

Financial Statements

December 31, 2006 and 2005

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

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of Videolar S.A.

1. We have audited the accompanying balance sheet of Videolar S.A., as of December 31, 2006 and the related statements of income, shareholders' equity and changes in financial position for the year 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 audit in accordance with generally accepted auditing standards in Brazil, which comprised: (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, as well as an evaluation of the overall financial statement presentation.

3. The financial statements of the subsidiaries Videolar S.A. (Argentina), Videolar Rio Grande S.A. and Transvat Transportadora Ltda. for the year ended December 31, 2006 were not audited by us or by other independent auditors. Accordingly, we were not able to form an opinion on the fairness of the balances related to these investments as of December 31, 2006 and to the corresponding equity pick-up for the year then ended, based on the shareholders' equity of these subsidiaries, as mentioned in note 6 to the financial statements.

4. In our opinion, except for the adjustments, if any, that might result from the audit of the investments 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, 2006, the result of its operations, changes in its shareholders' equity and changes in its financial position for the year then ended in accordance with the accounting practices adopted in Brazil.

5. The financial statements for the year ended December 31, 2005, presented for comparison purposes, were audited by us, and our report thereon, dated February 17, 2006, contained the scope limitation mentioned in paragraph 3 and a paragraph of departure from accounting practices adopted in Brazil related to recognition of contingent assets. For the year ended December 31, 2006, the Company obtained an opinion from its legal counsel stating that such asset is not contingent, based on interpretations of current laws and regulations and, in accordance with Technical Interpretation No. 02/2006 of the Brazilian Institute of Independent Auditors (IBRACON), Management did not recognize provision, once the likelihood of loss is considered remote, as per the referred legal opinion. As such, the departure paragraph is no longer necessary.

São Paulo, February 2, 2007

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BALANCE SHEETS

December 31, 2006 and 2005
(In thousands of reais)

ASSETS	2006	2005 <small>(Reclassified)</small>
Current assets		
Cash and cash equivalents	123.996	181.770
Trade accounts receivable	90.612	18.473
Allowance for doubtful accounts	(11.229)	(11.333)
Receivables from related parties		7.854
Recoverable taxes	7.619	4.398
Prepaid taxes	14.700	18.637
Inventories	122.775	144.365
Prepaid expenses	628	610
Deferred income and social contribution taxes	4.798	2.612
Other accounts receivable	14.729	3.125
Total current assets	368.628	370.511
Noncurrent assets		
Long-term assets		
Judicial deposits	8.799	6.534
Deferred income and social contribution taxes	5.237	3.193
Total long-term assets	14.036	9.727
Permanent assets		
Investments	1.076	13.183
Property, plant and equipment	320.167	307.898
Total permanent assets	321.243	321.081
Total noncurrent assets	335.279	330.808
Total assets	703.907	701.319
LIABILITIES AND SHAREHOLDERS' EQUITY	2006	2005 <small>(Reclassified)</small>
Current liabilities		
Loans and financing	8.321	13.966
Trade accounts payable	72.126	76.331
Payroll and related charges	10.989	10.844
Taxes and contributions payable	7.907	17.725
Royalties payable	8.351	3.256
Dividends payable	8.580	6.456
Interest on shareholders' equity	5.548	784
Deferred income and social contribution taxes	4.094	4.426
Other accounts payable	8.424	4.139
Total current liabilities	134.340	137.927
Noncurrent liabilities		
Deferred income and social contribution taxes	327	4.755
Loans and financing	688	8.911
Provision for contingencies	15.403	9.390
Total noncurrent liabilities	16.418	23.056
Shareholders' equity		
Capital	243.098	114.949
Capital reserves	212.842	323.509
Revaluation reserves	8.583	17.823
Income reserves	88.626	84.055
Total shareholders' equity	553.149	540.336
Total liabilities and shareholders' equity	703.907	701.319

See accompanying notes.

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STATEMENTS OF INCOME

December 31, 2006 and 2005
(In thousands of reais, except earnings per share)

	2006	2005
Gross sales	1.390.758	1.303.909
Taxes, contributions and returns	(238.599)	(167.778)
Net sales	1.152.159	1.136.131
Cost of goods sold and services rendered	(875.958)	(894.617)
Gross profit	276.201	241.515
Operating expenses		
Administrative/human resources expenses	(27.848)	(19.037)
Selling/logistics expenses	(64.984)	(48.596)
Industrial/technology expenses	(74.406)	(60.996)
Financial income (expenses), net	(5.977)	(2.855)
Equity pick-up in subsidiaries	(5.451)	(10.738)
Other operating income, net	646	10.030
Operating income	98.181	109.323
Nonoperating loss, net	(989)	(2.926)
Income before income and social contribution taxes and employee profit sharing	97.192	106.397
Income and social contribution taxes - current	(24.035)	(40.084)
Income and social contribution taxes - deferred	4.230	(2.740)
Income before employee profit sharing	77.387	63.573
Employee profit sharing	(1.815)	(2.488)
Net income before reversal of interest on shareholders' equity	75.572	61.085
Reversal of interest on shareholders' equity	12.287	10.559
Net income for the year	87.859	71.644
Number of outstanding shares at year end	815.907	815.907
Earnings per share (R\$)	107,68	87,81

See accompanying notes.

STATEMENTS OF SHAREHOLDER'S EQUITY

Years Ended December 31, 2006 and 2005
(In thousands of reais)

	Capital Reserves				Income Reserves			
	Capital	ICMS incentive	Income tax incentive	Treasury shares	Revaluation reserve	Legal reserve	Retained earnings	Total
Balances at December 31, 2004	149.525	265.812	33.416	(23.073)	26.412	5.154	53.819	511.065
Dividends paid related to prior years							(42.561)	(42.561)
Income tax incentive			24.281					24.281
Realization of revaluation reserve					(8.589)		13.014	4.425
Treasury shares				(11.503)				(11.503)
Cancellation of treasury shares	(34.576)			34.576				
Net income for the year							71.644	71.644
Management proposal for allocation of net income:								
Interest on shareholders' equity							(10.559)	(10.559)
Legal reserve – 2005						3.582	(3.582)	
Proposed dividends							(6.456)	(6.456)
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 Special General Meeting of 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

See accompanying notes.

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STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2006 and 2005

(In thousands of reais)

	2006	2005 (Reclassified)
WORKING CAPITAL PROVIDED BY:		
Operations:		
Net income for the year	87.859	71.644
Items not affecting working capital:		
Equity pick-up in subsidiaries	5.451	10.738
Deferred income and social contribution taxes	(2.044)	(437)
Exchange and monetary variations and long-term interest, net	469	
Provision for contingencies	6.013	1.076
Net book value of permanent assets disposed of	37.838	26.975
Depreciation	37.247	43.085
	172.833	153.081
Third parties:		
Income tax incentive reserve	17.482	24.281
Decrease in long-term assets		8.754
Total working capital provided	190.315	186.116
WORKING CAPITAL USED FOR:		
Dividends paid related to prior years	75.134	42.561
Dividends proposed related to current year	8.580	6.456
Interest on shareholders' equity	12.287	10.559
Treasury shares		11.503
Acquisition of property, plant and equipment	69.180	99.265
Investments	12.473	
Transfer from noncurrent to current liabilities	8.692	8.083
Increase in long-term assets	2.265	
Total working capital used	188.611	178.427
Increase in working capital	1.704	7.689
Represented by:		
Current assets:		
At the end of the year	368.628	370.511
At beginning of the year	370.511	347.237
	(1.883)	23.274
Current liabilities:		
At the end of the year	134.340	137.927
At beginning of the year	137.927	122.342
	3.587	(15.585)
Increase in working capital	1.704	7.689

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

(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 adopted in Brazil, observing the accounting policies established in Brazil's Corporation Law (Law No. 6404/76) and supplementary provisions.

The main accounting practices adopted by the Company are shown below:

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, and are 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, less allowance for losses on obsolete or slow-moving items, not exceeding market value.

e) Investments

Investments in subsidiaries are valued under the equity method, based on the subsidiaries' balance sheet for the same dates. 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 and monetarily restated until December 31, 1995, plus voluntary revaluation. Depreciation is calculated using the straight-line method at the rates mentioned in Note 7, taking into consideration the useful life of the assets.

g) Rights and obligations

When applicable, rights and obligations are restated based on exchange and index variations, plus interest, under the agreements in force, in order to reflect the amounts incurred until the balance sheet dates. Exchange gains and losses and monetary variations are recognized in the statement of income for the years.

h) Loans and financing

Loans and financing are restated based on monetary variations and interest incurred to the balance sheet dates.

i) Income and social contribution taxes

The provisions for income and social contribution taxes are recognized based on rates and taxable profit, adjusted in accordance with specific legislation. Deferred income and social contribution taxes are calculated based on temporary differences, considering an expectation of realization within two years.

j) Provisions

Provisions are recognized in the balance sheets whenever the Company has a legal or acquired obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provisions are recognized based on the best estimates of the risk involved.

k) 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.

In 2006, the Management of the Company reviewed the classification of this account, and reclassified accounts payable to distributed companies from current liabilities to an account reducing trade accounts receivable, stated in current assets. Management understands that such classification is a better reflection of the services provided to distributed companies, since it acts as an agent for them, basically transferring the funds. In view of such reclassification, the presentation of the balance sheet as of December 31, 2005 and the statement of changes in financial position for the year ended December 31, 2005 has been reclassified to enable comparison by the financial statement users.

l) Use of estimates

The preparation of financial statements in accordance with accounting practices adopted in Brazil requires that Management of the Company use estimates as basis for recording certain transactions that affect assets and liabilities, income and expenses, as well as the disclosure of information on the financial statements. The final results of these transactions, considering the respective realization in subsequent periods, could differ from such estimates.

m) Earnings per share

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

3. CASH AND CASH EQUIVALENTS

	2006	2005
Cash and banks	25.660	28.464
Marketable securities	98.336	153.306
	123.996	181.770

At December 31, 2006, short-term investments refer substantially to bank deposit certificates, bearing interest at rates that range from 100% to 100.5% of the Interbank Deposit Certificate (CDI).

4. TRADE ACCOUNTS RECEIVABLE

	2006	2005
Own receivables	110.621	84.032
Receivables – distributed companies	267.799	260.042
Distributed companies (Licensors)	(287.808)	(325.601)
	90.612	18.473

In 2006, Management of the Company reviewed the classification of this account, and reclassified accounts payable to distributed companies from current liabilities to an account reducing trade accounts receivable, in current assets. Management understands that such classification is a better reflection of the services provided to distributed companies, since it acts as an agent for them, basically transferring the funds.

5. INVENTORIES

	2006	2005
Raw materials	37.862	69.877
Work in process	19.668	24.262
Finished goods	53.752	43.337
Printing and packaging material	5.067	4.694
Other materials	10.484	4.758
Allowance for losses	(4.058)	(2.563)
	122.775	144.365

6. 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, 2004	22.750		671	500	23.921
Equity pick-up	(10.738)				(10.738)
Balances as of December 31, 2005	12.012		671	500	13.183
Acquisition of Videolar Rio Grande Argentina		12.068			12.068
Equity pick-up	(1.701)	(3.750)			(5.451)
Disposal of Videolar Garin Argentina and Videolar Rio Grande Argentina	(8.695)	(8.305)			(17.000)
Losses 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

On September 30, 2006, the acquisition of Videolar Rio Grande Argentina was approved in the Board of Directors' meeting, through capitalization of accounts receivable. In addition, on August 15, 2006, the Board of Directors' meeting approved an increase in the interest in Videolar Rio Grande Argentina through capital contributions.

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.

7. PROPERTY, PLANT AND EQUIPMENT

	Depreciation rate	2006			2005
		Cost	Accumulated depreciation	Net	Net
Properties	4%	68.113	(14.244)	53.869	56.227
Machinery and equipment	10%	480.897	(299.547)	181.350	141.984
Industrial plants	10%	25.918	(11.789)	14.129	14.060
Furniture and fixtures	10%	41.182	(35.115)	6.067	7.894
Molds and tools	10%	27.410	(10.833)	16.577	15.390
Other assets	10% to 20%	32.303	(24.835)	7.468	11.721
Construction in progress		40.707		40.707	60.622
		716.531	(396.363)	320.167	307.898

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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, 2006, the balance of the revalued assets, net of accumulated depreciation, amounts to R\$13.004 (R\$27.004 in 2005). Management conducted a study of the recovery value of assets revalued as of December 31, 2006, and understands that there is no need to write-off any of such assets and the corresponding revaluation reserve.

8. LOANS AND FINANCING

Contract	Rates	Collaterals	Limit	12.31.2006	12.31.2005
BNDES	TJLP + 1,2% p.a.	Properties	38.593	8.948	17.136
ACC-BRADESCO	5,01% to 5,53% p.a. + Exchange Variation	Promissory note	N/A	61	5.741
				9.009	<u>22.877</u>

Loans from BNDES (National Bank for Social and Economic Development) were obtained for the expansion of the Company's operating activities. Of the total amount, R\$8.321 is classified in current liabilities (R\$13.966 in 2005), and R\$688 is classified in noncurrent liabilities (R\$8.911 in 2005).

9. PROVISION FOR CONTINGENCIES

The Company is subject to tax, legal, labor, civil and other contingencies. On a periodic basis, Management reviews the 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.

When applicable, judicial deposits are made to guarantee the lawsuits. These deposits, amounting to R\$8.799 as of December 31, 2006 (R\$6.534 in 2005), are classified in long-term assets.

Regarding lawsuits in progress, the provision for contingencies accrued and recorded in noncurrent liabilities are as follows:

	2006	2005
Civil	529	523
Tax	7.373	6.287
Labor	4.946	2.067
Administrative	2.555	513
	15.403	<u>9.390</u>

The provision for labor contingencies refers to losses estimated based on the individual analysis of 113 labor claims, mainly related to overtime.

The provision for civil contingencies refers to estimated losses on 83 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.

10. ICMS TAX INCENTIVES

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, 2006, the Company was fully compliant with all legal requirements to benefit from such incentives.

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 maximum limit of 5% of the net sales price. Based on this certificate and on the assessment of the lawsuit by its legal counsel for the year ended December 31, 2005, the Company reversed the provision in the amount of approximately R\$22.700, and is paying the royalties under the criteria established by INPI. The provision as of December 31, 2006 and 2005 includes the amount payable related to the months of December 2006 and 2005, respectively.

12. SHAREHOLDERS' EQUITY

a) Capital

- i. As of December 31, 2006 and 2005, 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%, priority 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 25, 2006, capital increase in the amount of R\$128.149 was approved, through capitalization of Income Tax and ICMS Incentive Reserves, thus changing the capital from R\$114.949 to R\$243.098.

b) Capital reserves

i. Income tax and ICMS incentive

The capital reserve is composed of ICMS (until 2003) and Income Tax (as of 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, 2006, the Company was compliant with all legal requirements to benefit from such incentives.

c) Income reserves

i. 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:

	2006	2005
Net income for the year	87.859	71.644
Legal reserve	(4.393)	(3.582)
Base net income for calculation of the dividend	83.466	68.062
Proposed dividend, equivalent to 25% of the base net income	20.867	17.015
(-) Interest on shareholders' equity	(12.287)	(10.559)
Dividends payable	8.580	6.456
Dividend per share – R\$	25,57	20,85

According to the decision of the Annual General Meeting held on April 25, 2006, the payment of additional dividends in the total amount of R\$75.134 related to prior years was approved.

e) Interest on shareholders' equity

At the Special General Meetings held on April 25, 2006 and December 11, 2006, the shareholders approved the payment of interest on shareholders' equity, according to relevant legal provisions, in the amount before taxes of R\$5.759 and R\$6.528, totaling R\$12.287 to be paid proportionally to the investment held by each shareholder.

13. FINANCIAL INCOME (EXPENSES), NET

	2006	2005
Financial income:		
Interest and gains on marketable securities	11.768	17.433
Exchange variation	14.899	17.642
Other	71	1.534
	26.738	36.609
Financial expenses:		
Interest on loans	1.478	2.354
Interest on shareholders' equity	12.287	10.559
Discounts granted	2.687	3.166
Bank expenses	1.555	912
Exchange variation	9.207	17.097
CPMF (Provisional Contribution Tax on Financial Transactions)	5.328	4.947
Others	173	429
	32.715	39.464
Financial income (expenses), net	(5.977)	(2.855)

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:

	2006	2005
Provision for losses on assets	1.380	871
Provision for contingencies	5.237	3.193
Other provisions	2.075	794
Other temporary differences	1.343	947
Total	10.035	5.805
Current portion	4.798	2.612
Noncurrent portion	5.237	3.193

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	2006	2005
Income after employee profit sharing and before income and social contribution taxes and reversal of interest on shareholders' equity	95.377	103.909
Combined tax rate	34%	34%
Income and social contribution taxes at combined tax rate	(32.428)	(35.329)
Additions:		
Equity pick-up	(1.853)	(3.650)
Revaluation reserve	(4.323)	(4.425)
Other additions	(6.861)	(4.476)
Exclusions:		
Provisions	8.875	2.778
Other exclusions	16.785	2.278
	(19.805)	(42.824)
Effective tax rate	21%	41%
Current income and social contribution taxes	(24.035)	(40.084)
Deferred income and social contribution taxes	4.230	(2.740)
	(19.805)	(42.824)

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, 2006 and 2005 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 amounts 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. 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 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) Contingency 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 9.

d) Marketable securities

Marketable securities are mostly carried out for periods lower than three months and the rates substantially reflect usual market conditions as of December 31, 2006 and 2005.

e) Loan risks

Loan transactions are presented in Note 8, and the contracted rates substantially reflect usual market conditions as of December 31, 2006 and 2005.

17. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Affiliated and related companies	Amounts receivable		Purchases, sales or interest expenses and exchange variaion	
	2006	2005	2006	2005
Videolar Argentina		7.854	851	2.190

Related-party transactions are carried out under the conditions agreed upon between the parties.

18. 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 will be met, Management recognized a provision for payment of this benefit in the amount of R\$1.815 in 2006 (R\$2.488 in 2005).

Ana Marta Bechara
CRC 1SP204.537/O-5 S-AM
Accountant

Diretoria Executiva e Conselho de Administração *Board of Directors and the Administrative Council*

Diretoria Executiva *Board of Directors*

Lirio Albino Parisotto

Diretor Presidente

President and Chairman of the Board

Carmo Bernardi Caparelli

Diretor de Operações

Operations Director

Tsuguo Takayama

Diretor Administrativo / Financeiro

Administrative / Financial Director

Luiz Roberto Fahl Boaventura

Diretor de Comércio Eletrônico / Recursos Humanos

E-Commerce / H. Resources Director

Valmir Franco

Diretor Industrial / Residente Manaus

Industrial Director / Settled in Manaus

Elie Waitzberg

Diretor Técnico / de Suprimentos

Technical / Procurement Director

Conselho de Administração

Administrative Council

Lirio Albino Parisotto

Presidente do Conselho

Council Chairman

Phillip Wojdyslawski

Tânia Maris Vanin Parisotto