Financial Statements

Videolar S.A.

December 31, 2009 and 2008
with Report of Independent Auditors

VIDEOLAR S.A.

Financial statements

December 31, 2009 and 2008

Contents

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

Report of independent auditors

The Board of Directors and Shareholders
Videolar S.A.

We have audited the accompanying balance sheets of Videolar S.A. as of December 31, 2009 and 2008, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

We conducted our audits 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.

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, 2009 and 2008, and the results of its operations, changes in its shareholders' equity and cash flows for the years then ended, in accordance with accounting practices adopted in Brazil.

Manaus, April 26, 2010.

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

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

A free translation from Portuguese into English of financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil

VIDEOLAR S.A.

Balance sheets
December 31, 2009 and 2008
(In thousands of reais)

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	**14,475**	22,589
Trade accounts receivable (Note 4)	**79,563**	77,342
Allowance for doubtful accounts	**(18,476)**	(19,580)
Recoverable taxes	**5,884**	4,360
Prepaid taxes	**7,251**	10,831
Inventories (Note 5)	**149,244**	203,054
Prepaid expenses	**224**	507
Deferred income and social contribution taxes (Note 13)	**8,763**	10,845
Other accounts receivable	**10,179**	4,425
Total current assets	**257,107**	314,373
Noncurrent assets		
Long-term receivables		
Judicial deposits	**1,289**	-
Deferred income and social contribution taxes (Note 13)	**10,201**	6,758
Permanent assets		
Investments	**-**	645
Property, plant and equipment (Note 6)	**345,395**	337,669
Intangible assets	**681**	963
Total noncurrent assets	**357,566**	346,035
Total assets	**614,673**	660,408

	2009	2008
Liabilities and shareholders' equity		
Current liabilities		
Loans and financing (Note 7)	**1,377**	59
Trade accounts payable	**34,153**	103,693
Payroll and related charges	**11,406**	8,696
Taxes payable other than on income	**9,742**	5,959
Royalties payable (Nota 10)	**19,052**	17,944
Dividends payable (Nota 11)	**1,352**	-
Taxes payable in installments (Nota 9)	**-**	5,325
Commissions payable	**925**	1,025
Freight payable	**2,492**	3,536
Other current liabilities	**8,699**	8,238
Total current liabilities	**89,198**	154,475
Noncurrent liabilities		
Taxes payable in installments (Note 9)	**13,899**	19,821
Loans and financing (Note 7)	**38,113**	16,078
Provision for contingencies (Note 8)	**4,926**	6,448
Total noncurrent liabilities	**56,938**	42,347
Shareholders' equity (Note 11)		
Capital	**460,488**	471,910
Capital reserves	**4,977**	-
Income reserves (accumulated losses)	**3,072**	(8,324)
Total shareholders' equity	**468,537**	463,586
Total liabilities and shareholders' equity	**614,673**	660,408

See accompanying notes.

VIDEOLAR S.A.

Statements of income
Years ended December 31, 2009 and 2008
(In thousands of reais, except earnings per share)

	2009	2008
Gross sales	**1,007,645**	1,031,869
Sales deductions	**(152,945)**	(151,611)
Net sales	**854,700**	880,258
Cost of goods sold and services rendered	**(686,957)**	(711,327)
Gross profit	**167,743**	168,931
Operating expenses		
Administrative / Human Resources	**(21,788)**	(30,108)
Selling / logistics	**(54,458)**	(44,898)
Industrial / technology	**(67,732)**	(70,062)
Financial income (Note 12)	**34,435**	27,749
Financial expenses (Note 12)	**(25,846)**	(64,688)
Other operating (expenses) income, net	**(589)**	2,737
Income (loss) before income and social contribution taxes and employee profit sharing	**31,765**	(10,339)
Current income and social contribution taxes (Note 13)	**(5,189)**	(1,881)
Deferred income and social contribution taxes (Note 13)	**1,360**	991
Net income (loss) before employee profit sharing	**27,936**	(11,229)
Employee profit sharing	**(2,587)**	-
Net income (loss) for the year	**25,349**	(11,229)
Number of outstanding shares at year end	**815,907**	815,907
Earnings (loss) per share (R$)	**31.07**	(13.76)

See accompanying notes.

VIDEOLAR S.A.

Statements of changes in shareholders' equity
Years ended December 31, 2009 and 2008
(On thousands of reais)

		Capital reserves			Income reserves			
	Capital	**ICMS incentive**	**Income tax incentive**	**Revaluation reserve**	**Legal reserve**	**Retained profits**	**Retained earnings (accumulated losses)**	**Total**
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
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	**-**	**-**	**-**	**-**	**-**	**-**	**25,349**	**25,349**
Income tax incentive	**-**	**-**	**4,977**	**-**	**-**	**-**	**(4,977)**	**-**
Legal reserve	**-**	**-**	**-**	**-**	**1,267**	**-**	**(1,267)**	**-**
Retained profits reserve	**-**	**-**	**-**	**-**	**-**	**1,805**	**(1,805)**	**-**
Balances at December 31, 2009	**460,488**	**-**	**4,977**	**-**	**1,267**	**1,805**	**-**	**468,537**

See accompanying notes.

VIDEOLAR S.A.

Statements of cash flows
Years ended December 31, 2009 and 2008
(In thousands of reais)

	2009	2008
Cash flows from operating activities		
Net income (loss)	**25,349**	(11,229)
Adjustments to reconcile net income to cash generated by operating activities:		
Deferred income and social contribution taxes	**(1,360)**	(1,326)
Depreciation	**54,635**	59,311
Net book value of property, plant and equipment written off	**3,009**	-
Interest and monetary variation	**9,280**	494
Loss on disposal of noncurrent assets	**645**	478
Provision for write-offs and losses on fixed assets	**3,582**	-
(Reversal of) provision for contingencies	**(1,522)**	(4,628)
Allowance for doubtful accounts	**(1,104)**	3,565
	92,514	46,665
(increase) decrease in assets		
Trade accounts receivable	**(2,221)**	(14,851)
Recoverable/ prepaid taxes	**2,056**	4,638
Inventories	**53,810**	(12,115)
Other assets	**(6,761)**	(265)
	46,884	(22,593)
Increase (decrease) in liabilities		
Trade accounts payable	**(69,540)**	40,145
Payroll and related charges	**2,710**	(973)
Taxes payable other than on income	**3,783**	(11,038)
Other liabilities	**(10,820)**	25,391
	(73,867)	53,525
Net cash flow generated by operating activities	**65,531**	77,597
Cash flows used in investing activities		
Acquisition of other investments	**-**	671
Acquisition of property, plant and equipment	**(68,672)**	(59,879)
Acquisition of intangible assets	**-**	(963)
Disposal of property, plant and equipment	**-**	2,410
Net cash flow used in investing activities	**(68,672)**	(57,761)
Cash flows used in financing activities		
Loans and financing obtained	**59,428**	37,577
Repayment of loans and financing	**(45,355)**	(22,610)
Interest on shareholders ‘equity	**-**	(694)
Payment of dividends	**(19,046)**	(53,849)
Net cash flow used in financing activities	**(4,973)**	(39,576)
Decrease in cash and cash equivalents	**(8,114)**	(19,740)
Cash and cash equivalents at beginning of the year	**22,589**	42,329
Cash and cash equivalents at end of the year	**14,475**	22,589
Decrease in cash and cash equivalents	**(8,114)**	(19,740)

See accompanying notes.

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

The financial statements were prepared in accordance with accounting practices adopted in Brazil and pronouncements guidance and interpretations issued by the Brazilian FASB (CPC), observing the accounting guidelines contained in the Brazilian Corporation Law (Law No. 6404/76), with new provision introduced, amended and repealed by Laws No. 11638/07 and No.11941/09.

The authorization for issuance of these financial statements was granted in the board of directors meeting held on February 26, 2010.

In 2009, the CPC issued various Accounting Pronouncements, Interpretations and Guidance to become mandatorily effective only for financial years beginning on or after January 1, 2010, companies being required to have their prior year financial statements restated to ensure better comparability between both periods.

Alternatively, the Company could elect early adoption of such standards for the year ended December 31, 2009, as long as they are fully applied. The Company did not elect early adoption of these standards in preparing its 2009 financial statements and, in its best understanding, presents a brief narrative of potential significant changes in accounting practices previously adopted in preparing the financial statements as of December 31, 2009 and for the comparative period.

- CPC 20 Borrowing Costs, approved by Brazil's National Association of State Boards of Accountancy (CFC) through resolution CFC No. 1172/09, of May 20, 2009*:* Establishes the accounting treatment for: i) definition of borrowing costs that may be capitalized to the cost of certain qualifying assets (those which necessarily take a substantial period of time to get ready for their intended use or sale) and that are directly attributable to the acquisition, construction or production of such assets; ii) capitalization of these borrowing costs to the qualifying assets, as long as future economic benefits will flow to the entity and when this can be measured reliably; iii) determination of the periods in which the Company must start, cease or reverse capitalization of these amounts. Additionally, this Accounting Pronouncement allows capitalization of borrowing costs, even if the Company has borrowed funds without clearly specifying their allocation, but uses them to obtain a given asset, at a weighted average rate for costs of borrowings that remained effective in the period referring to the expenses incurred with such qualifying asset. Other borrowing costs not associated with a qualifying asset must be recognized as expenses when incurred.

  The Company already capitalizes costs of borrowings that are directly attributable to qualifying assets. However, it is currently considering the possibility of adopting the criteria for capitalization of costs of borrowings raised generically, but used for obtaining qualifying assets. As such, this Accounting Pronouncement may have impacts on the financial statements of the Company, depending on its management's assessment in 2010.

- CPC 26 Presentation of Financial Statements, approved by CFC Resolution No. 1185/09, of August 28, 2009: Establishes the basis of presentation of the financial statements, determining general requirements for their presentation, framework guidelines and minimum contents to be included in the financial statements.

  The Company believes this Accounting Pronouncement will have impacts on the presentation of its financial statements, given that it provides for extensive requirements regarding disclosures on accounting policies.

- CPC 27 Property, Plant and Equipment, approved by CFC Resolution No. 1177/09, of July 24, 2009: Prescribe the accounting treatment for property, plant, and equipment, with special regard to (i) recognition of these assets; (ii) their measurement; (iii) their depreciation calculation; (iv) impairment losses, if any; and (v) requirements regarding disclosure in the notes to financial statements. It establishes the concept that the cost of property, plant and equipment items should be recognized as an asset when it is likely that future economic benefits will flow to the entity and when it can be measured reliably. This pronouncement defines that the cost of a property, plant and equipment item includes (i) its acquisition price; (ii) direct costs necessary to bring the asset to operational condition; and (iii) the initial estimated cost of dismantling and removing the asset and restoring the site. It establishes that depreciation should be allocated on a systematic basis over the asset's useful life, that the depreciable amount of an asset is determined after deducting the related residual value to be recovered at the end of its useful life, for instance, through sale or scrapping, and that the asset's useful life and residual value must be reviewed at least at each year-end.

The Company expects that this CPC will have impacts on its financial statements, mostly because it introduces the requirement of deducting the estimated residual value of property, plant and equipment assets when computing depreciation. At present, the Company calculates depreciation of such assets at their full build-up cost, without deducting their estimated residual value; as such, depreciation charges on assets existing at December 31, 2009 may be decreased in the next years.

- <u>ICPC 10 Interpretation of First-time Adoption of Technical Pronouncements CPCs 27, 28, 37 and 43 for Property, Plant and Equipment and Investment Property, approved by CFC Resolution No. 1263/09, of December 10, 2009</u>

This interpretation provides guidance on some matters related to first-time adoption of Accounting Pronouncements CPC 27 – Property, Plant and Equipment, CPC 28 - Investment Property, CPC 37 - First-time Adoption of International Financial Reporting Standards, and CPC 43 - First-time Adoption of Accounting Pronouncements CPCs 15 to 40.

Because of the change in Brazilian accounting practice converging towards full compliance with international accounting standards, upon first-time adoption of CPCs 27 and 28, the entity may elect to restate the opening balances as allowed by international accounting standards, using the concept of deemed cost, as provided for in CPCs 37 and 43.

Management will assess if the Company will use the concept of deemed cost or if it will review the prospective useful life and corresponding depreciation rates of its property, plant and equipment assets.

- <u>CPCs 38, 39 and 40 Financial Instruments: Recognition and Measurement, Presentation, Disclosures, approved by CVM Rule No. 604, of November 19, 2009:</u>

CPC 38 – Financial Instruments: Recognition and Measurement: Governs recognition and measurement of transactions involving financial instruments – derivatives included. This CPC shall be applied to any and all entities and financial instruments, with a few exceptions specified. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets are any assets that are: cash, an equity instrument of another entity, a contractual right, or a contract that will or may be settled in the entity's own equity instruments. Financial liabilities are any liabilities that are: a contractual obligation, a contract that will be or may be settled in the entity's own equity instruments.

A financial instrument must be classified into one of the following four categories: (i) financial asset or liability at fair value through profit or loss; (ii) held to maturity; (iii) and loans and receivable; and (iv) available for sale.

Financial instruments are initially recognized at their fair value, plus transaction costs directly related to their acquisition or issue, and subsequently adjusted by the principal amortization, by accumulated interest calculated using the effective interest rate method, and by any adjustments to write these instruments down to their probable recoverable value (impairment) or related to doubtful accounts. The accounting treatment for recognizing transactional costs does not apply to financial assets at fair value through profit or loss.

CPC 38 introduces a series of new concepts not addressed by CPC 14. Significant items not addressed by CPC 14 are embedded derivatives, derecognition of financial assets and liabilities and provision for impairment losses.

CPC 39 – Financial Instruments: Presentation – The stated objective of this pronouncement is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and liabilities. It applies to the classification of financial instruments, from the issuer's standpoint, into financial assets, financial liabilities and equity instruments; the classification of respective interest, dividends, losses and gains; the circumstances in which the financial assets and financial liabilities should be offset.

CPC 40 – Financial Instruments: Disclosures - This pronouncement requires disclosure of detailed information about the significance of financial instruments for an entity's financial position and performance. This includes the following:

(a) Disclosures about the entity's financial position - including information about financial assets and liabilities classified by category, special disclosures where the entity opts for fair value measurement, reclassifications, write-off of financial assets and liabilities, assets pledged in collateral, embedded derivatives and breaches of agreement terms.

(b) Disclosures about the entity's performance for the period - including information about recognized income, expenses, gains and losses; interest income and expenses; fee income; and impairment losses; and

(c) Other disclosures - information about accounting policies, hedge accounting and the fair value for each type of financial assets and liabilities.

CPC 40 also requires disclosure of information about the nature and extent of risks arising from financial instruments, as follows: i) Qualitative disclosures about exposures to each risk and how these risks are managed; and ii) Quantitative disclosures about exposures to each risk, separately disclosing credit risk, liquidity risk and market risk (sensitivity analyses included).

The Company expects that the adoption of this standard will increase the number of disclosures on financial instruments in its financial statements for 2010.

3. Summary of significant accounting practices

a) Statement of income

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 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.

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 balance sheet year closing dates are recognized as financial income or financial expenses in the statement of income.

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 issue. Subsequent measurements occur at each balance sheet date according to rules established for each type of financial asset or liability classification.

(i) *Financial assets*

The Company has solely loans 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 are recognized in profit or loss, 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 not measured at fair value:* 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 statement of income, 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.

d) Cash and cash equivalents

These include cash and bank account balances. The Company does not hold marketable securities at December 31, 2009 and 2008.

e) Trade accounts receivable

These are stated at net realizable value, and those from clients abroad are restated based on foreign exchange rates prevailing at the financial statements 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.

f) Inventories

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

g) 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.

h) 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 the statement of income for the year in which they arose. Intangible assets with defined useful lives are amortized over their estimated useful economic life and upon identification of impairment are submitted to impairment testing. Intangible assets with undefined useful lives are not amortized, but are submitted to an annual impairment testing.

i) 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 amount. 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.

j) Other assets and liabilities

(In thousands of reais)

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

Assets are recognized in the balance sheets 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 they are likely to be settled or realized within the following 12 months; otherwise, these are classified as noncurrent.

k) Taxation

Revenue from sales and services are subject to the following taxes, at the basic 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%

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

Income taxes comprise both income and social contribution taxes. Income tax is calculated at a rate of 15%, plus a surtax of 10% on taxable profit exceeding R$ 240 over 12 months, whereas social contribution tax is computed at a rate of 9% on taxable 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 income and social contribution taxes assets or liabilities.

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

Deferred tax assets 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.

l) Tax neutrality upon first time adoption of Laws No. 11638/07 and No. 11941/09

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 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. The Company disclosed such option in its Corporate Income Tax Return (DIPJ) for 2009.

m) Government grants and disclosure of government 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 the statement of income 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, 2009, the Company was fully compliant with all legal requirements to benefit from such incentives.

n) Present value adjustment to assets and liabilities

Noncurrent 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 years ended December 31, 2009 and 2008, 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. 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.

(In thousands of reais)

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 impairment 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 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 (loss) per share

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

4. Trade accounts receivable

	2009	2008
Own costumer receivables	**103,939**	110,923
Receivables on behalf of distributed companies	**159,507**	142,295
Distributed companies (licensors)	**(183,883)**	(175,876)
	79,563	77,342

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.

5. Inventories

	2009	2008
Raw materials	**24,703**	68,586
Work in process	**8,947**	17,048
Finished goods	**65,973**	84,419
Printing and packaging material	**5,743**	3,568
Other materials	**49,383**	39,837

(In thousands of reais)

Allowance for losses	**(5,505)**	(10,404)
	149,244	203,054

6. Property, plant and equipment

		2009			2008
	Depreciation rate	Cost	Accumulated depreciation	Net	Net
Properties	4%	**93,715**	**(21,247)**	**72,468**	55,049
Machinery and equipment	10%	**445,913**	**(310,863)**	**135,050**	167,200
Industrial plants	10%	**62,977**	**(25,657)**	**37,320**	37,884
Furniture and fixtures	10%	**36,847**	**(33,815)**	**3,032**	4,540
Molds and tools	10%	**34,244**	**(19,079)**	**15,165**	18,155
Other assets	10% to 20%	**17,634**	**(14,019)**	**3,615**	5,589
Construction in progress		**82,327**	**-**	**82,327**	49,252
Provision for impairment loss		**(3,582)**	**-**	**(3,582)**	-
		770,075	**(424,680)**	**345,395**	337,669

In 2009, the Company identified machinery and equipment to be reused in its Manaus production units as well as those items not expected to be realized. Regarding these items, a provision for impairment loss was set up in the amount of R$3,582.

7. Loans and financing

Contract	Rates	Collaterals	Maturity	12.31.2009	12.31.2008
Fortis Bank NV/SA France	4.88 % p.a	Promissory note	01/08/2016	**43,318**	16,854
				43,318	16,854
Current portion - maturing within 12 months				**(1,377)**	(59)
Funding costs				**(3,828)**	(717)
Noncurrent portion				**38,113**	16,078

In 2008, the Company obtained a credit line from Fortis Bank of EURO 20,400 thousand. Until December 31, 2009, Videolar had used EURO 15,811 thousand for payment to the supplier Darlet Marchante Technologies S.A., referring to import of machinery and equipment for the new BOPP (Biaxially-Oriented Polypropylene) production line. Such financing does not provide for maximum indebtedness and leverage levels. Funding costs substantially comprise intermediation commissions, pursuant to CPC 08.

8. 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.

(In thousands of reais)

As of December 31, 2009 and 2008, the breakdown of provision for contingencies was as follows:

	2009			2008		
	Accrued amount	**Judicial deposits**	**Net**	**Accrued amount**	**Judicial deposits**	**Net**
Civil	**642**	**16**	**626**	634	16	618
Tax	**20,189**	**19,044**	**1,145**	15,990	12,908	3,082
Labor	**4,304**	**1,149**	**3,155**	3,253	505	2,748
	25,135	**21,498**	**4,926**	19,877	13,429	6,448

The provision for labor contingencies refers to losses estimated based on the individual analysis of 102 labor claims, mainly related to overtime.

The provision for civil contingencies refers to estimated losses on 123 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:

	2009	2008
Beginning balance	**6,448**	11,076
New proceedings	**15,312**	32,278
Shelved proceedings	**(18,123)**	(36,906)
Closing balance	**3,637**	6,448

9. Taxes payable in installments

As of December 31, 2008, the 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.

On October 26, 2009, the management of the Company 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.

10. 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.

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, 2009 and 2008 basically includes the amount payable related to 2009 and prior-year amounts under negotiation with Philips.

11. Shareholders' equity

a) <u>Capital</u>

i. As of December 31, 2009 and 2008, 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.

(In thousands of reais)

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

iv. At the Annual and Special Shareholders' Meeting held on April 30, 2009, capital decrease of R$ 11,422 was approved, since the expected profitability was not met by the end of the year and the income reserve balances were not sufficient to absorb the loss, thereby decreasing capital from R$ 471,910 to R$ 460,488.

b) Capital reserves

Income tax and ICMS incentive: The capital reserve is comprised of ICMS (until 2003) and Income Tax (from 2004 onward) 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, 2009, 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 equity capital, pursuant to article 193 of Law No. 6404/76.

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.

At the Board of Directors' Meeting held on December 3, 2009, payment of additional dividends was approved in the total amount of R$20,398, referring to the year ended December 31, 2009.

12. Financial expenses, net

	2009	**2008**
Financial income		
Interest and gains on short-term investments	**4**	1,861
Exchange gains	**25,273**	21,648
Others	**9,158**	4,240
	34,435	27,749
Financial expenses:		
Interest on loans	**(2,507)**	(494)
Discounts granted	**(13,856)**	(1,640)
Bank charges	**(1,237)**	(1,748)
Exchange losses	**(7,899)**	(49,384)
Provisional Contribution Tax on	**-**	(80)

(In thousands of reais)

Financial Transactions (CPMF)		
Fine and interest on taxes in installments	**(347)**	(11,147)
Others	**-**	(195)
	(25,846)	(64,688)
Financial expenses, net	**(8,589)**	(36,939)

13. 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 broken down as follows:

	2009	2008
Provision for losses on assets	**4,589**	6,391
Provision for contingencies	**8,545**	6,758
Provision for obsolescence	**1,655**	-
Other provisions	**5,830**	1,702
Other temporary differences	**-**	2,752
Total	**18,964**	17,603
Current portion	**(8,763)**	(10,845)
Noncurrent portion	**10,201**	6,758

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

Description	2009	2008
Income (loss) before income and social contribution taxes	**29,178**	(10,339)
Combined rate	**34%**	34%
Income and social contribution taxes at combined tax rate	**(9,921)**	3,515
Permanent additions	**(110)**	(2,893)
Incentive - profit from activities benefited from tax incentives	**4,977**	-
Others	**(1,255)**	(1,512)
	(3,829)	(890)
Effective tax rate	**13%**	9%
Current income and social contribution taxes	**(5,189)**	(1,881)
Deferred income and social contribution taxes	**1,360**	991
	(3,829)	(890)

14. 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, 2009 and 2008 is considered sufficient by its insurance advisors to cover possible losses.

15. 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 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) Currency risks

The Company has some trade 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) 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 8.

d) Loan risks

Loans are presented in Note 7, at rates which substantially reflect usual market conditions as of December 31, 2009 and 2008.

16. 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 met, management up a provision for profit sharing in the amount of R$2,587 in 2009.

Tsuguio Takayama
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