Financial Statements

Videolar S.A.

December 31, 2011 and 2010
with Independent Auditor’s Report on Financial Statements

Videolar S.A.

Financial Statements

December 31, 2011 and 2010

Contents

ERNST & YOUNG TERCO

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

Independent auditor's report on financial statements

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

We have audited the accompanying financial statements of Videolar S.A. ("Company"), which comprise the statement of financial position as at December 31, 2011, and the statement of income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

ERNST & YOUNG TERCO

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Videolar S.A. as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with the accounting practices adopted in Brazil.

São Paulo, March 11, 2012.

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

Antonio Carlos Fioravante

Antonio Carlos Fioravante
Accountant CRC-1SP184973/O

Videolar S.A.

Statements of financial position
December 31, 2011 and 2010
(In thousands of reais)

	Note	12/31/2011	12/31/2010 (Reclassified)
Assets			
Current assets			
Cash and cash equivalents	3	**23,108**	49,407
Trade accounts receivable	4	**101,288**	81,275
Allowance for doubtful accounts	4	**(17,742)**	(17,713)
Recoverable taxes		**4,803**	4,860
Prepaid taxes		**5,093**	2,835
Inventories	5	**161,348**	124,537
Prepaid expenses		**195**	504
Advances to suppliers		**30,324**	26,724
Other assets		**9,345**	4,917
Total current assets		**317,762**	277,346
Non-current assets			
Long-term receivables			
Judicial deposits	8	**42,904**	30,773
Permanent assets			
Property, plant and equipment	6	**619,636**	427,099
Intangible assets		**8,310**	6,225
Total non-current assets		**670,850**	464,097
Total assets		**988,612**	741,443

	Note	12/31/2011	12/31/2010 (Reclassified)
Liabilities			
Current liabilities			
Loans and financing	7	**63,889**	1,181
Trade accounts payable		**144,222**	25,727
Payroll and related charges		**8,865**	8,202
Taxes payable		**7,402**	3,002
Royalties payable	10	**20,561**	27,276
Taxes payable in installments	9	**1,545**	6,177
Commissions payable		**871**	691
Freight payable		**6,311**	3,209
Other liabilities		**6,866**	7,739
Total current liabilities		**260,532**	83,204
Non-current liabilities			
Deferred income tax	15	**28,900**	28,507
Taxes payable in installments	9	**-**	1,544
Loans and financing	7	**123,301**	42,892
Provision for contingencies	8	**12,926**	32,983
Total non-current liabilities		**165,127**	105,926
Equity	11		
Capital		**465,465**	465,465
Goodwill on issue of shares		**8,424**	-
Treasury shares		**(3,425)**	-
Other comprehensive income		**79,467**	79,712
Income reserve		**13,022**	7,136
Total equity		**562,953**	552,313
Total liabilities and equity		**988,612**	741,443

See accompanying notes.

Videolar S.A.

Statements of income
Years ended December 31, 2011 and 2010
(In thousands of reais)

	Note	2011	2010
Operating revenue, net	12	**885,983**	794,963
Cost of products sold and services rendered	13	**(732,424)**	(672,326)
Gross profit		**153,559**	122,637
Operating expenses			
Administrative expenses / Human resources	13	**(69,364)**	(53,302)
Selling expenses / Logistics	13	**(49,477)**	(33,973)
Industrial expenses / Technology	13	**(35,818)**	(17,587)
Financial income	14	**23,806**	11,928
Financial expenses	14	**(43,617)**	(7,789)
Other operating income (expenses), net		**35,105**	(5,459)
Income before income and social contribution taxes		**14,194**	16,455
Deferred income and social contribution taxes	15	**(394)**	(6,028)
Net income for the year		**13,800**	10,427

See accompanying notes.

Videolar S.A.

Statements of changes in equity
Years ended December 31, 2011 and 2010
(In thousands of reais)

			Capital reserve			Income reserve			
	Capital	Treasury shares	Income tax incentive	Goodwill reserve on issue of shares	Other comprehensive income	Legal reserve	Retained profits	Retained earnings	Total
Balances at December 31, 2009	460,488	-	4,977	-	79,957	1,279	2,283	-	548,984
Capital increase according to minutes of Annual and Special Meeting held on April 29, 2010	4,977	-	(4,977)	-	-	-	-	-	-
Dividends paid in advance according to minutes of meeting held on May 24, 2010	-	-	-	-	-	-	-	(7,098)	(7,098)
Other comprehensive income			-	-	(245)			245	-
Net income for the year	-	-	-	-	-	-	-	10,427	10,427
Allocations:	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	522	-	(522)	-
Retained profits reserve	-	-	-	-	-	-	3,052	(3,052)	-
Balances at December 31, 2010	465,465	-	-	-	79,712	1,801	5,335	-	552,313
Dividends paid in advance according to minutes of meeting held on May 30, 2011	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,140)**	**(5,140)**
Dividends paid from prior years, according to minutes of meeting held on June 1, 2011	**-**	**-**	**-**	**-**	**-**	**-**	**(3,019)**	**-**	**(3,019)**
Equity valuation adjustment	**-**	**-**	**-**	**-**	**(245)**	**-**	**-**	**245**	**-**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,800**	**13,800**
Allocations:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Legal reserve	**-**	**-**	**-**	**-**	**-**	**690**	**-**	**(690)**	**-**
Retained profits reserve	**-**	**-**	**-**	**-**	**-**	**-**	**8,215**	**(8,215)**	**-**
Subscription of shares	**-**	**-**	**-**	**8,424**	**-**	**-**	**-**	**-**	**8,424**
Repurchase of shares	**-**	**(3,425)**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,425)**
Balances at December 31, 2011	**465,465**	**(3,425)**	**-**	**8,424**	**79,467**	**2,491**	**10,531**	**-**	**562,953**

See accompanying notes.

Videolar S.A.

Statements of cash flows
Years ended December 31, 2011 and 2010
(In thousands of reais)

	2011	2010
Cash flow from operating activities		
Net income for the year	**13,800**	10,427
Adjustment to reconcile net income to cash provided by operating activities:		
Deferred income and social contribution taxes	**394**	6,028
Depreciation	**29,028**	22,746
Amortization of intangible assets	**1,576**	-
Net book value of property, plant and equipment written off	**1,497**	81
Interest and monetary variations	**7,058**	(3,226)
Reversal of loans with Fortis Bank	**-**	(36,164)
Provision for PP&E write-offs and losses	**-**	60,805
Monetary variation of Judicial deposits	**(4,458)**	-
Provision for obsolescence	**2,669**	-
(Reversal of) provision for contingencies	**(20,057)**	7,847
Allowance for doubtful accounts (reversal of)	**2,850**	(763)
(Increase) decrease in assets		
Trade accounts receivable	**(22,833)**	(1,712)
Recoverable / prepaid taxes	**(2,202)**	5,440
Inventories	**(39,480)**	24,707
Other assets	**(15,393)**	(12,557)
	(45,551)	83,659
Increase (decrease) in liabilities		
Trade accounts payable	**118,495**	(8,426)
Payroll and related charges	**662**	(3,204)
Income and social contribution taxes payable	**4,400**	(6,740)
Other liabilities	**(10,481)**	217
	113,076	(18,153)
Net cash provided by operating activities	**67,525**	65,506
Cash flow used in investing activities		
Acquisition of property, plant and equipment	**(219,003)**	(66,425)
Acquisition of intangible assets	**(136)**	(559)
Disposal of property, plant and equipment	**-**	717
Net cash used in investing activities	**(219,139)**	(66,267)
Cash flow from financing activities		
Funding through loans and financing	**133,018**	43,500
Loans and financing paid	**(4,543)**	(708)
Subscription of shares	**8,424**	-
Repurchase of noncontrolling shareholders	**(3,425)**	-
Dividends paid	**(8,159)**	(7,098)
Cash provided by financing activities	**125,315**	35,693
(Decrease) increase in cash and cash equivalents	**(26,299)**	34,932
Cash and cash equivalents at the beginning of the year	**49,407**	14,475
Cash and cash equivalents at the end of the year	**23,108**	49,407
(Decrease) increase in cash and cash equivalents	**(26,299)**	34,932

See accompanying notes.

Videolar S.A.

Notes to the financial statements
December 31, 2011 and 2010
(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.

Videolar is a privately-held corporation domiciled in Brazil with principal place of business in Manaus, Amazonas State. It is controlled by individuals and the major shareholder owns 86% of the common shares of the capital stock.

Among the expansion projects, the construction of an industrial plant (Vitória Farm Unit) in an area of 289,000 m^2 stands out, with built-up area of 69,000 m^2, to be concluded in the second half of 2012. The main purpose of this unit is production of BOPP (Biaxially Oriented Polypropylene) and BOPET (Biaxially Oriented Polyethylene Terephthalate) films, widely used in plastic packages for the food and industrial sectors.

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

2. Summary of significant accounting practices

The authorization for issuance of these financial statements was granted by the Company’s management in the Board of Directors’ meeting held on February 17, 2012.

The Company’s financial statements for the years ended December 31, 2011 and 2010 were prepared in accordance with accounting practices adopted in Brazil, which include the pronouncements of the Brazilian FASB (CPC), approved by Brazil's National Association of State Boards of Accountancy (CFC).

2. Summary of significant accounting practices (Continued)

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

The settlement of transactions involving such estimates may result in amounts significantly different from those recorded in the financial statements given the uncertainly underlying the estimate process.

The Company reviews its estimates and assumptions on a regular basis, within a period not exceeding one year. See Note 2.14 with the details on the estimates.

For comparison purposes, the financial statements as of December 31, 2010 include a reclassification on deferred income and social contribution taxes, which now are stated at net value in non-current liabilities. The effect of this reclassification amounted to R$ 24,960.

2.1 Determination of P&L and revenue recognition

P&L from operations is determined on an accrual basis. Sales revenues are stated net of taxes and discounts levied thereon. Revenue from sale of products is recognized in the income statement 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 under financial income/expenses.

2. Summary of significant accounting practices (Continued)

2.2 Translation of balances denominated in foreign currency

The financial statements are presented in reais (R$), which is the Company's functional currency.
Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange in effect at the respective balance sheet closing dates. Gains and losses arising from restatement of these assets and liabilities between the rate of exchange in effect at the transaction date and the fiscal year closing dates are recognized as financial income or financial expenses in P&L.

2.3 Cash and cash equivalents

These include cash, balances in current accounts, highly liquid short-term investments or redeemable within 90 days from the balance sheet dates, posing low risk of any change in fair value. The short-term investments included in cash and cash equivalents are mostly classified under "financial assets at fair value through profit or loss".

2.4 Trade accounts receivable

These are stated at realizable value, and those from clients abroad are restated based on exchange rates prevailing at the financial statement closing dates.
An allowance for doubtful accounts was set up in an amount considered sufficient by management to cover any losses on collection of receivables.
Information related to the breakdown of accounts receivable, at falling due and overdue amounts, is stated in Note 4.

2.5 Inventories

Inventories are stated at average acquisition or production cost, which does not exceed their realizable value.

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

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

2. Summary of significant accounting practices (Continued)

2.5 Inventories (Continued)

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

Imports in transit are stated at cost of each import. Provisions for slow-moving or obsolete inventories are set up when deemed necessary by management and are periodically reviewed and valuated as to their sufficiency.

2.6 Property, plant and equipment

Property, plant and equipment are stated at acquisition or construction cost, less respective depreciation calculated on the straight-line basis, at the rates that take into consideration the estimated useful lives of the assets.

Financial charges related to loans and financing intended for construction of fixed asset items are recorded at cost of PP&E under construction until the beginning of operations and generation of income, proportionally amortized to the realization of these assets.

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 P&L, as incurred.

The Company periodically reviews the economic useful life terms and conducts an impairment analysis of its property, plant and equipment items.

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

2. Summary of significant accounting practices (Continued)

2.7 Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition, and subsequently recognized net of accumulated amortization and impairment, as applicable.

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

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

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

2.8 Provision for impairment of non-financial assets

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

2. Summary of significant accounting practices (Continued)

2.8 Provision for impairment of non-financial assets (Continued)

To define the recoverable value of assets, the Company considered the higher of the asset's fair value or its value in use. For cases where the estimated value is lower than the net book value, a loss is recorded through a provision for impairment.

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

2.9 Other assets and liabilities

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

A liability is recognized on the balance sheets when the Company acquires a legal or constructive obligation, as a result of a past event, the settlement which is expected to result in an outflow of economic benefits. Provisions are recorded based on the best estimates of the risk involved.

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

(In thousands of reais)

2. Summary of significant accounting practices (Continued)

2.10 Taxation

a) Sales taxes

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

Taxes	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 Financing	COFINS	3% to 7.6%
State VAT Tax	ICMS	7%, 12% and18%
Federal VAT Tax	IPI	15% and 25%
Service Tax	ISS	2%

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

b) Current income and social contribution taxes

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

Current income tax assets and liabilities for the preceding and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting dates.

2. Summary of significant accounting practices (Continued)

2.10 Taxation (Continued)

b) Current income and social contribution taxes (Continued)

Current income and social contribution taxes related to items directly recognized in equity are also recognized in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Prepaid amounts or amounts subject to offset, such as withholding income and social contribution taxes are stated in current and non-current assets, according to their expected realization.

c) Deferred income and social contribution taxes

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

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

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

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

2. Summary of significant accounting practices (Continued)

2.10 Taxation (Continued)

c) Deferred income and social contribution taxes (Continued)

- when the deferred tax assets related to the deductible temporary difference is generated upon initial recognition of asset or liabilities in a transaction other than a business combination and, on the transaction date, do not affect the accounting profit or tax profit or loss; and

- on deductible temporary differences associated with investments in subsidiaries, the above-mentioned deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the near future and the taxable profit will be available so that the temporary differences can be realized.

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

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

Deferred taxes related to items recognized directly in equity are also recognized in equity and not in the income statement.

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

(In thousands of reais)

2. Summary of significant accounting practices (Continued)

2.11 Government grants and assistance

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

Videolar is beneficiary of the following tax incentives granted by the State of Amazonas:

Incentive received	2011	2010
i. ICMS (state VAT) deferral on acquisition of imported inputs	**235,103**	299,036
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	**108,982**	94,316

At December 31, 2011 and 2010, the Company was fully compliant with all legal requirements to benefit from such incentives.

2.12 Other employee benefits

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

2. Summary of significant accounting practices (Continued)

2.13 Present value adjustment of assets and liabilities

Non-current monetary assets and liabilities are monetarily restated and, therefore, are adjusted to their present value. Adjustment to present value of current monetary assets and liabilities is calculated, and recorded only if it is considered material vis-à-vis the overall financial statements. For the purpose of determining relevance, the adjustment to present value is calculated considering contractual cash flows and the expressed, sometimes implicit, interest rate of the corresponding assets and liabilities. For the financial statements for the year ended December 31, 2011 and 2010, 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. Items comprising each group of accounts subject to overall calculation have uniform characteristics. Based on analyses conducted and management's best estimates, the Company concluded that adjustment to present value of current monetary assets and liabilities is insignificant when compared to the overall financial statements. As such, no adjustment was recorded.

2.14 Significant accounting judgments, estimates and assumptions

Judgments

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

Estimates and assumptions

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

2. Summary of significant accounting practices (Continued)

2.14 Significant accounting judgments, estimates and assumptions (Continued)

Impairment of non-financial assets

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

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

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

Taxes

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

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

2. Summary of significant accounting practices (Continued)

2.14 Significant accounting judgments, estimates and assumptions (Continued)

Taxes (Continued)

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

Fair value of financial instruments

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

Provision for tax, civil and labor risks

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

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

2. Summary of significant accounting practices (Continued)

2.15 Statements of cash flows

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

2.16 Financial instruments

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

(i) Financial assets

The main financial assets recognized by the Company are cash and cash equivalents and trade accounts receivable, which are classified as follows:

Financial assets measured at fair value through profit or loss: these include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchase in the short term. They are measured at fair value every balance sheet date. Interest, monetary restatement, exchange variation and changes arising from assessment of fair value are recognized in P&L, as incurred, under “Financial income or expenses”.

Loans (granted) and receivables: these are non-derivative financial assets with fixed payments or determinable payments that are not quoted in an active market. They are included in current assets, except those whose maturity exceeds 12 months from balance sheet dates, which are included in non-current assets.

2. Summary of significant accounting practices (Continued)

2.16 Financial instruments (Continued)

(i) Financial assets (Continued)

After their initial recognition, they are measured at amortized cost using the effective interest rate method. Interest, monetary restatement and exchange variation, less impairment, where applicable, are recognized in P&L, as incurred, under “Financial income or expenses”.

(ii) Financial liabilities

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

Currently, the Company has only financial liabilities not measured at fair value, which are 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 restatement and exchange variation, when applicable, are recognized in P&L, as incurred.

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

- *Fair value:* fair value of financial instruments actively traded on stock exchanges is determined based on amounts quoted in the market on the balance sheet dates or based on valuation techniques defined by the Company and consistent with the usual market practices.

  If not traded on an active market, fair value is determined through valuation techniques.

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

(In thousands of reais)

3. Cash and cash equivalents

	2011	2010
Bank accounts	**19,947**	49,407
Short-term investments	**3,161**	-
	23,108	49,407

Short-term investments were represented by debentures redeemable directly with the issuer group (Bradesco) without losses on yields. Highly liquid short-term investments are remunerated at 101.5% of the Bank Deposit Certificate (CDI).

4. Trade accounts receivable

Trade accounts receivable include receivables from Videolar clients, distributed companies and credit card companies referring to e-commerce. Amounts receivable according to the aging list, on December 31, 2011 and 2010 are summarized below:

	12/31/2011	12/31/2010
Falling due	**216,340**	189,966
Overdue		
Within 30 days	**21,546**	19,162
From 31 to 60 days	**8,598**	10,212
From 61 to 90 days	**3,698**	3,633
From 91 to 180 days	**8,087**	1,901
Over 180 days	**29,716**	26,008
Total overdue	**71,645**	60,916
Accounts receivable	**287,985**	250,882
Distributed companies	**(186,697)**	(169,607)
Accounts receivable, net	**101,288**	81,275

Changes in allowance for doubtful accounts are as follows:

	2011	2010
Balances at the beginning of the year	**17,713**	18,476
Accruals	**2,850**	3,389
Write-offs	**(2,821)**	(4,152)
Balances at year end	**17,742**	17,713

(In thousands of reais)

4. Trade accounts receivable (Continued)

Management believes that the risk relating to trade accounts receivable is mitigated because the composition of customers of the Company is highly diversified. The Company counts greater than 5,000 active clients in its portfolio and no individual represented 5% or more of revenues or accounts receivable on December 31, 2011 and 2010.

5. Inventories

	2011	2010
Raw material	**55,643**	28,785
Work-in-process	**8,715**	9,451
Finished products	**65,842**	60,538
Printing and packaging materials	**4,630**	4,769
Other material	**18,154**	20,994
Import in transit	**14,027**	4,298
Provision for obsolescence	**(5,663)**	(4,298)
	161,348	124,537

Changes in provision for obsolescence are as follows:

	2011	2010
Balance at the beginning of the year	**(4,298)**	(5,505)
Accruals	**(2,669)**	(6,746)
Write-offs	**1,304**	7,953
Balance at the end of the year	**(5,663)**	(4,298)

(In thousands of reais)

6. Property, plant and equipment

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

Cost	Land	Buildings and improvements	Machinery and equipment	Industrial facilities	Furniture and fixtures	Data processing equipment	Vehicles	Molds and tools	Telephone equipment	Provision for impairment	Construction in progress (ii)	Import in transit	Total
Balances at December 31, 2009	101,226	114,008	445,913	62,977	36,847	15,910	671	34,244	1,053	(3,582)	11,672	52,195	873,134
Additions	-	-	-	-	-	-	-	-	-	(8,771)	66,144	268	57,641
Capitalized interest	-	-	-	-	-	-	-	-	-	-	1,181	-	1,181
Write-offs (i)	-	-	(221)	(255)	(907)	-	-	-	(1)	-	56	(52,034)	(53,362)
Transfers	-	-	4,448	2,817	194	405	-	30	48	1	(9,623)	(1)	(1,681)
Balances at December 31, 2010	101,226	114,008	450,140	65,539	36,134	16,315	671	34,274	1,100	(12,352)	69,430	428	876,913
Additions	-	-	98	-	-	7	-	-	-	(7,600)	16,647	209,851	219,003
Capitalized interest	-	-	-	-	-	-	-	-	-	-	-	7,583	7,583
Write-offs	(1,570)	-	-	-	-	-	(92)	-	-	-	(63)	-	(1,725)
Transfers	-	1,932	20,873	4,381	110	1,595	160	238	21	-	111,127	(143,961)	(3,524)
Balances at December 31, 2011	**99,656**	**115,940**	**471,111**	**69,920**	**36,244**	**17,917**	**739**	**34,512**	**1,121**	**(19,952)**	**197,141**	**73,901**	**1,098,250**
Depreciation													
Balances at December 31,2009	-	(20,878)	(310,863)	(25,657)	(33,815)	(12,756)	(325)	(19,079)	(938)	-	-	-	(424,309)
Depreciation for the year	-	(2,581)	(42,762)	(8,176)	(965)	(1,184)	(111)	(3,004)	(42)	-	-	-	(58,825)
Depreciation adjustment of useful life	-	-	30,258	4,101	429	297	21	439	15	-	-	-	35,560
Write-offs (i)	-	-	191	157	796	-	-	-	-	-	-	-	1,144
Transfers	-	-	909	(4,002)	-	(289)	-	-	-	-	-	-	(3,383)
Balances at December 31, 2010	-	(23,459)	(322,267)	(33,577)	(33,555)	(13,932)	(415)	(21,644)	(965)	-	-	-	(449,814)
Depreciation for the year	-	(1,702)	(15,178)	(6,367)	(551)	(1,358)	(112)	(3,722)	(38)	-	-	-	(29,028)
Write-offs	-	-	-	-	17	63	85	53	10	-	-	-	228
Balances at December 31, 2011	**-**	**(25,161)**	**(337,445)**	**(39,944)**	**(34,089)**	**(15,227)**	**(442)**	**(25,313)**	**(993)**	**-**	**-**	**-**	**(478,614)**
Net book value													
Balances at December 31, 2011	**99,656**	**90,779**	**133,666**	**29,976**	**2,155**	**2,690**	**297**	**9,199**	**128**	**-19,952**	**197,141**	**73,901**	**619,636**
Balances at December 31, 2010	101,226	90,549	127,873	31,962	2,579	2,383	256	12,630	135	-12,352	69,430	428	427,099
Balances at December 31, 2009	101,226	93,131	135,050	37,320	3,033	3,153	347	15,165	116	(3,582)	11,672	52,195	448,825
Average annual depreciation rate	0.0%	-2.1%	-6.4%	-14.2%	-1.5%	-7.7%	-14.8%	-12.1%	-3.3%	0.0%	0.0%	0.0%	-4.4%

i) At December 31, 2010 the amounts recorded under construction in progress were written off in view of the bankruptcy process of the supplier Darlet. See details in Note 8;

ii) Construction in progress corresponds substantially to capital expenditure in Vitória Farm project, in addition to expansion of its industrial plant of BOPP (Biaxially Oriented Polypropylene) and new business in the petrochemical industry.

(In thousands of reais)

7. Loans and financing

Financial institutions		Charges	Guarantees	Maturity	12/31/2011	12/31/2010
BNDES	(a)	TJLP + 2.12% p.a.	Properties	10/15/2017	**74,199**	44,073
Banco Bradesco Europa	(b)	Libor + 3.25 % p.a.	Promissory notes	2/23/2016	**60,932**	-
Banco Bradesco	(ii)	3.00% p.a.	Promissory notes	1/10/2012	**10,748**	-
Banco do Brasil	(i)	3.00% p.a.	Promissory notes	3/16/2012	**28,628**	-
Discounted trade notes	-	1.29% p.m.	-	1/31/2012	**12,683**	-
					187,190	44,073
Portion falling due within 12 months					**(63,889)**	(1,181)
Non-current portion					**123,301**	42,892

i) In June 2011, the Company entered into an agreement for an import finance facility with Banco do Brasil (Master Import Finance Agreement), in the amount of US$15,276 thousand for financing the acquisition of machinery and equipment.

On March 26, 2012, the Company renegotiated the agreement, whose interest rates were changed to Libor increased by 2.4023% p.a., maturing on August 13, 2012;

ii) In September 2011, the Company entered into an Import Finance Facility with Banco Bradesco S.A. in the amount of US$5,662 thousand for financing the acquisition of machinery and equipment. This agreement has non-financial covenants.

(a) BNDES – Brazilian Development Bank

During 2010, the Company obtained a credit line from BNDES - Brazilian Development Bank, in the amount of R$ 84,100. Until December 31, 2011, the amount of R$ 72,950 was granted to the Company.

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

i) Evidence of reduction in headcount, without the Company having conducted job opportunity training in the region or professional staffing program;

ii) Existence of judgment against the Company for racial or gender discrimination, child and slave labor, sexual or workplace psychological harassment, or environmental crime;

iii) A new guarantor is not appointed within 30 days in case of death or declared absence of the Company’s controlling shareholder;

iv) Official appointment as member of the Chamber of Federal Deputies or Senator of a professional who holds a paid position at Videolar, or is among its owners, controllers or officers.

(In thousands of reais)

7. Loans and financing (Continued)

(b) Banco Bradesco

In February 2011, the Company obtained a credit line from Banco Bradesco Europa in the amount of € 57,999 thousand, which had the characteristic of direct financing to Andritz, supplier responsible for delivery of machinery and equipment to the Company for the Company's new BOPP production line. Until December 31, 2011, Banco Bradesco had released the amount of € 24,316 thousand. This financing has only non-financial covenants.

At December 31, 2011, the Company was compliant with the above-mentioned contractual obligations.

The amounts recorded in non-current liabilities at December 31, 2011 and 2010 are according to the following maturity schedule:

	2011	2010
2012	-	4,855
2013	**19,412**	7,442
2014	**32,994**	7,648
2015	**32,994**	7,871
2016	**26,846**	8,113
2017	**11,055**	6,964
Non-current liabilities	**123,301**	42,892

8. Provision for contingencies

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

Provision for contingencies	Tax	Labor	Civil	Total
Balances at December 31, 2009	20,189	4,304	643	25,136
(+) Accruals	9,454	2,588	79	12,121
(-) Write-offs	(3,120)	(1,040)	(114)	(4,274)
Balances at December 31, 2010	26,523	5,852	608	32,983
(+) Accruals	6,852	1,351	33	8,236
(-) Write-offs	(22,722)	(5,459)	(112)	(28,293)
Balances at December 31, 2011	**10,653**	**1,744**	**529**	**12,926**

8. Provision for contingencies (Continued)

The major proceedings are described below:

Tax suits

The Company is defendant in legal and administrative suits involving other taxes, such as PIS, IPI, ICMS, IR and social security contributions, in the total amount of R$ 400, assessed as possible loss, and not accrued by the Company.

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

On November 19, 2011, the Company was awarded a final and unappealable favorable decision on the lawsuit in which it questioned ICMS exclusion from PIS and COFINS tax bases. The Company reversed the provision for contingencies in the amount of R$ 21,235, as well as recognized the restatements of judicial deposits referring to this proceeding in the amount of R$ 4,458.

Labor claims

The Company is defendant in labor claims, totaling R$ 1,744, the likelihood of loss of which is assessed as probable, for which provisions have been set up. The Company is also defendant in labor claims assessed as possible loss, amounting to R$ 10,273, for which no provision was recorded.

The provision for labor contingencies corresponds to estimated losses based on individual analysis of 127 labor claims, substantially referring to overtime.

Civil suits

The Company is defendant in civil suits, totaling R$ 529, assessed as probable loss, for which provisions have been set up. The Company is also defendant in civil suits assessed as possible loss, amounting to R$ 46,069, for which no provision was recorded.

8. Provision for contingencies (Continued)

Civil suits (Continued)

The provision for civil contingencies refers to estimated losses on 15 lawsuits mainly related to commercial disputes. The main civil dispute not accrued in the financial statements is shown below:

Fortis Bank

In June 2008, the Company obtained a credit line from Fortis Bank in the amount of € 20,400 thousand, which had the characteristic of direct financing to Darlet Machante Technologies S.A., supplier responsible for delivery of machinery and equipment for the Company's new BOPP production line. Until December 31, 2009, Fortis Bank had released € 15,811 thousand for payment to Darlet.

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

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

(i) Completed request (pursuant to Attachment 6, Part 2 - Request Form provided for in the agreement);

8. Provision for contingencies (Continued)

Civil suits (Continued)

Fortis Bank (Continued)

(ii) Applicable documents listed in Attachment 4 to the agreement, summarized as follows:

1. 20% of the agreement price:

   - Original copy of the proforma invoice;

   - Copy of the declaration of delivery of the technical design and report signed by the purchaser and seller.

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

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

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

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

Article 5.2 of the loan agreement provides for an irrevocable and unconditional determination of Fortis making advance payments to Darlet, in conformity with the terms and conditions of the loan agreement, and Fortis is solely responsible for confirming whether all conditions under the agreement have been met before making any advance payment.

(In thousands of reais)

8. Provision for contingencies (Continued)

Civil suits (Continued)

Fortis Bank (Continued)

In view of the lack of supporting documentation established under the agreement, Videolar's legal advisors understand that Fortis breached the agreement and is solely responsible for the consequences thereof.

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

	12/31/2010
Write-off of advance to supplier in view of the declared bankruptcy	(43,858)
Write-off of liabilities due to remote likelihood of disbursement to Fortis Bank	36,163
Net loss recognized in other operating expenses	(7,695)

In November 2011, Videolar was notified regarding an arbitration proceeding filed with the International Court of Arbitration of the International Chamber of Commerce ("ICC"), in Paris, France, requiring the collection of funds released and interest incurred in the period, which were estimated in € 18,715 thousand.

According to the opinion of legal advisors, Videolar has good arguments to challenge the arbitration proceeding. The likelihood of success in this proceeding is assessed as possible.

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

Judicial deposits	12/31/2010	Additions	Write-offs	Monetary variance	12/31/2011
Tax	30,050	8,444	(472)	4,458	**42,480**
Labor	699	588	(890)	-	**396**
Civil	24	12	(9)	-	**27**
	30,773	9,044	(1,371)	4,458	**42,904**

9. Taxes payable in installments

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

In October 2009, the Company joined the Tax Installment Payment Program (REFIS) instituted by Law No. 11941/09 and by Provisional Executive Order No. 470/2009, aiming at equalizing and regularizing tax liabilities through a special payment and installment system for its tax and social security liabilities. Such payments will take place in 30 installments, increased by SELIC interest (Central Bank benchmark rate), accumulated monthly, and calculated from the date of the request to the payment date.

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

In 2011, REFIS related payments totaled R$ 7,210 (R$ 6,178 in 2010).

At December 31, 2011, the balance payable net of fines and interest reduction is R$ 1,545 recognized under current liabilities.

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 has been paid the royalties following the criteria established by INPI.

10. Royalties payable (Continued)

On January 10, 2011, the Company entered into an agreement for payment of royalties amounting to US$ 18,376 thousand, for payments in installments up to June 2012.

On January 31, 2012, the Company made an addendum to this agreement to adjust covenants and increase the amount payable by US$ 2,772 thousand.

Such agreement has impacted P&L for the year in the amount of R$ 19,940 (expense).

11. Equity

a) Capital

i. As of December 31, 2011, capital is represented by 585,470 common shares, 169,343 class “A” preferred shares and 75,632 class “B” preferred shares, totaling 830,445 shares.

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

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

In year 2011, the Company purchased 1,936 class “B” preferred shares from noncontrolling shareholders in the amount of R$ 1,162.

In September 2011, the Company was notified regarding the authorization of the release of funds from Finam, by Banco da Amazônia, in the amount of R$ 8,424 referring to tax incentives from International Paper do Brasil Ltda. in connection with Videolar ownership project.

The Company issued 14,538 class “B” preferred shares with no par value in the amount of R$ 8,424 in the behalf of International Paper do Brasil Ltda., which were recorded as goodwill reserve on issue of shares.

(In thousands of reais)

11. Equity (Continued)

a) Capital (Continued)

In November 2011, those shares issued were acquired by Videolar by means of payment of R$ 2,263.

At December 31, 2011, the Company has 16,474 class “B” preferred shares held in treasury.

b) Other comprehensive income

Deemed cost adjustments net of deferred income and social contribution taxes were recorded against “Other comprehensive income”, in equity, on January 1, 2009, and are realized, net of taxes, when assets are depreciated or sold.

c) Legal reserve

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

d) Dividends

Under the Company’s articles of incorporation, shareholders are entitled to minimum mandatory dividends of 25% of net income for the year, adjusted by the legal reserve, pursuant to corporate legislation. The calculation of minimum mandatory dividends is stated below:

	R$
Net income for year 2011	13,800
(-) Legal reserve (5%)	(690)
Tax basis of dividends	13,110
Minimum mandatory dividends (25%)	3,278
Advance dividends	(5,140)
Total dividends distributed above the minimum mandatory limit	(1,862)

e) Retained profits reserve

As at the balance sheet date, the corresponding balance is available to the General Shareholders’ Meeting for distribution.

(In thousands of reais)

12. Operating revenue, net

Sales revenue	2011	2010
Gross operating revenue	**1,023,141**	932,308
Taxes on revenues	**(109,699)**	(91,512)
Returns	**(27,459)**	(45,833)
Deductions from gross revenue	**(137,158)**	(137,345)
Operating revenue, net	**885,983**	794,963

13. Breakdown of operating cost and expenses

By nature	2011	2010
Operating expenses	**575,197**	540,313
Cost of services rendered	**157,227**	132,013
Personnel expenses	**44,850**	30,822
Advisory and consulting expenses	**4,493**	2,992
Depreciation and amortization expenses	**29,308**	11,624
Installations	**6,510**	5,963
Selling expenses	**36,358**	25,655
General and administrative expenses	**17,739**	16,647
Marketing expenses	**13,118**	8,318
Other general and administrative expenses	**2,283**	1,603
Total	**887,083**	775,950

By function	2011	2010
Cost of products sold and services rendered	**732,424**	672,326
Administrative /Human Resources expenses	**69,364**	52,064
Selling/logistics expenses	**49,477**	33,973
Industrial//technology expenses	**35,818**	17,587
Total	**887,083**	775,950

(In thousands of reais)

14. Financial income (expenses), net

	2011	2010
Financial income		
Interest and short-term yields	**1,172**	-
Exchange gains	**22,252**	10,909
Other	**382**	1,019
	23,806	11,928
Financial expenses		
Interest on loans	**(1,688)**	(749)
Discounts granted	**(324)**	(354)
Bank charges	**(2,135)**	(1,120)
Exchange losses	**(39,295)**	(5,333)
Fine and interest on taxes paid in installments	**(175)**	(233)
	(43,617)	(7,789)
Financial income (expenses), net	**(19,811)**	4,139

15. Income and social contribution taxes

a) Breakdown of deferred income and social contribution taxes

	12/31/2011	12/31/2010
Provision for losses on assets	**14,015**	5,710
Provision for contingencies	**3,838**	10,657
Provision for obsolescence	**-**	1,461
Tax loss	**8,480**	-
Other provisions	**3,902**	4,516
Other temporary differences	**1,927**	2,616
Subtotal - assets	**32,162**	24,960
Deferred income and social contribution taxes on adjustments arising from adoption of CPCs:		
Fair value of buildings and land	**(40,938)**	(41,064)
Review of useful life of PP&E	**(20,124)**	(12,403)
Subtotal - liabilities	**(61,062)**	(53,467)
Total deferred income and social contribution taxes, net	**(28,900)**	(28,507)

Deferred income and social contribution taxes are recorded to reflect future tax effects arising from temporary differences between the asset and liability tax base and the related book value. Recovery of tax credits was estimated based on projections of taxable profit, taking into consideration various financial and business assumptions considered at the closing of 2011 and 2010. Consequently, such estimates may not materialize in the future, due to uncertainties inherent to this process.

(In thousands of reais)

15. Income and social contribution taxes (Continued)

b) Reconciliation of income and social contribution tax expenses

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

Description	2011	2010
Income before income and social contribution taxes	**14,194**	16,455
Combined rate	**34%**	34%
Income tax and social contribution taxes at combined tax rate	**(4,826)**	(5,594)
Permanent additions	**(492)**	(3,011)
Other	**4,924**	2,577
	(394)	(6,028)
Effective tax rate	**2%**	37%
Deferred income and social contribution taxes	**(394)**	(6,028)

c) Transition Tax Regime

The Company opted for the Transition Tax Regime (RTT) introduced by Law No. 11941, of May 27, 2009, whereby the calculations of Corporate Income Tax (IRPJ), Social Contribution Tax on Net Profit (CSLL), Social contribution Tax for Social Integration Program (PIS) and Social Contribution Tax for Social Security Financing (COFINS) continue to be determined on the accounting methods and criteria set by Law No. 6404, of December 15, 1976, effective on December 31, 2007. As a result, deferred income taxes on the adjustments deriving from adoption of the new accounting practices set forth by Law No. 11941/09 were recorded in the Company's financial statements where applicable, in accordance with CPC 32 - Income Taxes. The Company disclosed such option in its Corporate Income Tax Return (DIPJ) for 2009.

16. Transactions with related parties

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

(In thousands of reais)

16. Transactions with related parties (Continued)

Key management personnel compensation for the year ended December 31, 2011 totaled R$ 1,296 (R$ 1,296 in 2010).

Such expenses were recorded under general and administrative expenses, in the income statement.

Management performed transactions with related parties Parizzoto, as shown below:

Related party	12/31/2011	12/31/2010
Accounts receivable	**490**	51
Sales	**3,715**	2,022

The transactions above were carried out according to contractual conditions established between the parties.

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 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:

17. Financial instruments (Continued)

a) Credit risk

Credit risk refers to the possibility of a Company's counterparty being unable to meet its financial commitments. The Company is exposed to credit risk on its accounts receivable.

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

b) Liquidity risk

Liquidity risk consists of the possibility that the Company does not have sufficient funds to meet its commitments due to the various currencies and maturities of its rights and obligations.

The liquidity and cash flow control of the Company is monitored on a daily basis in order to guarantee that the working capital generation and the raising of funds are sufficient to maintain the chronology of its commitments, thereby mitigating liquidity risks for the Company.

c) Exchange rate risk

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.

d) Sensitivity analysis

Sensitivity to interest rate

This is the risk of fluctuation in market interest rate. The Company's exposure derives from financing, adjusted by the Long-Term Interest Rate (TJLP), and from short-term investments that are restated according to the CDI. Unfavorable variation in interest rate can negatively impact financial revenues and expenses.

(In thousands of reais)

17. Financial instruments (Continued)

d) Sensitivity analysis (Continued)

Sensitivity to exchange rate

This risk arises from the possibility of the Company incurring losses due to oscillations in exchange that increase its financial expenses related to obligations taken out from financial institutions.

The Company continuously monitors the volatility in exchange rates, and has no derivative instrument to minimize the exchange rate risk.

For exchange operations with risk of dollar fluctuation, based on exchange rate at December 31, 2011 of R$ 1.8758 for US$ 1.00, the following effects have been estimated for four scenarios:

- Scenario 1: (5% appreciation of real),
- Scenario 2: (10% appreciation of real),
- Scenario 3: (5% depreciation of real),
- Scenario 4: (10% depreciation of real):

			Gain (loss) from exchange variation			
	Risk	Reference value - US$	Scenario 1	Scenario 2	Scenario 3	Scenario 4
		1.8758	1.7820	1.6882	1.9696	2.0634
Bradesco loan	Dollar fluctuation	5,729	537	1,075	(537)	(1,075)
B. Brasil loan	Dollar fluctuation	15,368	1,442	2,884	(1,442)	(2,882)
Foreign suppliers	Dollar fluctuation	51,663	4,814	9,660	(4,814)	(9,724)

For exchange operations bearing risk of Euro fluctuation, based on exchange rate at December 31, 2011 of R$2.4342 for € 1.00, the following effects have been estimated for four scenarios:

- Scenario 1: (5% appreciation of real),
- Scenario 2: (10% appreciation of real),
- Scenario 3: (5% depreciation of real),
- Scenario 4: (10% depreciation of real):

			Gain (loss) from exchange variation			
	Risk	Reference value - €	Scenario 1	Scenario 2	Scenario 3	Scenario 4
		2.4342	2.3125	2.1908	2.5559	2.6776
Bradesco loan	Euro fluctuation	25,031	3,048	6,094	(3,045)	(6,091)
Foreign suppliers	Euro fluctuation	9	1	2	(1)	(2)

(In thousands of reais)

17. Financial instruments (Continued)

e) Market risk

The Company's P&L is subject to variations, since part of its liabilities is denominated in foreign currency, specially US dollar and euro.

i. *Market risk management strategy*

		2011		2010	
		Nominal value - foreign currency	**R$**	**Nominal value - foreign currency**	**R$**
Bradesco loan	USD	**5,729**	**10,748**	-	-
B. Brasil loan	USD	**15,368**	**28,828**	-	-
Foreign suppliers	USD	**51,663**	**96,877**	8,455	14,491
Bradesco loan	EURO	**25,031**	**60,932**	-	-
Foreign suppliers	EURO	**9**	**22**	38	84
Foreign suppliers	CHF	**18**	**35**	28	49
Foreign suppliers	Yen			56	1

Gains and losses on these transactions are recognized in the income statement, under financial income (expenses).

The Company continuously monitors the volatility in exchange rates, and has no derivative instrument to minimize the exchange rate risk.

f) Fair value measurements

The Company's financial assets and liabilities are subject to variation in their book value. The table below presents a comparison, by class, of the book value and their fair value:

		Book value		Fair value	
		12/31/2011	**12/31/2010**	**12/31/2011**	**12/31/2010**
Financial assets					
Cash and cash equivalents	Level 1	**23,108**	49,407	**23,108**	49,407
Trade accounts receivable	Level 1	**101,288**	81,275	**101,288**	81,275
Taxes recoverable	Level 1	**9,896**	7,695	**9,896**	7,695
Total		**134,290**	138,377	**134,290**	138,377
Financial liabilities					
Loans and financing	Level 2	**174,507**	42,892	174,846	42,842
Trade accounts payable	Level 1	**144,222**	25,727	**151,454**	25,727
Taxes payable		**7,402**	3,002	**7,302**	3,002
Total		**326,131**	71,621	**333,602**	71,571

(In thousands of reais)

17. Financial instruments (Continued)

f) Fair value measurements (Continued)

The fair value of financial assets and liabilities refers to the amount by which the instrument could be swapped in a current transaction conducted between parties willing to negotiate.

Videolar uses the following hierarchy to determine and disclose fair value of financial assets and liabilities by valuation technique:

Level 1: approximate their related realization value mostly because of the short-term maturity of these instruments, or have no quotation available on an active market.

Level 2: measurement through techniques is performed where data which have significant effects on fair value are quoted in markets, directly or indirectly.

Level 3: measurement through techniques is performed where data which have significant effects on fair value are not quoted in markets, directly or indirectly.

g) Capital management

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

For the years ended December 31, 2011 and 2010, there were no changes in objectives, policies or processes:

	12/31/2011	**12/31/2010**
Loans and financing	**174,507**	44,073
(-) Cash and cash equivalents	**(23,108)**	(49,407)
Net debt (cash net of debts)	**151,400**	(5,334)
Equity	**562,953**	552,313
Equity and net debt	**714,353**	546,979

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 partially met, management accrued a provision for profit sharing in 2011 in the amount of R$ 685.

19. Insurance coverage

Coverage type	Total sum insured
Property damages and revenue losses	300,000
Civil liability	15,000
Cargo insurance	8,000
Life insurance	480

The scope of our auditors' work does not include issuing an opinion on the adequacy of insurance coverage.

20. Operating lease

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

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

(In thousands of reais)

20. Operating lease (Continued)

The table below shows maturity of agreements and their estimated renewal:

	Monthly lease (R$)	Maturity of agreement
Properties		
Apartment - Bromélia, 1401.	2	8/20/2012
Apartment - Bromélia, 203.	2	8/20/2012
Apartment - Bromélia, 102.	2	8/20/2012
Apartment - Portal da Cidade, 1700.	2	7/30/2012
EMTEC - DC	44	12/31/2023
Machinery and equipment		
Petrobras	20	12/21/2012
Ozonio Telecomunicações	4	Indefinite
WhiteMartins	2	Indefinite

Lease disbursements estimated for the next years are as follows:

2012	**918**
2013	**852**
2014	**852**