Financial statements - Videolar S.A.

December 31, 2008 and 2007

CONTENTS

Report of independent auditors XIV

Audited financial statements

Balance sheets XV

Statements of operations XVI

Statements of changes in shareholders' equity XVII

Statements of cash flows XVIII

Notes to financial statements XIX

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Videolar S.A.

1. We have audited the accompanying balance sheet of Videolar S.A. as of December 31, 2008, and the related statements of operations, changes in shareholders' equity and cash flows 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. 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 the management of the Company, as well as an evaluation of the overall financial statement presentation.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Videolar S.A. as of December 31, 2008, and the result of its operations, changes in its shareholders' equity and cash flows from operations for the years then ended, in accordance with accounting practices adopted in Brazil.
4. Previously, we audited the financial statements for the year ended December 31, 2007, including the balance sheet, statements of operations, changes in shareholders' equity and changes in financial position for the year then ended, and our report, dated February 1, 2008, contained a scope limitation on investments in subsidiaries.. As mentioned in Note 2, the changes introduced to accounting practices adopted in Brazil became effective as from January 1, 2008. The financial statements for the year ended December 31, 2007, presented in conjunction with year 2008 financial statements, were prepared in accordance with accounting practices adopted in Brazil effective through December 31, 2007 and, as allowed by Brazilian FASB (CPC) Technical Pronouncement No. 13 – First-time Adoption of Law No. 11638/07 and Provisional Executive Act (MP) No. 449/08, were not restated to reflect the adjustments for purposes of comparison between referred years.
5. The statement of cash flows for the year ended December 31, 2007, prepared in connection with the financial statements for the year 2008, was submitted to the same audit procedures described in paragraph 2 and, in our opinion, is presented fairly, in all material respects, in relation to the financial statements mentioned in paragraph 4, taken as a whole.

Manaus, February 28, 2009

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

Antonio Carlos Fioravante
Accountant CRC-1SP184973/O-S-AM

BALANCE SHEETS
December 31, 2008 and 2007
(In thousands of reais)

ASSETS	2008	2007
Current assets		
Cash and cash equivalents (Note 4)	**22,589**	42,329
Trade accounts receivable (Note 5)	**77,342**	62,491
Allowance for doubtful accounts	**(19,580)**	(16,015)
Recoverable taxes	**4,360**	4,376
Prepaid taxes	**10,831**	15,453
Inventories (Note 6)	**203,054**	190,939
Prepaid expenses	**507**	619
Deferred income and social contribution taxes (Note 15)	**10,845**	9,752
Other accounts receivable	**4,425**	4,048
Total current assets	**314,373**	313,992
Noncurrent assets		
Deferred income and social contribution taxes (Note 15)	**6,758**	6,861
Investments (Note 7)	**645**	1,316
Property, plant and equipment (Note 8)	**337,669**	340,648
Intangible assets	**963**	-
Total noncurrent assets	**346,035**	348,825
Total assets	**660,408**	662,817

LIABILITIES AND SHAREHOLDERS' EQUITY	2008	2007
Current liabilities		
Loans and financing (Note 9)	**59**	676
Trade accounts payable	**103,693**	63,548
Payroll and related charges	**8,696**	9,669
Taxes payable other than on income	**5,959**	16,997
Royalties payable (Note 12)	**17,944**	20,212
Interest on shareholders' equity (Note 13)	**-**	694
Deferred income and social contribution taxes (Note 15)	**-**	31
Taxes payable in installments (Note 11)	**5,325**	-
Other accounts payable	**12,799**	10,286
Total current liabilities	**154,475**	122,113
Noncurrent liabilities		
Deferred income and social contribution taxes (Note 15)	**-**	305
Taxes payable in installments (Note 11)	**19,821**	-
Loans and financing (Note 9)	**16,078**	-
Provision for contingencies (Note 10)	**6,448**	11,076
Total noncurrent liabilities	**42,347**	11,381
Shareholders' equity (Note 13)		
Capital	**471,910**	304,758
Capital reserves	**-**	167,152
Revaluation reserves	**-**	659
Income reserves (accumulated losses)	**(8,324)**	56,754
Total shareholders' equity	**463,586**	529,323
Total liabilities and shareholders' equity	**660,408**	662,817

See accompanying notes.

STATEMENTS OF OPERATIONS
Years ended December 31, 2008 and 2007
(In thousands of reais, except earnings per share)

	2008	2007
Gross sales	**1,031,869**	1,205,177
Sales deductions	**(151,611)**	(188,748)
Net sales	**880,258**	1,016,429
Cost of goods sold and services rendered	**(711,327)**	(769,655)
Gross profit	**168,931**	246,774
Operating expenses		
Administrative/Human Resources	**(30,108)**	(32,440)
Selling/logistics	**(44,898)**	(69,226)
Industrial/technology	**(70,062)**	(87,277)
Financial income (Note 14)	**27,749**	26,541
Financial expenses (Note 14)	**(64,688)**	(34,662)
Other operating income, net	**2,737**	633
(Loss) income from operations	**(10,339)**	50,343
Non-operating loss	**-**	(711)
(Loss) income before income and social contribution taxes	**(10,339)**	49,632
Income and social contribution taxes – current (Note 15)	**(1,881)**	(43,218)
Income and social contribution taxes – deferred (Note 15)	**991**	6,577
(Loss) income before reversal of interest on shareholders' equity	**(11,229)**	12,991
Reversal of interest on shareholders' equity	**-**	10,606
(Loss) net income for the year	**(11,229)**	23,597
Number of shares outstanding at year end	**815,907**	815,907
(Loss) earnings per share (R$)	**(13.76)**	28.92

See accompanying notes.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
December 31, 2008 and 2007
(In thousands of reais)

		Capital reserves			Income reserves		
	Capital	ICMS incentive	Income tax incentive	Revaluation reserve	Legal reserve	Retained earnings (accumulated losses)	Total
Balances at December 31, 2006	243,098	195,360	17,482	8,583	13,129	75,497	553,149
Dividends paid related to prior years	-	-	-	-	-	(56,693)	(56,693)
Capital increase according to minutes of Annual and Special Shareholders' meeting of April 26, 2007	61,660	(44,178)	(17,482)	-	-	-	-
Income tax incentive	-	-	15,970	-	-	-	15,970
Realization of revaluation reserve	-	-	-	(7,924)	-	11,830	3,906
Net income for the year	-	-	-	-	-	23,597	23,597
Management proposal for allocation of net income:							
Interest on shareholders' equity	-	-	-	-	-	(10,606)	(10,606)
Legal reserve	-	-	-	-	1,180	(1,180)	-
Balances at December 31, 2007	304,758	151,182	15,970	659	14,309	42,445	529,323
Dividends paid related to prior years	**-**	**-**	**-**	**-**	**-**	**(42,427)**	**(42,427)**
Capital increase according to minutes of Annual and Special Shareholders' meeting of April 29, 2008	**167,152**	**(151,182)**	**(15,970)**	**-**	**-**	**-**	**-**
Realization of revaluation reserve	**-**	**-**	**-**	**(659)**	**-**	**-**	**(659)**
Dividends paid in advance	**-**	**-**	**-**	**-**	**-**	**(11,422)**	**(11,422)**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**(11,229)**	**(11,229)**
Absorption of accumulated losses	**-**	**-**	**-**	**-**	**(14,309)**	**14,309**	**-**
Balances at December 31, 2008	**471,910**	**-**	**-**	**-**	**-**	**(8,324)**	**463,586**

See accompanying notes.

STATEMENTS OF CASH FLOWS
Years ended December 31, 2008 and 2007
(In thousands of reais)

	2008	2007
Cash flow from operating activities		
(Loss) net income	**(11,229)**	23,597
Adjustments to reconcile net income to cash generated by operating activities:		
Deferred income tax and social contribution taxes	**(1,326)**	(10,663)
Depreciation	**59,311**	54,038
Interest, foreign exchange and monetary variation, net	**494**	685
Loss in disposal of noncurrent assets	**478**	(1,453)
(Reversal) provision for contingencies	**(4,628)**	4,472
Allowance for doubtful accounts	**3,565**	4,786
	46,665	75,462
(Increase) decrease in assets		
Trade accounts receivable	**(14,851)**	28,121
Recoverable taxes /prepaid	**4,638**	2,490
Inventories	**(12,115)**	(68,164)
Other assets	**(265)**	10,690
	(22,593)	(26,863)
Increase (decrease) in liabilities		
Trade accounts payable	**40,145**	(8,578)
Payroll and related charges	**(973)**	(1,320)
Taxes payable other than on income	**(11,038)**	9,090
Other liabilities	**25,391**	13,723
	53,525	12,915
Net cash generated by operating activities	**77,597**	61,514
Cash flow from investing activities		
Acquisition of other investments	**671**	(240)
Acquisition of fixed assets	**(59,879)**	(86,023)
Acquisition of intangible assets	**(963)**	-
Disposal of fixed assets	**2,410**	16,863
Net cash used in investing activities	**(57,761)**	(69,400)
Cash flow from financing activities		
Loans and financing obtained	**37,577**	28,554
Payment of loans and financing	**(22,610)**	(37,572)
Tax incentives	**-**	15,970
Interest on shareholders' equity	**(694)**	(15,460)
Payment of dividends	**(53,849)**	(65,273)
Net cash used in financing activities	**(39,576)**	(73,781)
Decrease in cash and cash equivalents	**(19,740)**	(81,667)
Cash and cash equivalents at beginning of the year	**42,329**	123,996
Cash and cash equivalents at end of the year	**22,589**	42,329
Decrease in cash and cash equivalents	**(19,740)**	(81,667)

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007
(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), 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.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND FIRST-TIME ADOPTION OF LAW No. 11638/07 AND PROVISIONAL EXECUTIVE ACT (MP) No. 449/08

The authorization for the issuance of these financial statements was granted in the board meeting held on February 27, 2009.

The financial statements were prepared in accordance with accounting practices adopted in Brazil and pronouncements issued by the Brazilian FASB (CPC), observing the accounting guidelines contained in the Brazilian Corporation Law (Law No. 6404/76), with new provisions introduced, amended and repealed by Law No. 11638, of December 28, 2007, and Provisional Executive Act (MP) No. 449, of December 3, 2008.

Pursuant to the CPC Pronouncement No. 13 (CPC 13) – First-time Adoption of Law No. 11638/07 and of MP No. 449/08, the Company determined December 31, 2007 as the transition date for adoption of the new accounting practices. The transition date is defined as the starting point for the adoption of changes in accounting practices adopted in Brazil and is the base date on which the Company prepared its first balance sheet considering of the new accounting provisions issued during 2008.

CPC 13 released companies from the obligation to apply the provisions set forth in Accounting Standards and Procedures NPC No. 12 (NPC 12) – Accounting Practices, Changes in Accounting Estimates and Correction of Errors upon the first-time adoption of Law No. 11638/07 and MP No. 449/08. This rule establishes that, in addition to separately identifying the effects of the new accounting practice adoption in the retained earnings/accumulated losses account, companies state their opening balance sheet for the account or group of accounts relating to the oldest period for comparison purposes, as well as other comparative amounts presented, as if the new accounting practice had always been in use.

The Company exercised the release option provided for in this CPC, since adjustments arising from the change in accounting practices are not significant when compared to the previously adopted accounting practices. The financial statements for the year ended December 31, 2007, presented in conjunction with the 2008 financial statements, were prepared in accordance with Brazilian accounting practices effective through December 31, 2007. As allowed by CPC 13 – First-time Adoption of Law No. 11638/07 and MP No. 449/08, said statements are not restated for the adjustments for purposes of comparison between referred years.

The changes in accounting practices that had effects on preparation or presentation of the financial statements for the year ended December 31, 2008 and on the opening balance sheet at January 1, 2008 were measured and recorded by the Company based on the following accounting pronouncements from Brazilian FASB (CPC) and approved by Federal Board of Accountancy (CFC):

- Basic Framework for Preparation and Presentation of Financial Statements;
- CPC 01 Impairment of Assets;
- CPC 02 Effects on Exchange Rate Changes and Conversion of Financial Statements;
- CPC 03 Statement of Cash Flows;
- CPC 04 - Intangible Assets;
- CPC 05 - Disclosure on Related Parties;
- CPC 07 – Government Grants and Government Assistance;
- CPC 08 – Transaction Costs and Premium upon Issue of Marketable Securities;
- CPC 12 Present Value Adjustments;
- CPC 13 - First-time Adoption of Law No. 11638/07 and Provisional Executive Act (MP) No. 449/08;
- CPC 14 - Financial Instruments: Recognition, Measurement and Evidence.

The opening balance sheet as of December 31, 2007 (the transition date) was prepared considering the exceptions required and some of the elective exemptions allowed by CPC 13, as follows:

a) Presentation of comparative financial statements

The financial statements as of December 31, 2007 were prepared based on accounting practices effective in 2007. The option provided by CPC 13 of not adjusting 2007 financial statements to the accounting standards effective for 2008 was exercised by the Company, as disclosed above.

b) Classification of financial instruments at their inception date

Although CPC 14 determines that financial instruments shall be classified at their inception date, CPC 13 allowed their classification as at the transition date, and this option was adopted by the Company.

c) Present value adjustments

The Company calculated the present value adjustment considering the overall calculation based on outstanding balances of each group of monetary assets and liabilities accounts, and also applied the discount rates based on market assumptions existing at the transition date. The items comprising each group of accounts subject to overall calculation have uniform characteristics.

d) Maintenance of revaluation reserve

The Company opted for the reversal of the revaluation reserve balance existing at the transition date. Deferred income and social contribution taxes recognized upon recording of such reserve received the same accounting treatment.

e) Presentation of statements of cash flows without disclosing the prior-year amounts

In order to provide comparability, the Company elected to present the statements of cash flows for the year ended December 31, 2007, in conformity with the preparation and presentation requirements set out in CPC 03. The Company also elected not to present the statements of changes in financial position for the years ended on or after January 1, 2008.

f) Tax neutrality upon first time adoption of Law No. 11638/07 and MP No. 449/08

The Company opted for the Transition Tax Regime (RTT) introduced by Provisional Executive Act (MP) No. 449/08, whereby the calculations of Corporate Income Tax (IRPJ), Social Contribution on Net Profit (CSLL), contribution for Social Integration Program (PIS) and contribution for Social Security Financing (COFINS), for the biennium 2008-2009, 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. 11638/07 and MP No. 449/08 were recorded in the Company's financial statements where applicable, in accordance with CVM Rule No. 371. The Company will disclose such option in its Corporate Income Tax Return (DIPJ) for 2009.

g) Application of the first-time periodic assessment of the useful life of fixed assets

Until December 31, 2009, the Company will reassess the expected useful life of its property, plant and equipment, to determine the relevant depreciation rates. Any changes to estimated useful life of the assets arising therefrom, if significant, will be treated as changes in accounting estimates to be recognized on a prospective basis.

h) Effects of adjustments arising from Law No. 11638/07 and MP No. 449/08

In accordance with first-time adoption disclosure requirements of the new accounting practices, in the following table the Company presents for current, for comparison purposes, a brief description and the amounts corresponding to the impacts on shareholders' equity and P&L referring to the changes introduced by Law No. 11638/07 and MP No. 449/08. Impacts are shown only for 2008 in view of the Company's option regarding the transition date:

		2008
Shareholders' equity before the changes introduced by Law 11638/07 and MP 449/08		**462,210**
Funding costs	(i)	**(717)**
Revaluation reserve	(ii)	**(659)**
Shareholders' equity after the adoption of Law 11638/07 and MP 449/08		**463,586**

		2008
Loss for the year before the changes introduced by Law 11638/07 and MP 449/08		**(12,941)**
Funding costs	(i)	**(717)**
Revaluation reserve	(ii)	**(995)**
Net effects from the adoption of Law 11638/07 and MP 449/08		**(1,712)**
Loss for the year after the adoption of Law 11638/07 and MP 449/08		**(11,229)**

i) Effects of adjustments arising from Law No. 11638/07 and MP No. 449/08

(i) Incremental costs incurred in obtaining loans, now shown as a reduction in this account and no longer in P&L. For the year ended December 31, 2007, expenses of such nature were not significant.

(ii) Reversal of revaluation reserve, as provided for by Law No. 11638/07 and MP No. 449/08.

In addition, due to the elimination by MP No. 449/08 of the "Nonoperating result" line, the Company reclassified R$ 1,037 in the financial statements for the years ended December 31, 2008 to "Other operating revenues (expenses)" line, with the disclosure in specific note.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

a) Statement of operations

Revenues and expenses are recorded on the accrual basis. Revenue from sales is recognized at gross amounts, i.e., including sales taxes and deductions, which are stated as accounts reducing sales. Revenue from sales of goods is recognized in P&L 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.

b) Translation of balances denominated in foreign currency

The Company's functional currency 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 date. 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 the statement of operations.

c) Financial instruments

Financial instruments are only recognized when the Company becomes a party to the instrument's contractual provisions. When recognized these are initially recorded at fair value plus transaction costs directly attributable to their acquisition or issuance. Subsequent measurements occur at each balance sheet date according to rules established for each type of financial asset or liability classification.

(i) Financial assets

These are classified in the categories below according to the purpose for which they have been purchased or issued:

- Financial assets measured at fair value through profit or loss (FVTPL): These include financial assets held for trading and assets initially recognized at FVTPL. They are classified as held for trading if originated for the purpose of sale or repurchase in the short term. They are measured at fair value at each balance sheet date. Interest, monetary variation and foreign exchange gains/losses and fluctuations arising from measurement at fair value are recognized in profit or loss, as incurred, under "Financial income" or "Financial expenses".
- Loans (granted) and receivables: 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, less impairment, if any, are recognized in statement of operations, as incurred, under "Financial income" or "Financial expenses".

  The major financial assets recognized by the Company are cash and cash equivalents (including short-term investments) and trade accounts receivable.

(ii) Financial liabilities

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

- Financial liabilities not measured at fair value: Non-derivative financial liabilities not usually traded before maturity. They are initially measured at amortized cost using the effective interest rate method. Interest, monetary variation and foreign exchange gains/loss, when applicable, are recognized in statement of operating, as incurred.

  The main financial liabilities recognized by the Company are: trade accounts payable, 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 date or based on appreciation 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 the 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.

d) Cash and cash equivalents

These include cash, bank account balances and short-term investments redeemable within 90 days from the balance sheet dates, pursuant to the Company's policy, subject to insignificant risk of change in their fair value. The short-term investments included as cash equivalents are classified as "financial assets at fair value through profit or loss".

e) 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 date. 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 5.

f) Inventories

These are stated at average acquisition or production cost, not exceeding their fair value. Provisions for slow-moving or obsolete inventories are set up when deemed necessary by management.

g) Investments

Until December 31, 2007, investments in subsidiary were stated by the equity method. Other permanent investments are recorded at cost, less valuation allowance when applicable.

h) Property, plant and equipment

Property, plant and equipment are stated at acquisition, development or construction cost. Depreciation is calculated on the straight-line basis at the rates mentioned in Note 8 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 fixed asset 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 safely measured, whereas other expenses are charged directly to P&L, as incurred.

i) Intangible assets

Separately acquired intangible assets are initially recognized at cost of acquisition and subsequently deducted from accumulated amortization and impairment, when applicable.

Intangible assets generated internally, excluding capitalized expenses with product development, are recognized in P&L for the year in which they arose. Intangible assets with defined useful lives are amortized according to their estimated useful economic life and upon identification of impairment are submitted to impairment analysis testing. Intangible assets with undefined useful lives are not amortized, but are submitted to an annual impairment analysis testing.

j) Provision for impairment of assets

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

k) Other assets and liabilities

Liabilities are recognized in the balance sheet when the Company has a legal or constructive obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits. Provisions are recorded reflecting the best estimates of the risk involved.

Assets are recognized in the balance sheet when it is likely that their future economic benefits will be generated on the Company's behalf and their cost or value can be safely measured.

Assets and liabilities are classified as current when these items are likely to be settled or realized within 12 months; otherwise these are classified as noncurrent.

l) Taxation

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

Taxes and social contributions	Abbreviation	Rate
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% to 18%
Federal VAT	IPI	15% to 25%
Service Tax	ISS	2%*

* Since September/2007

These charges are shown as sales deductions in the statement of operations. Tax credits arising from non-cumulative taxation by PIS/COFINS are recorded as a deduction from costs of products sold in the statement of operations.

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 profit upon determination of current taxable profit generate deferred income and social contribution taxes assets or liabilities.

Tax prepayments or taxes recoverable are stated in current and noncurrent assets, based on forecasts of their realization.

Deferred tax credits resulting from temporary differences are recognized only to the extent that it is likely that a positive taxable base will exist for which the temporary differences may be used.

m) Government grants and government assistance

These are recognized when there is reasonable certainty 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 compensated for 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, 2008, the Company was fully compliant with all legal requirements to benefit from such incentives.

n) Adjustment to present value of assets and liabilities

Noncurrent monetary assets and liabilities are monetarily restated, and therefore 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, adjustment to present value 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, 2008, the Company measured the adjustment to present value 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. Regarding noncurrent assets and liabilities, the Company was already adopting the procedure of monetarily restating such items, therefore they were already adjusted to present value. In 2007, assets and liabilities were not discounted to present value.

o) Accounting estimates

These are used in the measurement and recognition of certain assets and liabilities in the financial statements of the Company. These estimates take into consideration experience from past and current events, assumptions in respect of future events, and other objective and subjective factors. Significant items subject to such estimates include selection of useful lives of property, plant and equipment and intangible assets; allowance for doubtful accounts; provision for inventory losses; provision for losses on investments; analysis of recoverability of property, plant and equipment and intangible assets; deferred income and social contribution taxes; and provision for contingencies. Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainties inherent in the estimate process. The Company reviews its estimates and assumptions at least on an annual basis.

p) Statements of cash flows

The statements of cash flows were prepared and are presented in accordance with Technical Pronouncement CPC 03 Statements of Cash Flow, issued by the Brazilian FASB (CPC).

q) Earnings per share

Earnings per share are calculated based on the number of shares outstanding at the financial statements closing dates.

4. CASH AND CASH EQUIVALENTS

	2008	2007
Cash and banks	**22,589**	35,471
Short-term investments	**-**	6,858
	22,589	42,329

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

5. TRADE ACCOUNTS RECEIVABLE

	2008	2007
Own costumer receivables	**110,923**	85,496
Receivables on behalf of distributed companies	**142,295**	201,422
Distributed companies (licensors)	**(175,876)**	(224,427)
	77,342	62,491

Management of the Company understands that the offset of Distributed Companies (Licensors) against accounts receivable is the most properly classification, and reflect the services provided to Distributed Companies, since the Company acts as an agent for them, basically transferring the funds.

6. INVENTORIES

	2008	2007
Raw materials	**68,586**	64,095
Work in process	**17,048**	25,368
Finished goods	**84,419**	77,541
Printing and packaging material	**3,568**	5,284
Other materials	**39,837**	24,701
Allowance for losses	**(10,404)**	(6,050)
	203,054	190,939

7. INVESTMENTS IN SUBSIDIARIES

a) Changes in investments

	Transvat Transportadora Ltda.	Other investments	Total investments
Balances at December 31, 2006	671	405	1,076
Audiovisual Law	-	240	240
Balances at December 31, 2007	671	645	1,316
Disposal of investment at Transvat	**(671)**	**-**	**(671)**
Balances at December 31, 2008	**-**	**645**	**645**

Transvat Transportadora Ltda. operations were discontinued, as per Articles of Dissolution signed on September 30, 2008.

8. PROPERTY, PLANT AND EQUIPMENT

		2008			2007
	Depreciation rate	Cost	Accumulated depreciation	Net value	Net value
Properties	4%	**73,715**	**(18,666)**	**55,049**	58,593
Machinery and equipment	10%	**437,383**	**(270,183)**	**167,200**	193,634
Industrial plants	10%	**56,527**	**(18,643)**	**37,884**	37,847
Furniture and fixtures	10%	**37,574**	**(33,034)**	**4,540**	5,803
Molds and tools	10%	**34,235**	**(16,080)**	**18,155**	19,210
Other assets	10% to 20%	**17,595**	**(12,006)**	**5,589**	6,506
Construction in progress		**49,252**	**-**	**49,252**	20,534
Provision for write-off of fixed assets		**-**	**-**	**-**	(1,479)
		706,281	**(368,612)**	**337,669**	340,648

As of December 31, 2008, Management opted for the reversal of the revaluation reserve of fixed assets, in the amount of R$ 995, and the reversal of the corresponding deferred income and social contribution taxes previously recognized on such reserve.

Management of the Company did not identify indication of impairment loss on its fixed assets.

9. LOANS AND FINANCING

Contract	Rates	Collaterals	Maturity	12.31.2008	12.31.2007
BNDES	TJLP + 1.2% p.a.	Properties	01/15/2008	**-**	676
Fortis Bank NV/SA France	4.88 % p.a.	Promissory note	01/08/2016	**16,854**	-
				16,854	676
Portion maturing within 12 months				**(59)**	(676)
Funding cost				**(717)**	
Noncurrent portion				**16,078**	-

In 2008, the Company obtained a credit line from Fortis Bank of EURO 20,400 thousand. Until December 31, 2008, Videolar had used EURO 4,303 for payment to the supplier Darlet Marchante Technologies S.A., referring to import of machinery and equipment for the new BOPP production line (Biaxially-Oriented Polypropylene). Such financing does not provide for maximum indebtedness and leverage levels. Funding costs substantially comprise intermediation commissions, pursuant to CPC 08.

10. 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 likelihood 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 the nature of the lawsuits and historical experience.

As of December 31, 2008 and 2007, the breakdown of provision for contingencies was as follows:

	2008			2007		
	Accrued amount	Judicial deposits	Net	Accrued amount	Judicial deposits	Net
Civil	**634**	**16**	**618**	177	81	96
Tax	**15,990**	**12,908**	**3,082**	15,005	8,503	6,502
Labor	**3,253**	**505**	**2,748**	4,998	520	4,478
	19,877	**13,429**	**6,448**	20,180	9,104	11,076

The provision for labor contingencies refers to losses estimated based on the individual analysis of 157 labor claims, mainly related to overtime.

The provision for civil contingencies refers to estimated losses on 91 lawsuits mainly related to commercial disputes.

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

The table below shows the changes in the provisions for contingencies:

	2008	2007
Beginning balance	**11,076**	6,605
New proceedings	**32,278**	11,691
Shelved proceedings	**(36,906)**	(7,220)
Closing balance	**6,448**	11,076

11. TAXES IN INSTALLMENTS

As of December 31, 2008, Management of the Company 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. Such payments will take place in 60 installments, increased by SELIC interest (Central Bank benchmark rate), accumulated monthly, calculated from the date of the request to the payment date.

12. 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 of Industrial Property (INPI) issued a certificate of registration establishing that the amount of royalties payable could 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.

In 2008, the Company, supported by the opinion of its legal counsel, changed the criterion for determination of the royalties calculation base, no longer considering the packaging price in the net sales price, in light of INPI's reference in the certificate of registration of the requirement to pay royalties only on the patented product. As such, the Company reversed the provision for royalties by approximately R$ 12 million.

The provision as of December 31, 2008 and 2007 basically includes the amount payable related to 2008 and prior-year amounts under negotiation with Philips.

13. SHAREHOLDERS' EQUITY

a) Capital

i. As of December 31, 2008 and 2007, 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 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 Annual and Special Shareholders' Meeting held on April 28, 2008, capital increase of R$ 167,152 was approved, through capitalization of Income Tax and ICMS Incentive Reserves, thus increasing capital from R$ 304,758 to R$ 471,910.

b) Capital reserves

i. Income tax and ICMS incentive

The capital reserve is composed of ICMS (until 2003) and Income Tax (from 2004 to 2007) incentives due to the fact that Videolar is located in the Manaus industrial pole, and has projects approved by the Supervisory Authority for the Development of the Amazon (SUDAM). The income tax incentive provides a reduction in this tax expense. This tax incentive, calculated based on profit from tax incentive activities, is applied to the revenues of the Units in Manaus. As of December 31, 2008, the Company was compliant with all legal requirements to benefit from such incentives.

c) Legal reserve

The legal reserve is recognized through appropriation of 5% of net income after reversal of interest on shareholders' equity, pursuant to article 193 of Law No. 6404/76. At December 31, 2008, the Company used such reserve to absorb losses recorded in the year.

d) Dividends

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

According to the decision at the Annual Shareholders' Meeting held on April 28, 2008, the payment of additional dividends in the total amount of R$ 42,427 related to prior years was approved.

At the Board of Director's meetings held on April 29 and November 10, 2008, advanced payment of dividends was approved in the amounts of R$ 8,159 and R$ 3,263, respectively, referring to the year ended December 31 2008.

Considering that the expectation of net income was not confirmed at the year end and that the income reserve balances were not sufficient to absorb the recorded loss. Management will propose capital reduction in the next Annual Shareholders' Meeting.

14. FINANCIAL INCOME (EXPENSES), NET

	2008	2007
Financial income:		
Interest and gains on short-term investments	**1,861**	4,594
Exchange rate gains	**21,648**	22,463
Other	**4,240**	(516)
	27,749	26,541
Financial expenses:		
Interest on loans	**(494)**	(685)
Interest on shareholders' equity	**-**	(10,607)
Discounts granted	**(1,640)**	(3,837)
Bank charges	**(1,748)**	(2,663)
Exchange rate losses	**(49,384)**	(10,827)
CPMF (Provisional Contribution Tax on Financial Transactions)	**(80)**	(5,360)
Fine and interest about taxes	**(11,147)**	-
Other	**(195)**	(683)
	(64,688)	(34,662)
Financial income (expenses), net	**(36,939)**	(8,121)

15. 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 credits are recorded based on the expected generation of future taxable profit. The balance recorded in the Company's assets is composed as follows:

	2008	2007
Provision for losses on assets	**6,391**	2,057
Provision for contingencies	**6,758**	6,861
Other provisions	**1,702**	4,482
Other temporary differences	**2,752**	3,213
Total	**17,603**	16,613
Current portion	**(10,845)**	(9,752)
Noncurrent portion	**6,758**	6,861

Deferred income and social contribution tax liabilities were recorded upon recognition of the revaluation reserve on property, plant and equipment, and Management opted for the reversal at December 31, 2008 together with the revaluation reserve balance.

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

Description	2008	2007
(Loss) income before income and social contribution taxes and reversal of interest on shareholders' equity	**(10,339)**	49,632
Combined tax rate	**34%**	34%
Income and social contribution taxes at combined tax rate	**3,515**	(16,875)
Permanent additions	**(2,893)**	(283)
Addition of PIS and COFINS to the tax base	**-**	(16,785)
Realization of revaluation reserve	**-**	(3,906)
Other	**(1,512)**	1,208
	(890)	(36,641)
Effective rate	**9%**	74%
Current income and social contribution taxes	**(1,881)**	(43,218)
Deferred income and social contribution taxes	**991**	6,577
	(890)	(36,641)

16. INSURANCE COVERAGE (UNAUDITED)

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

The insurance amount as of December 31, 2008 and 2007 is considered sufficient by its insurance advisors to cover possible losses.

17. 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 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 major clients do not represent more than 25% 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 have derivatives to reduce this 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 10.

d) Short-term investment risks

Short-term investments are mostly carried out with first-rate banks for periods lower than three months, and the rates substantially reflect usual market conditions as of December 31, 2008 and 2007.

e) Loan risks

Loan transactions are presented in Note 9, and the rates substantially reflect usual market conditions as of December 31, 2008 and 2007.

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 were not met, Management did not set up a provision for payment of this benefit as of December 31, 2008.

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