other assets	(12,557)	(6,761)
	15,878	46,884
Increase (decrease) in liabilities		
Trade accounts payable	(8,426)	(69,540)
Payroll and related charges	(3,204)	2,710
Taxes payable other than on income	(6,740)	3,783
Other liabilities	217	(10,820)
	(18,153)	(73,867)
Net cash flow generated by operating activities	65,505	65,531
Cash flow used in investing activities		
Acquisition of property, plant and equipment	(66,425)	(68,672)
Acquisition of intangible assets	(559)	-
Disposal of property, plant and equipment	717	-
Net cash used in investing activities	(66,267)	(68,672)
Cash flow generated by (used in) financing activities		
Loans and financing obtained	43,500	59,428
Repayment of loans and financing	(708)	(45,355)
Payment of dividends	(7,098)	(19,046)
Net cash flow generated by (used in) financing activities	35,694	(4,973)
Increase (decrease) in cash and cash equivalents	34,932	(8,114)
Cash and cash equivalents at beginning of the year	14,475	22,589
Cash and cash equivalents at end of the year	49,407	14,475
Increase (decrease) in cash and cash equivalents	34,932	(8,114)

See accompanying notes.

Notes to Financial Statements

December 31, 2010 and 2009 (In thousands of reais)

1. Company Information

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), of 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 the Videolar.com site.

Videolar is a privately-held corporation domiciled in Brazil with principal place of business in Manaus, Amazonas state. It is controlled by individuals and the major shareholder owns 86% of the common shares of the capital stock. Among the expansion projects, the construction of an industrial plant (Fazenda Vitória) in an area of 289,000 m² stands out, with built-up area of 69,000 m², to be concluded in the second half of 2011. The main purpose of this unit is production of BOPP (Biaxially Oriented Polypropylene) and BOPET (Biaxially Oriented Polyethylene Terephthalate) films, widely used in plastic packages for the food and industrial sectors.

The new business segments in which Fazenda Vitória will invest includes production of PP (polypropylene) and PP cast (polypropylene film) plates.

2. Summary of significant accounting practices

The Company's financial statements for the years ended December 31, 2010 and 2009 and January 1, 2009 were prepared in accordance with accounting practices adopted in Brazil, which include the pronouncements of the Accounting Pronouncements Committee ("CPC").

The financial statements have been prepared in accordance with various bases used in accounting estimates. The accounting estimates involved in preparing the financial statements were based on objective and subjective factors, based on the judgment of management to determine the appropriate amount to be recorded in the financial statements. Significant items subject to such estimates and assumptions include the selection of useful lives of property, plant and equipment and their recoverability in operations, evaluation of financial assets at fair value and by the method of adjustment to the present value, credit risk analysis for determination of the allowance for doubtful accounts, as well as analysis of other risks for determination of other allowances, including provision for contingencies.

The settlement of transactions involving such estimates may result in amounts significantly different from those recorded in the financial statements given the probabilistic treatment underlying the estimate process. The Company reviews its estimates and assumptions on a regular basis, within a period not exceeding one year. See Note 2.14 with the details on the estimates.

The Company has adopted all standards, standards reviews and interpretations, issued by the Accounting Pronouncement Committee (CPC) in force on December 31, 2010.

The authorization for issuance of these financial statements was granted by the Executive Board meeting held on April 29, 2011.

2.1 Income statement and revenue recognition

Revenues and expenses are recorded on an accrual basis. Revenue from sales of goods is recognized in the statement of income when its amount can be reliably measured, all risks and rewards of ownership of the products are transferred to the buyer, the Company no longer holds control over or responsibility for the goods sold, and economic benefits are likely to flow to the Company. Revenues are not recognized if there is significant uncertainty as to their collection. Interest income and expenses are recognized using the effective interest rate method in financial income/expenses account.

Notes to Financial Statements

December 31, 2010 and 2009 (In thousands of reais)

2.2 Translation of balances foreign currency denominated balances

The functional currency of the Company is the Brazilian Real. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange in effect at the respective balance sheet closing dates. Gains and losses arising from restatement of these assets and liabilities between the rate of exchange in effect at the transaction date and the fiscal year closing dates are recognized as financial income or financial expenses in P&L.

2.3 Cash and cash equivalents

These include cash and positive bank balances. The Company does not have short-term investments at December 31, 2010 and 2009.

2.4 Trade accounts receivable

These are stated at realizable value, and those from clients abroad are restated based on foreign exchange rates prevailing at the financial statements closing dates. An allowance for doubtful accounts was set up in an amount considered sufficient by management to cover any losses on collection of receivables. Accounts receivable from distributed companies (licensors) are stated net of transfers to be made to the studios, as explained in Note 4.

2.5 Inventories

Inventories are stated at the lower of cost or net realizable value.

Costs incurred to take the product to its current location and conditions are recorded as follows:

- Raw materials – acquisition cost according to the average cost.
- Finished products and work in process – cost of direct materials and labor and a proportional portion of overhead costs, based on regular operating capacity.

Net realizable value corresponds to sales price in the normal course of business, less estimated conclusion costs and estimated selling costs.

Provisions for slow-moving or obsolete inventories are set up when use or sale of such items is not expected to occur within the following 180 days.

2.6 Property, plant and equipment

Property, plant and equipment are stated at acquisition, build-up or construction cost. Depreciation is calculated on the straight-line basis at the rates mentioned in Note 6 and takes into consideration the estimated useful life of the assets. Capitalized financial charges are depreciated considering the same criteria and useful lives determined for the property, plant and equipment to which they were included.

Maintenance and repair expenses are recorded only if the economic benefits embodied in such items are likely to be achieved and the amounts can be reliably measured, whereas other expenses are charged directly to statement of income, as incurred.

A property, plant and equipment item is written off when sold or when no future economic benefit is expected to arise from its use or sale. Any gain or loss resulting from asset write off (calculated as the difference between net sales value and book value of the asset) is included in P&L for the year in which the asset is written off.

Net book value and useful life of assets and depreciation criteria are reviewed at each year end, and adjusted prospectively when necessary.

The rates in force then and current rates are as follows:

	Average annual rate - %	
	Previous	Current
Buildings and improvements	4%	2,5%
Equipment and installations	10%	10% to 20%
Furniture and fixtures	10%	10%
Other materials	10%	10% to 20%

Notes to Financial Statements

December 31, 2010 and 2009 (In thousands of reais)

Borrowing costs directly attributable to acquisition, construction or production cost of an asset that requires a substantial period of time to be concluded for use are capitalized as part of the cost of the related asset. All other borrowing costs are recognized as expenses in the period in which they incur. Borrowing costs include interest and other costs incurred by the Company as a result of funds obtained.

2.7 Intangible assets

Intangible assets acquired separately are measured at cost at the time of initial recognition. After initial recognition, intangible assets are stated at cost, less accumulated amortization and accumulated losses and recoverable amount, when applicable.

Intangible assets are comprised substantially by software licenses.

Intangible assets with definite life are amortized over the useful economic life and tested for impairment whenever there is indication of loss of economic value of an asset. The period and the amortization method for intangible assets with definite lives are reviewed at least at the end of fiscal year. Changes in the estimated useful life or in expected consumption of future economic benefits of these assets are recorded by means of changes in period or amortization method, as appropriate, and treated as change in accounting estimates. The amortization of intangible assets with defined lives is recognized in income statement in the expense category consistent with use of intangible asset.

Intangible assets with indefinite useful lives are not amortized but are tested annually for losses due to impairment, individually or in the level of the cash-generating unit. The evaluation of the indefinite useful life is reviewed annually to determine whether this evaluation is still justifiable. Otherwise, the change in useful life, from indefinite to definite, is done prospectively.

Gains and losses resulting from write-off of an intangible asset are measured as the difference between the net value from sale and the book value of assets and are recognized in the income statement upon the writing off of the assets.

2.8 Provision for impairment of assets

Management annually reviews the net book value of assets in order to evaluate events or changes in operating or technological or economic circumstances that could indicate impairment or loss. When such evidence is identified and the net book value exceeds the recoverable amount, a provision is set up for impairment, adjusting the asset net book value to its recoverable amount. The resulting losses are classified as other operating expenses.

2.9 Other assets and liabilities

Assets are recognized in the balance sheets when it is likely that their future benefits will flow to the Company and their cost or value can be measured reliably.

Liabilities are recognized on the balance sheets when the Company acquires a legal obligation, or an obligation derived from past event, the settlement which is expected to result in an outflow of economic benefits. Allowances are recorded based on the best estimates of the risk involved.

Assets and liabilities are classified as current when their realization or settlement is likely to occur within the next twelve months. Otherwise, they are shown as non-current.

2.10 Taxation

Revenue from sales and services are subject to the following taxes, at the rates set out below:

Taxes and social contributions	Abbreviation	Rates
Social Contribution Tax on Gross Revenue for Social Integration Program	PIS	0.65% to 1.65%
Social Contribution Tax on Gross Revenue for Social Security Funding	COFINS	3% to 7.6%
State VAT	ICMS	7%, 12% and 18%
Federal VAT	IPI	15% and 25%
Service Tax	ISS	2%

Notes to Financial Statements

December 31, 2010 and 2009 (In thousands of reais)

These charges are presented as deductions to sales in the income statement. The credits arising from non-cumulative of PIS/COFINS are presented as deduction of costs of goods sold in the income statement.

Income and social contribution taxes – Current

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 profit, 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.

Advances or amounts that may be offset, such as withholding income tax and social contribution deducted from revenues are recorded as current or non-current assets, according to their expected realization.

Income and social contribution taxes – Deferred

Deferred tax is generated by temporary differences at the balance sheet dates between the tax bases of assets and liabilities and their book values.

Deferred tax liabilities are recognized for all temporary differences, except:

- when deferred tax liability arises from initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, on the transaction date, do not affect the accounting profit or tax profit or loss; and
- on the temporary differences related to investments in subsidiaries, where the period of reversal of temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the near future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and losses to the extent that it is probable that the taxable profit will be available in the future, so that the deductible temporary differences can be realized, and unused tax credits and losses can be used, except:

- when the deferred tax assets related to the deductible temporary difference is generated at initial recognition of asset or liabilities in a transaction that is not a business combination and, on the transaction date, do not affect the accounting profit or tax profit or loss; and
- on deductible temporary differences associated with investments in subsidiaries, the above-mentioned deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the near future and the taxable profit will be available so that the temporary differences can be realized.

The book value of deferred tax assets is reviewed every balance sheet date and written off when it is no longer probable that taxable profits will be available to allow all or part of the deferred tax asset to be used. Deferred tax assets previously written-off are reviewed every balance sheet date and recognized to the extent that it become probable that future taxable profit will allow that deferred tax assets should be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to be applicable in the year when the assets will be realized or the liabilities settled based upon tax rates (and tax laws) that were in force on the balance dates.

Deferred taxes related to items recognized directly against shareholders' equity is also recognized in shareholders' equity and not in the income statement. Deferred tax items are recognized, depending on the transaction that gave rise to the deferred tax, in comprehensive income or directly against shareholders' equity.

Deferred tax assets and liabilities are presented net if there is a legal or contractual right to offset tax asset against tax liability and deferred taxes related to the same taxable entity and subject to the same taxation authority.

Notes to Financial Statements

December 31, 2010 and 2009 (In thousands of reais)

2.11 Government grants and assistance

These are recognized when there is reasonable assurance that all conditions set out by the Amazonas state government have been met and will be granted. They are recorded as revenues in P&L for as long as it is necessary to match the expense intended to be set off by the government grant or assistance.

Videolar is beneficiary of the following tax incentives granted by the State of Amazonas: (i) ICMS (state VAT) deferral on acquisition of imported inputs;

(ii) ICMS deferral on sale of intermediate goods to be used in the production process of the industrial plant that is also beneficiary of the same tax incentive; and (iii) reduction of the ICMS tax base on acquisition of certain inputs used in the production process. At December 31, 2010 and 2009, the Company was fully compliant with all legal requirements to benefit from such incentives.

2.12 Other employee benefits

The benefits granted to employees and managers of the Company include, in addition to fixed compensation (wages and social security contributions (INSS), vacation, and 13th monthly salary), variable compensation as profit sharing. These benefits are recorded in the income statement of the year when the Company acquires an obligation on accrual basis, as incurred.

2.13 Present value adjustment of assets and liabilities

Non-current monetary assets and liabilities are monetarily restated, and therefore they are already adjusted to present value. Current monetary assets and liabilities are only recorded when considered to have a significant effect on the overall financial statements. For purposes of recording and determination of significance, present value adjustment is calculated using contractual cash flows and the explicit interest rate, and in certain cases the implicit interest rate, of the respective assets and liabilities. For the financial statements for the year ended December 31, 2010 and 2009, the Company measured the present value adjustment considering the overall calculation of outstanding balances for each group of accounts of current monetary assets and liabilities, in addition to applying the discount rates, based on market assumptions existing at the transition date. Items comprising each group of accounts subject to overall calculation have uniform characteristics. Based on analyses conducted and management's best estimates, the Company concluded that adjustment to present value of current monetary assets and liabilities is insignificant when compared to the overall financial statements. As such, no adjustment was recorded.

2.14 Significant accounting judgments, estimates and assumptions

Judgments

The preparation of financial statements requires that management make judgments and estimates and adopt assumptions that affect the revenues, expenses, assets and liabilities, as well as disclosures of contingent liabilities in the financial statements closing dates. However, uncertainty relating to these assumptions and estimates could lead to outcomes that required a significant adjustment to the book value of assets or liabilities in future periods.

Estimates and assumptions

The main assumptions concerning the sources of uncertainty in future estimates and other important sources of uncertainty in estimates at the balance dates, involving significant risk of causing a significant adjustment in the book value of assets and liabilities in the next financial year are discussed below.

Impairment of non-financial assets

An impairment loss occurs when the book value of an asset or cash generating unit exceeds its recoverable value, which is the higher of the fair value less sales costs or the value in use. The fair value calculation less sales costs is based on information available on sales transactions of similar assets or market prices less additional costs to dispose of the asset.

Notes to Financial Statements

December 31, 2010 and 2009 (In thousands of reais)

Management annually reviews the net book value of assets in order to evaluate events or changes in economic, operating or technological circumstances that may indicate deterioration or impairment.

If such evidence is identified and the net book value exceeds recoverable value, a provision for impairment is set up adjusting net book value to recoverable value.

Taxes

There are uncertainties regarding interpretation of complex tax regulations and the amount and time of future taxable income. Given the broad spectrum of international relationships, as well as long-term nature and complexity of existing contractual instruments, differences between actual income and assumptions adopted or future changes in these assumptions could require future adjustments in income and expenses of taxes already recorded.

The Company establishes an allowance based on reasonable estimates for possible consequences of audits by tax authorities of the jurisdictions where it operates. The value of this allowance is based on several factors such as experience of previous tax audits and interpretations different from the tax regulations by the taxable entity and the tax authorities in charge. Such differences of interpretations may arise in a wide variety of subjects, depending on the conditions prevailing in the domicile of the Company.

Significant judgment is required of Management to determine the value of deferred tax asset that can be recognized based on the approximate time and level of future taxable profit, coupled with future tax planning strategies.

Fair value of financial instruments

When the fair value of financial assets and liabilities presented in the balance sheets cannot be obtained in active markets, it is determined using evaluating techniques, including the method of discounted cash flow. The inputs for these methods are based on those prevailing in the market, if possible. However, if not feasible, a certain level of judgment is required to establish the fair value. The judgment includes consideration of the data used, for example, liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value of financial instruments presented.

New estimate of useful life of property, plant and equipment

In 2010 (and 2009 for items that were adjusted based on deemed cost), the Company decided to review the estimated useful life of property, plant and equipment. Consequently, the income statement presented non-comparable depreciation amounts. The new estimated useful life was made prospectively as from January 1, 2010, in accordance with CPC 23 – Accounting Policies, Changes in Accounting Estimates and Correction of Errors, with a view to using assumptions that are more consistent with the Company's investment flow.

Deemed cost of property, plant and equipment

The deemed cost of land and buildings was determined by the comparative method, using market data, which was organized through survey of properties for sale and/or sold in the same region. To adjust any differences between the valued item and surveyed properties, adequate factors were applied to weigh differences, such as area and location.

Provision for tax, civil and labor risks

The Company recognizes provision for civil and labor suits. The assessment of probability of loss includes assessing the available evidence, the hierarchy of laws, available case law, most recent court decisions and their relevance within the legal system and the evaluation of external counsels. Allowances are reviewed and adjusted to take into account changes in circumstances, such as the applicable statutes of limitation, findings of tax inspections or additional exposures identified based on new issues or decisions by the courts.

The settlement of transactions involving such estimates may result in significantly different values from those recorded in the financial statements, due to inaccuracies inherent in the determination process. The Company reviews its estimates and assumptions at least on an annual basis.

Notes to Financial Statements

December 31, 2010 and 2009 (In thousands of reais)

2.15 Statements of cash flows

The statements of cash flows have been prepared using the indirect method and are presented in accordance with CFC Resolution No. 1296/10, of September 17, 2010, which approved accounting pronouncement CPC 03 (R2) – Statement of Cash Flows, issued by the Accounting Pronouncements Committee(CPC).

2.16 Financial instruments

Financial instruments are recognized only as of the date on which the Company becomes a party to the contractual provisions of financial instruments. When recognized, these are initially recorded at fair value plus transaction costs that are directly attributable to their acquisition or issuance. They are subsequently measured every balance sheet date according with the rules set forth for each type of classification of financial asset or liabilities.

(i) *Financial assets*

The Company has solely Loans (granted) and receivables that are non-derivative financial assets with fixed or determinable payments which, however, are not traded in an active market. After their initial recognition, they are measured at amortized cost using the effective interest rate method. Interest, monetary variation and foreign exchange gains/losses and fluctuations arising from measurement at fair value are recognized in P&L, as incurred, under “Financial income” or “Financial expenses”.

The main financial assets recognized by the Company are cash and cash equivalents and trade accounts receivable.

(ii) *Financial liabilities*

These are classified in the categories below according to the nature of financial instruments contracted or issued:

- Financial liabilities measured at amortized cost: Non-derivative financial liabilities not usually traded before maturity. After initial recognition, they are measured at amortized cost using the effective interest rate method. Interest, monetary variation and foreign exchange gains/loss, when applicable, are recognized in P&L, as incurred.

The main financial liabilities recognized by the Company are trade accounts payable and loans and financing.

- Fair value: fair value of financial instruments actively traded on stock exchanges is determined based on amounts quoted in the market on the balance sheet dates or based on valuation techniques defined by the Company and consistent with the usual market practices. If not traded on an active market, fair value is determined through valuation techniques.

These techniques include use of recent market transactions conducted between independent parties, reference to the fair value of similar financial instruments, analysis of discounted cash flows or other valuation models.

3. First-time adoption of CPC 15 to CPC 43 (R1)

Until December 31, 2009, the financial statements of the Company were prepared in accordance with accounting practices adopted in Brazil and accounting pronouncements issued by the CPC until December 31, 2008. The financial statements for the year ended December 31, 2010 are the first ones presented considering full application of accounting pronouncements issued by the CPC.

Accordingly, the Company prepared the opening balance sheet considering the transition date of January 1, 2009, therefore applying the mandatory exceptions and certain elective exemptions for full retroactive application, as established in the CPC Pronouncements, Interpretations and Guidance.

CPC 37 – First-time adoption of IFRS require an entity to develop accounting policies based on standards and interpretations of CPC in force on the closing date of its first financial statements, and those policies should be applied on the transition date and during all the periods presented in the first

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financial statements complying with all CPCs. The Company adopted as transition date January 1, 2009. The Company adopted all the Pronouncements, Interpretation and Guidance issued by the CPC until December 31, 2010. Accordingly, the financial statements are in accordance with international accounting standards issued by IASB and approved by CPC.

The current financial statements considered the opening balance of January 1, 2009, which is the date of transition to CPCs. This Note explains the major adjustments made by the Company to restate the opening balance sheet under BRGAAP on January 1, 2009 and also the balance sheet prepared in accordance with BRGAAP for the year ended December 31, 2009.

3.1 Mandatory exceptions and elective exemptions for retroactive adoption

CPC 37 R allows companies to adopt certain elective exemptions. Company has reviewed all elective exemptions and presents the result thereof on its transactions, as well as given thereto by the Company (with indication of the corresponding CPC pronouncement):

The following exemptions are applicable to the Company's transactions:

- a) Exemption for presentation the fair value of property, plant and equipment as deemed cost: the Company opted to re-measure a new deemed cost for its land and buildings at the transition date. For other items of property, plant and equipment, the previously adopted acquisition cost was maintained, considering that: (i) the cost method, less provision for losses, is the best method to value the Company's property, plant and equipment; (ii) the Company's property, plant and equipment are segregated into well-defined classes and relate to its operating activities; (iii) the industry in which the Company operates is significantly impacted by technological development, particularly the blank and recorded media division, requiring that management frequently review the recoverable amounts and estimates of useful lives of property, plant and equipment, which is being consistently conducted over the years; and iv) depreciation rates used adequately represent the useful life of assets, which enables us to conclude that the value of property, plant and equipment approximates their fair value.

The exemptions below are not applicable to the Company operations and do not impact the financial statements on the transition date:

- a) Mandatory exceptions for business combinations: the Company did not have incurred in any business combination in the past;
- b) Exemption related to the measurement of compound financial instruments: The Company does not have compound financial instruments;
- c) Employee benefits CPC 33 (IAS 19): The Company does not have private pension plans classified as defined benefit or any other post-employment benefits;
- d) Insurance agreements CPC 11 (IFRS 4): The standard is not applicable to the Company's operations;
- e) Concession agreements ICPC 01 (IFRIC 12): The Company has no operations involving public utility concessions;
- f) Effects of changes in foreign exchange rates: This exemption is not applicable to the Company.

In addition to those elective exemptions, CPC 37 (IFRS 1) also expressly prohibits adjustments to certain transactions upon first-time adoption, since management would have to review past conditions, after the result of corresponding transactions. Mandatory exceptions are:

- a) Derecognition of financial assets and liabilities: the Company has not adjusted its financial assets and liabilities on retroactive basis, for CPC first-time adoption purpose.
- b) Hedge accounting: The Company had no operations classified as hedge accounting on the transition date.
- c) Changes in estimates
The Company reviewed the estimated economic useful life of property, plant and equipment in the course of 2010. The purpose of such review was to adjust the economic useful life to determine depreciation of its assets, in view of significant investments made in the past years

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to optimize the industrial maintenance level of its plant, in addition to the level of use of its assets.

The mentioned review was conducted internally with the assistance of a firm specialized in asset control, valuations and asset inventories. The economic useful life valuation report was prepared in conformity with all bases necessary for full compliance with current accounting practices.

Thus, in accordance with ICPC 10, the Company adopted the new useful lives of assets not subject to application of deemed cost prospectively, as from January 1, 2010, as the new lives represent a change in estimate. Adoption of the new useful life as from January 1, 2010 impacted depreciation expenses, reducing them to R\$36,604 for the year ended December 31, 2010.

Other estimates are consistent with the estimates adopted by the prior accounting criteria.

- d) Investments in subsidiaries, assets and liabilities of subsidiaries, decommissioning liabilities and transfer of assets from clients: The standard is not applicable to the Company's operations.

3.2 Reconciliation of accounting practices adopted for preparation of previously presented financial statements

Pursuant to CPC 37, the Company presents the reconciliation of assets and liabilities disclosed in financial statements as of January 01, 2009 (transition date) and December 31, 2009, prepared in accordance with the accounting practices adopted in Brazil (BRGAAP) effective through December 31, 2009 and with international standards, considering CPCs effective in 2010.

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3.2.1. Opening Balance on 01.01.2009

	BR GAAP		C P C	
	Published	Adjustments	Restated	
Assets				
Current assets				
Cash and cash equivalents	22,589	-	22,589	
Trade accounts receivable	77,342	-	77,342	
Allowance for doubtful accounts	(19,580)	-	(19,580)	
Recoverable taxes	4,360	-	4,360	
Prepaid taxes	10,831	-	10,831	
Inventories	203,054	-	203,054	
Prepaid expenses	507	-	507	
Deferred income and social contributions taxes	10,845	(10,845)	-	
Advances to suppliers	-	10,915	10,915	
Other accounts receivables	4,425	-	4,425	
Total current assets	314,373	0,070	314,443	
Noncurrent assets				
Judicial deposits	-	13,429	13,429	
Deferred income and social contributions taxes	6,758	10,845	17,603	
Investments	645	-	645	
Property, plant and equipment	337,669	110,604	448,273	
Intangible assets	963	-	963	
Total noncurrent assets	346,035	134,878	480,913	
Total assets	660,408	134,948	795,356	
Liabilities and shareholders' equity				
Current liabilities				
Loans and financing	59	-	59	
Trade accounts payable	103,693	-	103,693	
Payroll and related charges	8,696	-	8,696	
Taxes payable other than on income	5,959	-	5,959	
Royalties payable	17,944	-	17,944	
Taxes payable in installments	5,325	-	5,325	
Commissions payable	1,025	-	1,025	
Freight payable	3,536	-	3,536	
Other current liabilities	8,238	-	8,238	
Total current liabilities	154,475	-	154,475	
Noncurrent liabilities				
Deferred income and social contributions taxes	-	41,317	41,317	
Taxes payable in installments	19,821	-	19,821	
Loans and financing	16,078	-	16,078	
Provision for contingencies	6,448	13,429	19,877	
Total noncurrent liabilities	42,347	54,746	97,093	
Capital	471,910	-	471,910	
Other comprehensive income	-	80,202	80,202	
Accumulated losses	(8,324)	-	(8,324)	
Total shareholders' equity	463,586	80,202	543,788	
Total liabilities and shareholders' equity	660,408	134,948	795,356	

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3.2.2. Balance sheet on 12.31.2009

Assets	BRGAAP		CPC
Current assets	Published	Adjustments	Restated
Cash and cash equivalents	14,475	-	14,475
Trade accounts receivable	79,563	-	79,563
Allowance for doubtful accounts	(18,476)	-	(18,476)
Recoverable taxes	5,884	-	5,884
Prepaid taxes	7,251	-	7,251
Inventories	149,244	-	149,244
Prepaid expenses	224	-	224
Deferred income and social contributions on taxes	8,763	(8,763)	-
Advances to suppliers	-	18,460	18,460
Other accounts receivable	10,179	-	10,179
Total current assets	257,107	9,697	266,804
Noncurrent assets			
Judicial deposits	1,289	21,499	21,499
Deferred income and social contributions taxes	10,201	8,763	18,964
Property, plant and equipment	345,395	103,430	448,825
Intangible assets	681	-	681
Total noncurrent assets	357,566	132,403	489,969
Total assets	614,673	142,100	756,773
Liabilities and shareholders' equity			
Current liabilities			
Loans and financing	1,377	-	1,377
Trade accounts payable	34,153	-	34,153
Payroll and related charges	11,406	-	11,406
Taxes payable and other than on income	9,742	-	9,742
Royalties payable	19,052	-	19,052
Dividends payable	1,352	-	1,352
Commissions payable	0,925	-	0,925
Freight payable	2,492	-	2,492
Other current liabilities	8,699	-	8,699
Total current liabilities	89,198	-	89,198
Noncurrent liabilities			
Deferred income and social contributions on taxes	-	41,443	41,443
Taxes payable in installments	13,899	-	13,899
Loans and financing	38,113	-	38,113
Provision for contingencies	4,926	20,210	25,136
Total noncurrent liabilities	56,938	61,653	118,591
Capital	460,488	-	460,488
Capital reserves	4,977	-	4,977
Other comprehensive income	-	80,202	80,202
Income reserves	3,072	0,245	3,317
Total shareholders' equity	468,537	80,447	548,984
Total liabilities and shareholders' equity	614,673	142,100	756,773

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3.2.3. Reconciliation of shareholders' equity and net income

	Equity	
	12.31.2009	01.01.2009
Shareholders' equity in accordance with previous accounting practices	468,537	463,586
Depreciation	371	-
Deemed cost	121,519	121,519
Deferred income and contribution social taxes	(41,443)	(41,317)
Shareholders' equity in accordance with new accounting practices	548,984	543,788
	Net income	
	12.31.2009	
Net income in accordance with previous accounting practices	25,349	
Depreciation	371	
Deferred income and contribution social taxes	(126)	
Net income in accordance with new accounting practices	25,594	

a) *Presentation of judicial deposits*

Judicial deposits for which provision for contingencies has been recorded in liabilities are now being recognized as non-current assets. Previously, such deposits were recorded as liabilities, offsetting provision for contingencies.

b) *Reclassification of deferred taxes*

Deferred income and social contribution taxes were calculated on adjustments from adoption of the new accounting practices, based on the nominal rates of such taxes. According to CPC 32 – Income Taxes, deferred tax assets and liabilities are presented net, when the Company has the legal right for such offset, and should be classified in non-current assets or liabilities.

c) *Deemed cost of buildings and land - CPC 27/ICPC 10*

In view of the change in Brazilian accounting practices for compliance with the process of convergence to IFRS, upon adoption of accounting pronouncements CPC 27 (IAS 16) and CPC 28 (IAS 40), there is the option of adjusting opening balances of property, plant and equipment through use of the deemed cost concept, in accordance with Accounting Pronouncements CPC 37 and 43. The effects of application of deemed cost determined on buildings and lands arising from such new valuation were recorded in the opening balances of the first year in which CPC 27 is applied, and the financial statements presented for comparison purposes were adjusted to consider the new deemed cost and its impacts on depreciation.

3.3 **New standards, accounting pronouncements, revisions and interpretations of standards**

Until the disclosure of the current financial statements, the standards, accounting pronouncements, revisions and interpretations of standards listed below were approved and issued, applicable to years ended as from December 31, 2010 and to financial statements for 2009 to be disclosed jointly with those for 2010 for comparison purposes.

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The standards below reflect changes made by IASB and incorporated into the CPCs. They provide for certain text compatibility in order to produce the same accounting effects as the corresponding international standard. These new pronouncements did not impact the Company:

- CPC 1 (R1) – Impairment of assets (IAS 36)
- CPC 2 (R2) – Changes in exchange rates (IAS 21)
- CPC 3 (R2) – Statement of cash flow (IAS 7)
- CPC 5 (R1) – Related party disclosures (IAS 24)
- CPC 6 (R1) - Leases (IAS 17)
- CPC 7 (R1) – Accounting for government grants disclosure of government assistance (IAS 20 and SIC No. 10)

The following standards reflect the changes made by IASB and incorporated into the CPCs. They provide for certain text compatibility in order to produce the same accounting effects as the corresponding international standard. The Company applied the referred to pronouncements in the current financial statements:

- CPC 37 (R1) – First-time adoption of IFRS (IFRS 1)
- CPC 41 – Earnings per share (IAS 33)

The interpretations below do not apply to the activities performed by the Company and therefore do not impact the financial statements:

- Accounting Interpretation ICPC 13 – Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
- Accounting Interpretation ICPC 15 – Liabilities arising from participating in a specific market – Waste electrical and electronic equipment
- Related party disclosures (revised) – Simplifies the disclosure requirements for state-controlled entities and explains the definition of related party. The revised standard addresses aspects that, according to previous disclosure requirements and definition of related party, were far too complex and of difficult practical application, particularly in environments under broad state control, offering partial exemption to state entities and a new revised definition of the related party concept. This change was issued in November 2009, effective for years beginning on or after January 1, 2011. This change will not impact the Company's financial statements.
- IFRS 9 Financial instruments – Classification and measurement - IFRS 9 ends the first phase of the project for replacement of "IAS 39 Financial instruments: Recognition and Measurement". IFRS 9 adopts a simple approach to determine whether a financial asset is measured at amortized cost or fair value, based on the way an entity manage its financial instruments (business model) and contractual cash flow typical of financial assets. The standard also requires adoption of a single method to determine impairment losses. This standard is effective for years beginning on or after January 1, 2013. The Company does not anticipate significant impacts on its financial statements arising from this change.
- IFRIC 14 Prepayments of a minimum funding requirement – This change is only applicable to entities subject to minimum funding requirements and that make prepayments to cover such requirements. The change enables those entities to account for the benefit of such prepayment as an asset. The change is effective for years beginning on or after January 1, 2011, and no impact is expected on the Company's financial statements.
- IFRIC 19 Extinguishing financial liabilities with equity instruments - IFRIC 19 was issued in November 2009 and is effective as from July 1, 2010. Earlier application is permitted. This interpretation clarifies the IFRS requirements in cases when an entity renegotiates the terms of a financial liability with its creditor, who agrees in accepting the entity's shares or other equity instruments to settle the financial liability fully or partly. The Company does not anticipate any impact of IFRIC 19 on its financial statements.
- Improvements to IFRS – the IASB issued improvements to IFRS standards and amendments in May 2010, been effective as from January 1, 2011. The major amendments are shown below:

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- IFRS 3 – Business Combinations;
- IFRS 7 – Financial Instruments: Disclosures;
- IAS 1 – Presentation of Financial Statements.

There are no other standards or interpretations issued or in public hearing and not yet adopted that could, in management's opinion, significantly impact P&L or equity disclosed by the Company.

4. Trade accounts receivable

Trade accounts receivable include receivables from Videolar clients, distributed companies and credit card companies referring to e-commerce. Amounts receivable according to the aging list, on December 31, 2010 and 2009 and January 1, 2009 are summarized below:

	<u>12.31.2010</u>	<u>12.31.2009</u>	<u>01.01.2009</u>
Amounts falling due	189,966	201,246	189,071
Overdue amounts			
Up to 30 days	19,162	17,653	20,993
From 31 to 60 days	10,212	12,562	8,237
From 61 to 90 days	3,633	6,733	5,142
From 91 to 180 days	1,901	6,989	8,695
Over 180 days	26,009	43,571	55,947
Total overdue	<u>60,916</u>	<u>87,507</u>	<u>99,015</u>
Accounts receivable	<u>250,882</u>	<u>288,753</u>	<u>288,085</u>
Distributed companies (licensors)	<u>(169,607)</u>	<u>(209,190)</u>	<u>(210,743)</u>
Net accounts receivable	<u>81,275</u>	<u>79,563</u>	<u>77,342</u>

Changes in allowance for doubtful accounts are as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	18,476	19,580
Accruals	3,389	1,085
Write-off	<u>(4,142)</u>	<u>(2,189)</u>
Balance at December 31	<u>17,713</u>	<u>18,476</u>

Management believes that the risk relating to trade accounts receivable is mitigated because the composition of customers of the Company is highly diversified. The Company counts greater than 5,000 active clients in its portfolio and no individual represented 5% or more of revenues or accounts receivable on December 31, 2010, December 31, 2009 or January 1, 2009.

5. Inventories

	<u>2010</u>	<u>2009</u>	<u>01.01.2009</u>
Raw materials	28,785	24,703	68,586
Work in process	9,451	8,947	17,048
Finished products	60,538	65,973	84,419
Printing and packaging materials	4,771	5,743	3,568
Other materials	25,290	49,383	39,837
Allowance for losses	<u>(4,298)</u>	<u>(5,505)</u>	<u>(10,404)</u>
	<u>124,537</u>	<u>149,244</u>	<u>203,054</u>

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The changes in provision for obsolescence are as follows:

	2010	2009
Balance at beginning of the year	(5,505)	(10,404)
Accruals	(6,746)	(540)
Write-off	7,953	5,439
Balance at December 31	(4,298)	(5,505)

6. Property, plant and equipment

The table below details the Company's property, plant and equipment movements in the periods:

COST	Land	Buildings and improvements	Machinery and equipment	Industrial installations	Furniture and fixtures	Data processing equipment	Vehicles	Molds and tools	Telephone equipment	Provision for impairment	Construction in progress	Imports in progress	Total
1/1/2009	81,226	114,008	437,383	56,527	37,574	15,975	555	34,235	1,064	-	13,277	25,060	816,884
Additions	-	-	-	-	-	-	-	-	-	(3,582)	33,992	28,483	58,893
Write-offs	-	-	(1,795)	(14)	(879)	(202)	-	(7)	(19)	-	-	(1,348)	(4,263)
Transfers	20,000	-	10,325	6,465	153	136	116	15	8	-	(35,597)	-	1,620
12/31/2009	101,226	114,008	445,913	62,977	36,847	15,910	0,671	34,244	1,053	(3,582)	11,672	52,195	873,134
Additions	-	-	-	-	-	-	-	-	-	(8,771)	66,144	0,268	57,641
Write-offs	-	-	(221)	(255)	(907)	-	-	-	(1)	-	56	52,035	(53,363)
Transfers	-	-	6,130	2,816	194	405	-	30	47	-	(9,623)	-	(0,000)
12/31/2010	101,226	114,008	451,821	65,539	36,134	16,315	0,671	34,274	1,100	(12,352)	68,249	428	877,413
1/1/2009	-	(18,666)	(270,183)	(18,643)	(33,034)	(10,871)	(0,219)	(16,080)	(0,916)	-	-	-	(368,612)
Depreciation	-	(5,056)	(42,390)	(7,025)	(1,450)	(2,071)	(106)	(3,003)	(38)	-	-	-	(61,139)
Write-offs	-	2,844	1,709	11	669	187	-	4	16	-	-	-	5,441
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-
12/31/2009	-	(20,877)	(310,863)	(25,657)	(33,815)	(12,756)	(325)	(19,079)	(938)	-	-	-	(424,309)
Depreciation	-	(2,581)	(42,762)	(8,176)	(965)	(1,184)	(111)	(3,004)	(42)	-	-	-	(58,823)
Write-offs	-	-	30,449	4,258	1,225	296	18	439	15	-	-	-	36,702
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-
12/31/2010	-	(23,458)	(323,176)	(29,575)	(33,554)	(13,643)	(417)	(21,643)	(964)	-	-	-	(446,431)

NET BOOK VALUE	Land	Buildings and improvements	Machinery and equipment	Industrial installations	Furniture and fixtures	Data processing equipment	Vehicles	Molds and tools	Telephone equipment	Provision for impairment	Construction in progress	Imports in progress	Total
12/31/2010	101,226	90,550	128,645	35,964	2,580	2,672	254	12,631	136	(12,352)	68,249	428	430,982
12/31/2009	101,226	93,131	135,050	37,320	3,033	3,153	347	15,165	116	(3,582)	11,672	52,195	448,825
1/1/2009	81,226	95,342	167,200	37,883	4,540	5,104	336	18,156	149	-	13,277	25,060	448,273
Average annual depr. Rate	0,0%	-2,3%	-9,5%	-12,5%	12,6%	-7,3%	-16,5%	-8,8%	-3,8%	0,0%	0,0%	0,0%	-6,7%

(a) At 12.31.2010 the amounts recorded under construction in progress were written off in view of the bankruptcy process of the supplier Darlet. See details in Note 8.

The construction in progress corresponds substantially to investments made in the Fazenda Vitória project, for productivity increase and cost reduction, through modernization of the production line with more modern, efficient and cost-saving equipment, in addition to expansion of the BOPP plant and new ventures in the petrochemical segment.

The amount of R\$52,942 was capitalized this year, referring to construction of Fazenda Vitória.

In view of the change in accounting practices adopted in Brazil for purposes of compliance with the process of convergence to IFRS, upon adoption of CPC 27, the Company reviewed the economic useful life of its assets based on valuation report issued internally, with prospective application as from January 1, 2010. The impact of such review was a reduction in depreciation expense for the year in the amount of R\$36,604.

Upon first-time adoption of CPC 27, management identified that the book value of land and buildings was substantially lower than the fair value. As such, opening balances were adjusted considering the deemed cost concept. The effect from application of deemed cost was recorded at the transition date, and the financial statements presented for comparison purposes were adjusted to consider the new deemed cost.

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	Previous accounting policies	Adjustments	New accounting practices
Land	29,243	71,983	101,226
Buildings	40,644	49,536	90,180
Total	<u>69,887</u>	<u>121,519</u>	<u>191,406</u>

Deemed cost of land and buildings was determined based on valuation performed by the independent appraisers Procasa Empresa Imobiliária Ltda. at December 31, 2010.

The fair value of properties was determined based on transactions with comparable properties (type of property, location, occupancy profile and property quality) observable in the market. Market data obtained was used as a basis for application of the valuation method recommended by the International Valuation Standards Committee.

The direct comparative method was used for valuation, whereby the market value for purchase and sale of the property is defined by means of comparison with market data of similar properties. Certain survey elements are selected for similar properties sold or for sale, in addition to opinion of real estate agents or of other professionals of the real estate segment. These elements are subject to technical homogenization with the help of well-founded empirical factors that aim at weighing the characteristics and attributions of the surveyed data that influences the price formation, such as: location, state of upkeep, interior finish, area, topography, public utilities, among others.

7. Impairment of assets

The Company conducts impairment testing on an annual basis or whenever it perceives indication of loss in the recoverable value of assets, as required by CPC 01.

To define the recoverable value of assets, the Company considered the higher of the asset's fair value or its value in use. For this calculation, an individual comparison was made by means of assumptions of the item's replacement value and technical depreciation, in accordance with the method developed by A. Marston and Thomas R. Agg, from the University of Iowa. This method defines the average rate applied based on the average life of each type or group of equipment, elapsed life and probable life. For cases where the estimated value is lower than the net book value, a loss is recorded, attributed to application of impairment.

Based on analyses conducted, the Company recorded provision for impairment in the amount of R\$8,771.

8. Loans and financing

Financial institution	Charges	Guarantees	Maturity	12.31.2010	12.31.2009	01.01.2009
Fortis Bank NV/SA France (b)	4.88 % p.a.	Promissory note	08/01/2016	-	43,318	16.854
BNDES (a)	TJLP + 2.12% p.a.	Properties	15/10/2016	44,073	-	-
				44,073	43,318	16.854
Current				-	(1,377)	(59)
Funding costs				(1,181)	(3,828)	(717)
Non-current				<u>42,892</u>	<u>38,113</u>	<u>16,078</u>

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a) BNDES – Brazilian Development Bank

In 2010, the Company obtained a credit line from BNDES – Brazilian Development Bank, in the amount of R\$ 84,100. Until December 31, 2010, the amount of R\$ 43,500 was granted to the Company.

The finance is intended for expansion and construction of a new industrial plant for production of BOPP (Biaxially Oriented Polypropylene) and BOPET (Biaxially Oriented Polyethylene Terephthalate) films, in addition to acquisition of national machinery and equipment. BNDES may determine the early termination of the finance arrangement in the event of the following:

- i) Evidence of reduction in headcount, without the Company having conducted job opportunity training in the region or professional staffing program;
 - ii) Existence of judgment against the Company for racial or gender discrimination, child and slave labor, sexual or workplace psychological harassment, or environmental crime;
 - iii) A new guarantor is not appointed within 30 days in case of death or declared absence of the Company's controlling shareholder;
 - iv) Official appointment as member of the Chamber of Federal Deputies or Senator of a professional who holds a paid position at Videolar, or is among its owners, controllers or officers.
- At December 31, 2010, the Company was fully performing its obligations under the agreement.

b) Fortis Bank

In June 2008, the Company obtained a credit line from Fortis Bank of EURO 20,400 thousand, which had the characteristic of direct financing to Darlet Machante Technologies S.A., supplier responsible for delivery of machinery and equipment for the Company's new BOPP production line. Until December 31, 2009, Fortis Bank had released EURO 15,811 thousand for payment to Darlet. Such financing does not provide for maximum indebtedness and leverage levels

In March 2010, the Company was notified of the bankruptcy process of Darlet. In the second half of 2009, Fortis Bank NV/AS was acquired by BNP Paribas Bank.

On January 31, 2011, BNP Paribas forwarded a letter requesting payment of the first installment, in the amount of EURO 1,695 thousand. Through its legal advisors in France, Sonier & Associates, the Company rejected such request for payment, alleging that all advances paid by Fortis to DMT breached the Loan Agreement, and, as such, there is no obligation to pay said advances to BNP Paribas. This rejection is based on article 5 of the Loan Agreement, under which the creditor, i.e., Fortis Bank, should make advances to the Company by means of payment to Darlet, after having received the following documents:

- (i) completed request (pursuant to Attachment 6, Part 2 – Request Form provided for in the agreement);
- (ii) applicable documents listed in Attachment 4 to the agreement, summarized as follows:

1. 20% of the agreement price:

- Original copy of the proforma invoice;
- Copy of the declaration of delivery of the technical design and report signed by the purchaser and seller.

2. 55% of the agreement price proportionally to the amount of each remittance, against presentation of:

- Original copy of the proforma invoice;
- Original copy of the bill of lading;
- Original copy of the packing list issued by the seller or supplier;
- Storage receipt, if applicable. Storage costs must be borne by the purchaser;

3. 5% of the agreement price to be paid on the date of mechanical conclusion certificate, against presentation of:

- commercial invoice;
- copy of the mechanical conclusion certificate signed by the purchaser or seller or, at the latest, 18 months after the agreement's effective date, if the mechanical conclusion certificate is postponed for reasons over which the seller has no responsibility.

Article 5.2 of the loan agreement provides for an irrevocable and unconditional determination of Fortis making advance payments to Darlet, in conformity with the terms and conditions of the loan

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agreement, and Fortis is solely responsible for confirming whether all conditions under the agreement have been met before making any advance payment.

In view of the lack of supporting documentation established under the agreement, Videolar's legal advisors understand that Fortis breached the agreement and is solely responsible for the consequences thereof. In the opinion of the legal advisors, Videolar has solid arguments and if sent for arbitration, the outcome is more likely than not to be favorable to the Company.

At December 31, 2010, based on the opinion of its legal advisors, the Company management carried out the following accounting adjustments:

	<u>12.31.2010</u>
Write-off of advance to supplier in view of the declared bankruptcy	(43,858)
Write-off of liabilities due to remote likelihood of disbursement to Fortis Bank	36,163
Net loss recognized in other operating expenses	<u>(7,695)</u>

The amounts recorded in non-current liabilities on December 31, 2010 are according to the following maturity schedule:

	<u>2010</u>	<u>2009</u>	<u>01.01.2009</u>
2011	-	5,233	2,207
2012	4,855	5,298	2,235
2013	7,442	5,366	2,264
2014	7,648	5,438	2,294
2015	7,871	5,513	2,326
2016	8,113	5,591	2,359
2017	6,964	5,674	2,393
Non-current liabilities	<u>42,892</u>	<u>38,113</u>	<u>16,078</u>

Funding costs are mainly composed of agency fees, in accordance with GPC 08.

9. Provision for contingencies

The Company is subject to tax, labor, civil and other contingencies arising from the normal course of its activities. Based on information provided by the legal counsel and analyses of ongoing legal proceedings, management recorded provision in an amount considered sufficient to cover probable losses on the outcome of such proceedings, as follows:

<u>Provision for contingencies</u>	<u>12.31.2010</u>	<u>12.31.2009</u>	<u>01.01.2009</u>
Tax	26,523	20,189	15,990
Civil	608	643	634
Labor	5,852	4,304	3,253
	<u>32,983</u>	<u>25,136</u>	<u>19,877</u>

The table below shows judicial deposits related and not related to proceedings for which provisions have been established, classified under non-current assets.

<u>Judicial deposits</u>	<u>12.31.2010</u>	<u>12.31.2009</u>	<u>01.01.2009</u>
Tax	30,050	20,334	12,908
Labor	699	1,149	505
Civil	24	16	16
	<u>30,773</u>	<u>21,499</u>	<u>13,429</u>

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Changes in provisions for the years ended December 31, 2010 and 2009 are as follows:

	<u>Tax</u>	<u>Labor</u>	<u>Civil</u>	<u>Total</u>
Balances at January 1, 2009	15,990	3,253	634	19,877
(+) Accruals	8,706	4,424	275	13,405
(-) Write-off	(4,507)	(3,373)	(266)	(8,146)
Balances at December 31, 2009	<u>20,189</u>	<u>4,304</u>	<u>643</u>	<u>25,136</u>
(+) Accruals	9,454	2,588	79	12,121
(-) Write-off	(3,120)	(1,040)	(114)	(4,274)
Balances at December 31, 2010	<u>26,523</u>	<u>5,852</u>	<u>608</u>	<u>32,983</u>

The major proceedings are described below:

Tax suits

The Company is defendant in legal and administrative suits involving other taxes, such as PIS, IPI, ICMS, IR and social security contributions, in the total amount of R\$ 24,199, assessed as possible loss.

Provision for tax contingencies refers mainly to suits challenging collection of PIS and COFINS on revenue accrued in the Free Trade Zone of Manaus, among other ICMS-related notices.

Labor claims

The Company is defendant in labor claims, totaling R\$ 2,686, the likelihood of loss of which is assessed as probable, for which provisions have been set up. The Company is also defendant in labor claims assessed as possible loss, amounting to R\$ 5,852.

The provision for labor contingencies corresponds to estimated losses based on individual analysis of 114 labor claims, substantially referring to overtime.

Civil suits

The Company is defendant in civil suits, totaling R\$ 538, assessed as probable loss, for which provisions have been set up. The Company is also defendant in civil suits assessed as possible loss, amounting to R\$ 680.

The provision for civil contingencies refers to estimated losses on 38 lawsuits mainly related to commercial disputes.

10. Taxes payable in installments

At December 31, 2008, management decided to discontinue the tax proceeding related to PIS and COFINS, in the amount of R\$25,146 and filed a request to participate in the Tax Installment Program of the Brazilian IRS.

On October 26, 2009, management elected to include this tax installment in the Tax Recovery Program (Refis) instituted by Law No. 11941/09. Such payments will take place in 30 installments, increased by SELIC interest (Central Bank benchmark rate), accumulated monthly, calculated from the date of the request to the payment date.

With this inclusion in the Refis program, the Company obtained a financial discount due to the reduced interest rate. Gain thereon amounted to approximately R\$8 million, and was recognized in the statement of income for the year ended December 31, 2009.

As a result of joining the REFIS program, the installments payments must not be delayed longer than three months, all legal proceedings must be discontinued and any alleged right underlying the referred to proceedings must be waived, subject to immediate termination of the entitlement to the program and consequent loss of the above benefits.

In 2010, REFIS related payments totaled R\$6,178.

The amount involved in the process, net of fines and interest reduction, is of R\$7,721, R\$6,177 of which is recognized under current liabilities and R\$1,544 under non-current liabilities.

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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 for the purpose of changing the calculation of these royalties. In 2005, the National Institute for Intellectual Property (INPI) issued a certificate of registration establishing that the amount of royalties payable could not exceed the maximum 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 following the criteria established by INPI.

The provision at December 31, 2010 and 2009 basically includes the amount payable related to 2009 and prior-year amounts under negotiation with patent right owners.

12. Shareholders' equity

a) Capital stock

- i. As of December 31, 2010 and 2009, 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 priority upon capital reimbursement 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 profits for any purpose.
- iii. Preferred shares have no voting rights at general meetings.
- iv. On April 29, 2010, capital was increased by R\$4,977, represented by 815,907 common book shares with no par value. The increase resulted from capitalization of the tax incentive reserve.

b) Other comprehensive income

Deemed cost adjustments, net of deferred income and social contribution taxes, were recorded against Other Comprehensive Income, in shareholders' equity, at January 1, 2009.

c) Legal reserve

Brazilian corporate law requires corporations to appropriate 5% of annual net income for a profit reserve before distributing profits, limiting this reserve up to 20% of total capital balance.

d) Dividends

Under the Company's articles of incorporation, shareholders are entitled to minimum mandatory dividends of 25% of net income for the year, adjusted by the legal reserve, pursuant to corporate legislation.

At the Board of Directors' meeting held on December 3, 2009, advanced payment of dividends was approved, in the total amount of R\$ 7,098, referring to the year ended December 31, 2010.

e) Reserves of retained earnings

As of December 31, 2010, the balance of R\$5,335 is available for the General Shareholders Meeting for dividend distribution.

13. Net revenue

	2010	2009
Gross operating revenue	932,308	1,007,645
Taxes on revenue	(91,512)	(113,158)
Returns	(45,833)	(39,787)
Deductions from gross revenue	(137,345)	(152,945)
Net revenue	794,963	854,700

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14. Breakdown of operating cost and expenses

	2010	2009
<u>By nature</u>		
Operating expenses	540,313	512,063
Cost of services rendered	132,013	174,894
Personnel expenses	30,822	40,941
Advisory and consulting expenses	2,992	5,531
Depreciation and amortization expenses	11,624	23,943
Installations	5,963	6,216
Selling expenses	25,655	29,525
General and administrative expenses	16,647	18,463
Marketing expenses	8,318	16,331
Other general and administrative expenses	1,603	1,419
Total	775,950	829,326
<u>By function</u>		
Cost of products sold and services rendered	672,326	686,957
Administrative /Human Resources expenses	52,064	20,179
Selling/logistics expenses	33,973	54,458
Industrial//technology expenses	17,587	67,732
Total	775,950	829,326

15. Financial income (expenses), net

	2010	2009
<u>Financial income</u>		
Interest income	-	4
Exchange gains	10,909	25,273
Others	1,020	9,158
	11,928	34,435
<u>Financial expenses</u>		
Interest on loans	(749)	(2,507)
Discounts granted	(354)	(13,856)
Bank charges	(1,120)	(1,237)
Foreign exchange losses	(5,333)	(7,899)
Provisional Contribution Tax on Financial Transactions (CPMF)	-	-
Fine and interest on taxes paid in installments	(233)	(347)
	(7,789)	(25,846)
Financial income (expenses), net	4,139	(8,589)

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16. Income and social contribution taxes

a) Deferred income and social contribution taxes

	12.31.2010	12.31.2009	01.01.2009
Provision for losses on assets	5,710	4,589	6,391
Provision for contingencies	10,657	8,545	6,758
Provision for obsolescence	1,461	-	-
Other provisions	4,516	5,830	1,702
Other temporary differences	2,616	-	2,752
Total deferred tax assets	24,960	18,864	17,603
	12.31.2010	12.31.2009	01.01.2009
Deferred income and social contribution taxes on adjustments arising from adoption of CPCs:			
Deemed cost of land and buildings	(41,317)	(41,317)	(41,317)
Review of useful life of property, plant and equipment	(12,150)	(126)	-
Total deferred tax liabilities	(53,467)	(41,443)	(41,317)

Deferred income and social contribution taxes are recorded to reflect future tax effects arising from temporary differences between the asset and liability tax base and the related book value. Recovery of tax credits was estimated based on projections of taxable profit, taking into consideration various financial and business assumptions considered at the closing of 2010 and 2009. Consequently, such estimates may not materialize in the future, due to uncertainties inherent to this process.

b) Reconciliation of income and social contribution tax expenses

The reconciliation of expenses calculated by applying the combined nominal tax rate and expenses of income tax and social contribution recorded in income statement is shown below:

Description	2010	2009
Income before income and social contribution taxes	16,455	32,136
Combined rate	34%	34%
Income tax and social contribution taxes at combined tax rate	(5,594)	(10,926)
Permanent additions	(3,011)	(110)
Incentive - profit from activities benefited from tax incentives	-	4,977
Other	(2,577)	(2,104)
	(6,028)	(3,955)
Effective tax rate	37%	13%
Current income and social contribution taxes	-	(5,189)
Deferred income and social contribution taxes	(6,028)	1,234
	(6,028)	(3,955)

c) Transition Tax Regime

The Company opted for the Transition Tax Regime (RTT) introduced by Law No. 11941, of May 27, 2009, whereby the calculations of Corporate Income Tax (IRPJ), Social Contribution Tax on Net Profit (CSLL), Social contribution Tax for Social Integration Program (PIS) and Social Contribution Tax for Social Security Financing (COFINS) continue to be determined on the accounting methods and criteria set by Law No. 6404, of December 15, 1976, effective on December 31, 2007. As a result, deferred income taxes on the adjustments deriving from adoption of the new accounting practices set forth by Law No. 11941/09 were recorded in the Company's financial statements where applicable, in

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accordance with CPC 32 – Income Taxes. The Company disclosed such option in its Corporate Income Tax Return (DIPJ) for 2009.

17. Related parties

Management's key personnel include Board members, officers and Executive Committee members. Global annual management fees, including fees of Board of Director and Executive Board members, was set at a maximum of R\$2,000, as approved at the General and Special Shareholders' Meeting of April 29, 2010.

Management fees for the year ended December 31, 2010 totaled R\$1,296 (R\$1,296 in 2009).

Such expenses were recorded under general and administrative expenses, in the P&L for the year.

18. Financial instruments

The Company performed an evaluation of its accounting assets and liabilities compared to the market values or actual realization (fair value), based on available information and proper valuation 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 market or fair 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 amounts approximate fair value and whose risk assessment is not material 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. The main 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 major 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) Foreign exchange rate risks

The Company has some accounts payable and loans denominated in foreign currency. The risk associated with these liabilities arises from exchange rate fluctuations that could increase these liabilities. The Company is not engaged in derivatives to reduce this risk.

c) Analysis of sensitivity of financial instruments

Companies are required to disclose a sensitivity analysis table for each type of market risk considered significant by management, originated by financial instruments, to which the entity is exposed at the financial statements closing date, including, but not limited to, any operation with derivative financial instruments.

The main exposure in relation to financial instruments refers to US dollar, represented by the Company's foreign suppliers, in a total of R\$ 14,306 at December 31, 2010. The Company understands that given the amounts involved, such exposure does not represent a significant risk.

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d) Fair value measurements

The Company presents below a comparison by class of the book value and fair value of financial instruments presented in the financial statements:

	Book value			Fair value		
	12.31.2010	12.31.2009	01.01.2009	12.31.2010	12.31.2009	01.01.2009
Financial assets						
Cash and cash equivalents	49,407	14,475	22,589	49,407	14,475	22,589
Trade accounts receivable	81,275	79,563	77,342	81,275	79,563	77,342
Taxes recoverable	7,695	13,135	15,191	7,695	13,135	15,191
Total	138,377	107,173	115,122	138,377	107,173	115,122
Financial liabilities						
Loans and financing	42,892	39,490	16,137	42,892	39,490	16,137
Trade accounts payable	25,727	34,153	103,693	25,727	34,153	103,693
Taxes payable	3,002	9,742	5,959	3,002	9,742	5,959
Total	71,621	83,385	125,789	71,621	83,385	125,789

The fair value of financial assets and liabilities refers to the amount by which the instrument could be swapped in a current transaction conducted between parties willing to negotiate, and not in a forced sale or transaction. The following methods and assumptions were used for the fair value estimate:

- *Cash and cash equivalents, trade accounts receivable, taxes recoverable, trade accounts payable and taxes payable*: approximate their related realization value mostly because of the short-term maturity of these instruments.
- *Loans and financing*: agreed-upon rates substantially reflect usual market conditions at December 31, 2010 and 2009, as they refer to recent funding.

The Company does not have contracted or embedded derivatives in other agreements at December 31, 2010 and 2009.

d) Capital management

Management's main objective is to ensure a strong credit rating and a risk-free capital ratio, thus supporting business and maximizing shareholder value. The Company manages its capital structure and makes adjustments considering changes in economic conditions.

For the years ended December 31, 2010 and 2009, there were no changes in objectives, policies or processes.

	12/31/2010	12/31/2009	12/1/2009
Loans and financing	42,892	39,490	16,137
(-) Cash and cash equivalents	(49,407)	(14,475)	(22,589)
Net debt (cash net of debts)	(6,515)	25,015	(6,452)
Shareholders 'equity	552,313	548,984	543,788
Shareholders 'equity and net debt	545,798	573,999	537,336

19. 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 set up a provision for profit sharing in 2010 (R\$ 2,587 in 2009).

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20. Insurance coverage

The Company has insurance coverage for operating risks and others involving property, plant and equipment and inventories.

The insurance amount as of December 31, 2010 and 2009 is considered sufficient by its insurance advisors to cover possible losses.

21. Operating lease

Operating lease relate substantially to property lease agreements, such as apartments for use by employees and projects, lease of the Distribution Center and of the Duct that connects the Petrobrás port and Videolar, through which styrene monomer is distributed to silos of unit IV in Manaus.

Equipment lease agreements refer to lease of nitrogen cylinder, of lift truck for unit III and of firewall, routers and server.

The table below shows maturity of agreements and estimated:

	<u>Monthly payment (R\$)</u>	<u>Maturity of agreement</u>
<u>Properties</u>		
Apartment - Bromélia, 1401.	2	8/20/2011
Apartment - Bromélia, 203.	2	8/20/2011
Apartment - Bromélia, 102.	2	8/30/2011
Apartment - Portal da Cidade, 1700.	2	7/30/2011
EMTEC - DC	44	12/31/2023
<u>Machinery and equipment</u>		
Petrobrás	20	12/21/2012
Ozonio Telecomunicações	4	Indefinite
WhiteMartins	2	Indefinite
Jungheinrich – Lift truck	4	04/30/2011

Lease disbursements estimated for the next years are as follows:

2011	953
2012	842
2013	842

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