Algar S.A. Empreendimentos e Participações
Consolidated and Parent Company

Financial statements
December 31, 2011 and 2010

(A translation of the original report in Portuguese containing individual and consolidated financial statements prepared in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards, respectively)

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Consolidated and Parent Company

Financial statements

December 31, 2011 and 2010

Contents

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Independent auditors' report on the financial statements

(A translation of the original report in Portuguese containing individual and consolidated financial statements prepared in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards, respectively)

The Board of Directors and Shareholders of
Algar S.A. Empreendimentos e Participações
Uberlândia - MG

We have audited the individual and consolidated financial statements of the company Algar S.A. Empreendimentos e Participações ("Company"), identified as Parent Company and Consolidated, respectively, which comprise the balance sheet as of December 31, 2011 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, as well as the summary of significant accounting practices, and other explanatory notes.

Management responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these individual financial statements in accordance with the accounting practices adopted in Brazil and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board – IASB and the accounting practices adopted in Brazil, as well as for the internal controls that it deemed necessary to enable the preparation of these financial statements that are free of material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements, based on our audit, which was conducted in accordance with the Brazilian and international auditing standards. Those standards require the fulfillment of ethical requirements by the auditors and that the audit be planned and performed for the purpose of obtaining reasonable assurance that the financial statements are free from material misstatement.

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

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

Opinion on the individual financial statements

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

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Algar S.A. Empreendimentos e Participações as of December 31, 2011, the performance of its operations and its cash flows, for the year then ended, in conformity with International Financial Reporting Standards - IFRS issued by the International Accounting Standards Board – IASB and the accounting practices adopted in Brazil.

Emphasis of matter

As described in Note 2, the individual financial statements were prepared in accordance with accounting practices adopted in Brazil. In the case of Algar S.A. Empreendimentos e Participações, these practices differ from IFRS applicable to the separate financial statements, only as regards the valuation of investments in subsidiaries under the equity method, as, for IFRS purposes, they would be valued at cost or fair value.

Belo Horizonte, February 17, 2012

KPMG Auditores Independentes
CRC 2SP014428/O-6-F-MG

Original report in Portuguese signed by
Jean Paraskevopoulos Neto
Accountant CRC SP 193.052/O-0-S-MG

Algar S.A. Empreendimentos e Participações

Balance sheets

Consolidated and Parent Company

December 31, 2011 and 2010

(In thousands of Reais)

	Note	Consolidated		Parent Company	
		2011	2010	2011	2010
Assets					
Current assets					
Cash and cash equivalents	4	546,680	379,693	23,348	22,718
Accounts receivable	5	369,671	316,188	4,632	3,763
Inventories	6	448,948	429,367	-	-
Biological assets	7	13,042	11,374	-	-
Recoverable taxes	8	57,300	48,385	4,312	3,017
Income and social contribution tax recoverable	9	15,699	14,286	148	-
Dividends	24	-	-	36,858	35,269
Other receivables		43,401	34,594	2,155	4,649
Total current assets		**1,494,741**	**1,233,887**	**71,453**	**69,416**
Non-current assets					
Long-term assets					
Recoverable taxes	8	32,815	31,278	-	-
Deferred income and social contribution taxes	9b	129,795	113,904	-	-
Judicial deposits	19	99,093	88,487	5,912	5,686
Biological assets	7	8,053	8,887	-	-
Other receivables		5,874	7,681	4,496	3,579
Investments	10	5,254	7,844	1,053,461	925,775
Investment property		8,066	8,066	-	-
Intangible assets	12	355,709	288,012	92,798	93,166
Property, plant and equipment	11	1,866,000	1,621,034	14,462	11,185
Total non-current assets		**2,510,59**	**2,175,193**	**1,171,129**	**1,039,391**
Total assets		**4,005,400**	**3,409,080**	**1,242,582**	**1,108,807**

See the accompanying notes to the financial statements.

Algar S.A. Empreendimentos e Participações

Balance sheets

Consolidated and Parent Company

December 31, 2011 and 2010

(In thousands of Reais)

		Consolidated		Parent Company	
	Note	**2011**	**2010**	**2011**	**2010**
Liabilities					
Current liabilities					
Loans and financing	13	742,941	572,846	2 ,675	748
Debentures	14	84,520	49,721	-	-
Suppliers of equipment	15	339	9,599	-	-
Suppliers		163,892	160,674	1 ,037	762
Interconnection traffic obligations and joint collection		19,447	32,386	-	-
Tax liabilities	16	56,426	52,592	411	104
Income and social contribution tax payable	9a	3,730	9,227	-	-
Tax installments	18	13,059	27,541	1 .416	5,859
Salaries, provisions and social charges	17	141,582	120,148	5,830	4,935
Dividends and interest on own capital	24	64,619	49,639	57,612	44,998
Refunds to shareholders	21	-	28,634	-	-
Rio Quente Vacation Club Agreements (RQVC)	20	13,908	3 .939	-	-
Advanced dividends	24	-	-	22,768	17,853
Obligations regarding the acquisition of interests in subsidiaries		9 ,582	10,001	9,582	10,001
Concession of telecommunication services payable		3 .457	12,024	-	-
Advances from clients – Soybean		17,377	3 .762	-	-
Other liabilities		41,069	43,606	5,444	10,910
Total current liabilities		**1,375,948**	**1,186,339**	**106,775**	**96,170**
Non-current assets					
Loans and financing	13	755,449	488,182	16,965	19,207
Debentures	14	142,857	214,286	-	-
Obligations regarding the acquisition of interests in subsidiaries		8 ,522	17,044	8,522	17,044
Tax installments	18	31,866	43,947	663	2,281
Telecommunication service authorization payable	15	24,530	-	-	-
Deferred income and social contribution taxes	9b	214,627	211,927	12,965	12,965
Provisions	19	224,507	178,481	26,348	26,814
Deferred income		4,593	6,791	-	-
Rio Quente Vacation Club Agreements (RQVC)	20	43,739	43,881	-	-
Other liabilities		19,616	14,755	12,013	12,008
Total non-current liabilities		**1,470,306**	**1,219,294**	**77,476**	**90,319**
Shareholders' equity	22				
Capital		625,412	465,025	625,412	465,025
Profit reserve		158,001	175,193	158,001	175,193
Revaluation reserve		18,157	18,466	18,157	18,466
Equity evaluation adjustment		256,761	263,634	256,761	263,634
Shareholders' equity attributable to the controlling shareholders		**1,058,331**	**922,318**	**1,058,331**	**922,318**
Shareholders' equity attributable to the non-controlling shareholders		100,815	81,129	-	-
Total shareholders' equity		**1,159,146**	**1,003,447**	**1,058,331**	**922,318**
Total liabilities and shareholders' equity		**4,005,400**	**3,409,080**	**1,242,582**	**1,108,807**

See the accompanying notes to the financial statements.

Algar S.A. Empreendimentos e Participações

Statements of income

Consolidated and Parent Company

December 31, 2011 and 2010

(In thousands of Reais)

		Consolidated		Parent Company	
	Note	2011	2010	2011	2010
Revenue from the sale of goods and services	25	**3 ,051,106**	**2,634,861**	**-**	**-**
Cost of products and goods sold and services rendered	26	(2,145,406)	(1,763,795)	-	-
Gross income (loss)		**905,700**	**8 71,066**	**-**	**-**
Operating income (expenses)					
Sales expenses	27	(345,584)	(302,782)	-	-
Administrative and general expenses	28	(197,571)	(178,474)	(1,085)	(2,357)
Other operating income (expenses), net	30	9,310	9,435	1 .226	(372)
		(533,845)	**(471,821)**	**141**	**(2,729)**
Income (loss) before net financial income (loss), equity in net income of subsidiaries and taxes		**371,855**	**399,245**	**141**	**(2,729)**
Financial income	29	358,647	258,163	5,714	9,186
Financial expenses	29	(488,181)	(389,737)	(9,039)	(10,165)
Equity in net income		-	-	180,294	167,732
Income (loss) before social contribution, income tax and minority interest		**242,321**	**267,671**	**177,110**	**164,024**
Social contribution	9c	(11,414)	(22,379)	928	-
Income tax	9c	(30,606)	(60,753)	2,577	-
Net income for the year		**200,301**	**184,539**	**180,615**	**164,024**
Net Income (loss) attributable to non-controlling shareholders		(19,686)	(20,515)	-	-
Net Income (loss) attributable to controlling shareholders		**180,615**	**164,024**	**180,615**	**164,024**
Number of common shares				50,681,367	49,024,182
Number of preferred nominative shares				682	660
Basic and diluted earnings per common share (in R$)				3.56	3.35
Basic and diluted earnings per preferred share (in R$)				3.56	3.35

See the accompanying notes to the financial statements.

Algar S.A. Empreendimentos e Participações

Statements of changes in shareholders' equity

Consolidated and Parent Company

December 31, 2011 and 2010

(In thousands of Reais)

	Consolidated								
			Profit reserves						
	Capital	Revaluation reserves	Profit retention reserve	Legal reserve	Equity evaluation adjustment	Retained earnings	Interest of controlling shareholder	Interest of non-controlling shareholder	Total
Balances at December 31, 2009	**360,056**	**18,775**	**93,895**	**6,589**	**265,804**	**40,100**	**785,219**	**63,709**	**848,928**
Capital increase	1 04,969	-	(93,895)	-	-	-	11,074	-	11,074
Realization of revaluation reserve	-	(309)	-	-	-	309	-	-	-
Realization of assigned cost adjustments	-	-	-	-	(2.170)	3,200	1,030	(3,095)	(2,065)
Net income for the year	-	-	-	-	-	164,024	164,024	20,515	184,539
Formation of legal reserve	-	-	-	8, 217	-	(8,217)	-	-	-
Dividends payable	-	-	-	-	-	(39,029)	(39,029)	-	(39,029)
Profit retention	-	-	160,387	-	-	(160,387)	-	-	-
Balances at December 31, 2010	**465,025**	**18,466**	**160,387**	**14,806**	**263,634**	**-**	**922,318**	**81,129**	**1,003,447**
Capital increase	160,387	-	(160,387)	-	-	-	-	-	-
Realization of deemed cost	-	-	-	-	(6,873)	6,873	-	-	-
Realization of revaluation reserve	-	(309)	-	-	-	309	-	-	-
Net income for the year	-	-	-	-	-	180,615	180,615	19,686	200,301
Formation of legal reserve	-	-	-	9.390	-	(9,390)	-	-	-
Dividends payable	-	-	-	-	-	(44,602)	(44,602)	-	(44,602)
Profit retention	-	-	133,805	-	-	(133,805)	-	-	-
Balances at December 31, 2011	**625,412**	**18,157**	**133,805**	**24,196**	**256,761**	**-**	**1,058,331**	**100,815**	**1,159,146**

	Parent Company						
			Profit reserves				
	Capital	Revaluation reserves	Profit retention reserve	Legal reserve	Equity evaluation adjustments	Retained earnings	Total
Balances at December 31, 2009	**360,056**	**18,775**	**93,895**	**6,589**	**265,804**	**40,100**	**785,219**
Capital increase	104,969	-	(93,895)	-	-	-	11,074
Realization of revaluation reserve	-	(309)	-	-	-	309	-
Realization of assigned cost adjustment	-	-	-	-	(2,170)	3,200	1,030
Net income for the year	-	-	-	-	-	164,024	164,024
Formation of legal reserve	-	-	-	8,217	-	(8,217)	-
Dividends payable	-	-	-	-	-	(39,029)	(39,029)
Profit retention	-	-	160,387	-	-	(160,387)	-
Balances at December 31, 2010	**465,025**	**18,466**	**160,387**	**14,806**	**263,634**	**-**	**922,318**
Capital increase	160,387	-	(160,387)	-	-	-	-
Percentage variation in minority interest	-	-	-	-	-	-	-
Realization of deemed cost	-	-	-	-	(6,873)	6,873	-
Realization of revaluation reserve	-	(309)	-	-	-	309	-
Net income for the year	-	-	-	-	-	180,615	180,615
Formation of legal reserve	-	-	-	9,390	-	(9,390)	-
Dividends payable	-	-	-	-	-	(44,602)	(44,602)
Profit retention	-	-	133,805	-	-	(133,805)	-
Balances at December 31, 2011	**625,412**	**18,157**	**133,805**	**24,196**	**256,761**	**-**	**1,058,331**

Algar S.A. Empreendimentos e Participações

Statements of cash flows

Consolidated and Parent Company

December 31, 2011 and 2010

(In thousands of Reais)

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Cash flow from operating activities				
Net income for the year	**200,301**	**184,539**	**180,615**	**164,024**
Adjustments to reconcile income (loss) to cash invested in operational activities:				
Depreciation and amortization	161,774	168,471	361	370
Equity in net income of subsidiaries	-	-	(180,294)	(167,732)
Fixed asset and intangible asset write-offs, net	14,707	2 ,140	363	1
Gains (losses) with derivatives	(14,767)	38,517	-	-
Updating of the inventory of commodities	54,326	(22,507)	-	-
Financial charges	238,384	72,320	5,270	287
Provision for impairment in account receivables	19,078	13,947	-	-
Fair value of the biological assets	-	(4,685)	-	-
Deferred income and social contribution taxes	(23,906)	32,861	(3,505)	-
Income and social contribution taxes	65,926	50,271	-	-
Provision for contingencies, net	31,277	7,022	(466)	1,646
	747,100	**542,896**	**2,344**	**(1,404)**
Changes in assets and liabilities				
(Increase) decrease in accounts receivable	(72,561)	(55,185)	(869)	910
Increase in Inventories	(19,581)	(13,565)	-	-
(Increase) decrease in biological assets	(834)	1,101	-	-
(Increase) decrease in current and non-current recoverable taxes	(11,865)	(7,863)	(1,295)	439
Increase in judicial deposits	(10,606)	(16,955)	(226)	(3,420)
Increase in other current and non-current assets	(7,000)	(10,262)	2,494	(72)
Increase in suppliers	3,218	35,863	275	40
Increase in salaries, provisions and charges	21,434	22,507	895	548
(Decrease) increase in tax liabilities	(16,257)	5,576	(5,754)	(1,610)
(Decrease) increase in other liabilities (current and non-current)	(62,151)	(4,204)	8,225	14,319
Income and social contribution taxes paid	(50,219)	(41,043)	(148)	-
	(226,422)	**(84,030)**	**3,597**	**1 1,154**
Net cash and cash equivalents (invested) generated by operational activities	**520,678**	**458,866**	**5,941**	**9,750**
Cash flow of investment activities				
Investment acquisition in subsidiary	-	(4,469)	(10,177)	-
In biological non-current assets	-	(4,660)	-	-
In fixed and intangible assets	(489,144)	(281,968)	(2,912)	(359)
Receipt of dividends and interest on own capital	-	-	58,505	32,873
Net cash and cash equivalents (invested) generated by investment activities	**(489,144)**	**(291,097)**	**45,416**	**32,514**
Cash flow from financing activities				
Addition (amortization) of loans - Principal and interest, net	152,669	(198,083)	(14,526)	(5,040)
Addition (amortization) of equipment suppliers - Principal and interest	18,082	4,746	-	-
Addition (amortization) of related-party balances	(1,198)	(1,284)	(4,213)	(3,122)
Payment of dividends and interest on own capital	(34,100)	(28,731)	(31,988)	(25,329)
Net cash and cash equivalents generated (used in) financing activities	**135,453**	**(223,352)**	**(50,727)**	**(33,491)**
Increase (reduction) of cash and cash equivalents	166,987	(55,583)	630	8,773
Cash and cash equivalents at the beginning of the year	379,693	435,276	22,718	13,945
Cash and cash equivalents at the end of the year	**546,680**	**379,693**	**23,348**	**22,718**

Algar S.A. Empreendimentos e Participações

Statements of added value

Consolidated and Parent Company

December 31, 2011 and 2010

(In thousands of Reais)

	Unaudited	
	Consolidated	
	2011	2010
Revenues	**3,678,731**	**3,168,473**
Sale of goods, products and services	3,627,532	3,126,156
Other income	70,277	56,263
Provision for impairment of account receivables	(19,078)	(13,946)
Inputs acquired from third parties (includes: ICMS, IPI, PIS, and COFINS)	**(1,850,839)**	**(1,513,656)**
Cost of goods and products sold and services rendered	(1,457,815)	(1,163,011)
Materials, energy, outsourced services and other	(393,024)	(350,645)
Gross added value	**1,827,892**	**1,654,817**
Depreciation and amortization	**(161,774)**	**(168,471)**
Net added value by the Entity	**1,666,118**	**1,486,346**
Added value received as transfer	**358,647**	**258,163**
Financial income	358,647	258,163
Total added value payable	**2,024,765**	**1,744,509**
Distribution of added value		
Personnel	(623,905)	(505,497)
Taxes, duties and contributions	(646,273)	(611,060)
Remuneration of third party capital	**(554,286)**	**(443,112)**
Interest	(488,181)	(389,677)
Rents	(66,105)	(53,435)
Own capital remuneration	**(200,301)**	**(184,840)**
Dividends	(44,602)	(39,029)
Retained earnings for the year	(155,699)	(145,811)
Minority interest in retained earnings	19,686	20,515

See the accompanying notes to the financial statements.

1 Operations

Algar S.A. Empreendimentos e Participações ("Company") is a closely held company with headquarters in the city of Uberlândia, Minas Gerais, the Algar Group's parent company, a corporate group engaged in the TI/Telecom, Agribusiness, Services, and Leisure activities, providing solutions that add value in a simple, sustainable, and innovative manner; by valuing relationships and human potential.

The Company's key aim is to hold interests in other company, directly and indirectly controlling companies engaged in the TI/Telecom, Agribusiness, Services, and Tourist activities.

The company is controlled by Árvore S.A. Empreendimentos e Participações ("Arvore S.A."), a closely held company based in the city of Uberlândia, Minas Gerais.

The operating context of the main direct and indirect subsidiaries and jointly controlled companies is summarized as follows:

Subsidiaries

a. Companhia de Telecomunicações do Brasil Central ("CTBC Telecom")

With main offices in the city of Uberlândia, Minas Gerais, is a public company. Its key activities include fixed telephone and data communications services, in accordance with the concessions, licenses, and permits granted by Agência Nacional de Telecomunicações (ANATEL). CTBC Telecom is an operating holding company in the Algar Group's TI/Telecom division, with operations, including those performed by its subsidiaries, covering cell phone, telecommunications, and multimedia service provision, contact center, business process outsourcing ("BPO"), IT and specialized consultancy, printing services, publishers of newspapers and telephone directories, cable and satellite TV services - "DTH" and others related to the telecommunications activity, Internet and broad band, data center and telecom engineering.

The operating context of CTBC Telecom's key subsidiaries, all headquartered in Uberlândia, follows:

- **CTBC Celular S.A. ("CTBC Celular") -** the company provides Personal Mobile Services ("SMP") and covers a large part of the west of Minas Gerais and several cities in the Alto Paranaíba region, northwest of the state of São Paulo, south of the state of Goiás, and northeast of the state of Mato Grosso do Sul. It explores the service of distributing TV and audio signals, through subscription and via satellite (DTH), for an indefinite period of time, and is also authorized by ANATEL to offer SMP services of the 3G type in more than 230 municipalities of Minas Gerais State, according to the H Band exploration license.

- **Algar Tecnologia e Consultoria S.A. ("Algar Tecnologia") -** provides Contact Center, BPO (Business Process Outsourcing), remote IT), technical support services, development, operating, implementation, and applications and program management, connectivity solutions to access, store, and recover data, business representations, IT training, advice on imports and leasing of equipment and accessories related to the above activities, among other integrated services for customer and consumer relations.

- **CTBC Multimídia Data Net S.A. ("CTBC Multimídia") -** It is the provider of SCM (multi-media switching service) private telecommunication network, broadband convergent communication and access to Internet services, both dialed and broadband, and offers co-location and hosting services.

- **Engeset - Engenharia Serviços de Telecomunicações S.A. ("Engeset") -** Its operations include civil construction and advisory and the provision of engineering project services.

- **Image Telecom TV Vídeo Cabo Ltda. ("Image") -** It distributes television signal through subscription and provides Internet access services through its cable network in the municipalities of Uberlândia and Araguari.

- **Algar Mídia S.A. ("Algar Mídia")**, formely denominated S.A. Brasileira de Empreendimentos - SABE, - the entity is engaged in providing graphic services on demand, and in publishing newspapers, telephone directories, journals, magazines and books.

Concessions and licenses

Services offered by the subsidiary CTBC Telecom and tariffs charged are regulated by ANATEL, agency responsible for the regulation of the telecommunications segment in Brazil, in compliance with the General Telecommunications Act and its respective regulations. In this context, the subsidiary CTBC Telecom and its subsidiaries hold the following concessions and authorizations:

Company	Grant	Coverage area	maturity
CTBC Telecom	Concession for the provision of fixed switched telephone service ("STFC")	Triângulo Mineiro region and some municipalities of Alto Paranaíba region, Northwest of São Paulo State, South of Goiás State and Northeast of Mato Grosso do Sul State.	12/31/2025
CTBC Telecom	Authorization to provide STFC, domestic and international long distance services	All regions of Brazil	Undetermined
CTBC Celular	Authorizations, adjusted to Authorization Terms for Personal Mobile Service "SMP"	Triângulo Mineiro region and some municipalities of Alto Paranaíba region, Northwest of São Paulo State, South of Goiás State and Northeast of Mato Grosso do Sul State.	01/21/2023

(In thousands of Reais, unless otherwise indicated)

CTBC Celular	Authorization to provide telephony services with 3G ("third generation") technology, at frequencies of 1,900 Mhz and 2,100 Mhz	Triângulo Mineiro region and some municipalities of Alto Paranaíba region, Northwest of São Paulo State, South of Goiás State and Northeast of Mato Grosso do Sul State.	04/28/2023 renewable for an additional 15 years
CTBC Celular	Authorization to explore the service of distributing TV and audio signals through subscription, via satellite (DTH)	All regions of Brazil	Undetermined
CTBC Celular	Authorization to provide telephony services with 3G technology, at 1,800 Mhz frequency, denominated H Band,	in municipalities with area codes 34, 35 and 37, Minas Gerais State.	04/28/2023 renewable for an additional 15 years
CTBC Multimídia	Authorization to provide muti-media communication services	All regions of Brazil	Undetermined
Image	Concesssion of cable TV services and adequacy to Conditional Access Services	Cities of Uberlândia and Araguari, both in Minas Gerais State	Undetermined

b. *Algar Agroalimentar S.A. Empreendimentos e Participações ("Algar Agro")*

With main offices in the city of Uberlândia, Minas Gerais, it is active as a *holding* company in the Algar Group's agribusiness segment, and its corporate purpose is to hold interests in other companies as a partner or shareholder, and to manage assets. The operating context of the Algar Agro subsidiaries is as follows:

- **ABC Indústria e Comércio S.A. ("ABC Inco") -** processes and markets oilseeds and their derivatives in general. Its main products are soybean meal, degummed vegetable oil, refined and bottled oil, and other derivatives of soybean processing. Markets refined soy, olive, and blended oil, and tomato puree under the "ABC de Minas" brand, and packaged soy bean under the "Raça Fort" brand.

  With crushing capacity of 585,000 tons of soybeans per year in Minas Gerais and 487,000 tons in Maranhão, the Algar Agro proves to be one of the most important industrial complexes of soybean storage and processing in the states of Minas Gerais and Maranhão. The export of soybeans and soybean meal is now destined for countries such as Spain, Netherlands, France, and Germany.

- **ABC Agricultura e Pecuária S.A. ("ABC A&P") -** Composed of a group of farms in the states of Minas Gerais and Mato Grosso do Sul. Focused on grain crops (including soybeans, corn, beans and others) and beef and dairy cattle farming.

c. Joint-controlled subsidiaries

- **Rio Quente Empreendimentos e Participações S.A. ("RQ Empar") -** with the main activity of running a water park in the Rio Quente Resorts tourist and hotel compound. The RQ Empar is the parent company of Companhia Thermas do Rio Quente (“CTRQ”), Vale do Rio Quente Agência de Viagens e Turismo Ltda. (“Valetur”) and Rio Quente Mineração Ltda. (“RQM”).

- **Rio Quente Empreendimentos Imobiliários Ltda. ("RQEI") -** active in the real estate industry, promotes, develops, buys, and sells properties in general.

d. *Other companies*

The Company also controls Algar Aviation Taxi Aéreo S.A. "(Algar Aviation"), which exploits air taxi services, as well as the purchase and sale of aircrafts and their components; Space Tecnologia em Serviços Ltda. ("Space Tecnologia") and Space Vigilância Ltda. ("Space Vigilância"), organized to provide technical advisory and logistics services in civil engineering, telecom infrastructure, security systems, surveillance of properties for financial institutions and other businesses, public or private, and personal security; Space Empreendimentos e Participações Ltda. ("Space Empreendimentos") is dedicated to managing real estate; Algar Universidade de Negócios Ltda ("Unialgar") is dedicated to professional enhancement for the Algar Group's associates, and to disseminate knowledge to companies in the Algar Group's business chain, as well as to other companies in the market in general; ABC Agropecuária Brasil Norte S.A. ("ABC Norte"), which exploits agribusiness in general; and holds an interest in Companhia de Administração de Terminais Urbanos e Centros Comerciais ("Comtec"), with the corporate purpose of managing urban terminals, of selling bus and airfares, in addition to managing shopping centers.

Corporate events that occurred in 2011 and 2010

At March 15, 2010, the indirect subsidiary Algar Tecnologia acquired all capital shares (757,424) of Synos Consultoria e Informática Ltda. ("Synos"), provider of IT and information technology services. Acquisition was based on economic appraisal report issued by a firm specialized, based on the balance sheet of February 28, 2010. This transaction resulted on R$ 17,722 in goodwill based on the expectation of future profitability, which will not be amortized and will have its recoverable value examined at least yearly.

On April 2, 2011, the indirect subsidiary Sabe Participações was merged into indirect subsidiary Algar Mídia, and the Company held interest of 90.18% of its capital shares.

The Extraordinary Shareholders' Meeting held on September 16, 2011 ratified the capital increase of indirect subsidiary CTBC Celular through the capitalization of an advance for future capital increase ("AFAC") contributed by CTBC Telecom, in the amount of R$ 72,500, and paid-up capital of R$ 10,177 by the Company and R$3,192 by other shareholders, corresponding to 387,867, 54,369, and 17,151 nominative shares with no par value, respectively. Accordingly, indirect subsidiary CTBC Celular capital increased by R$ 85,869, with issuance of 459,387 new shares, of which 249,715 are common shares and 209,672 are preferred shares.

2 Preparation basis

a. Statement of compliance (in relation to IFRS standards and CPC standards)

These financial statements include:

- The consolidated financial statements prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and also in accordance with accounting practices adopted in Brazil (BR GAAP); and

- The parent company financial statements prepared according to the BR GAAP.

The parent company financial statements were prepared according to the BR GAAP. However, these practices differ from the IFRS applicable to separate financial statements due to the fact that investments in subsidiaries and affiliated companies are valued under the equity method in BR GAAP, whereas, for IFRS purposes, these investments would be carried at cost or fair value.

However, there is no difference between the shareholders' equity and consolidated result presented by Algar S.A. and the shareholders' equity and result in the parent company financial statements. Accordingly, the consolidated financial statements and the parent company financial statements are being presented side by side in a single set of financial statements.

The statements of comprehensive income are not being submitted, as there are no amounts to be presented on this concept. Thus, the net income for the year is the same as the total comprehensive income.

The issue of consolidated and parent company financial statements was authorized by Management on February 3, 2012.

b. Measuring basis

The parent company and consolidated financial statements were prepared based on the historical cost, except for the following material items recognized in the balance sheets:

- Derivative financial instruments measured at fair value through profit or loss;
- Non-derivative financial instruments measured at fair value through profit or loss;
- Financial assets available for sale measured at fair value through profit or loss; and
- Biological assets measured at fair value less sales expenses.

c. Functional and presentation currency

The parent company and consolidated financial statements are being presented in Brazilian Real, which is the functional and presentation currency of the Company and its subsidiaries.

d. Use of estimates and judgments

The preparation of the parent company and consolidated financial statements according to IFRS and Accounting Pronouncements Committee ("CPC") standards requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported values of assets, liabilities, income and expenses. Hence, actual results may differ from these estimates.

Estimates and assumptions are reviewed in a continuous manner and are recognized in the period in which the estimates are reviewed and in any future periods affected. Information regarding critical judgments referring to the accounting policies adopted which impact the amounts recognized in the parent company and consolidated financial statements are included in the following notes:

Note 5 – Accounts receivable and provision for impairment

Note 6 – Inventories

Note 7 – Biological assets

Note 9 – Deferred income and social contribution taxes

Note 11 – Property, plant and equipment

Note 12 – Intangible

Note 19 – Provision and judicial deposits

Note 31 – Derivative financial instruments

The settlement of transactions involving estimates presented in the explanatory notes listed above may result in different amounts due to the lack of precision inherent to the process of their determination.

Information on uncertainties as to assumptions and estimates that pose a high risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 5 – Accounts receivable and provision for impairment

Note 6 – Inventories

Note 9 – Deferred income and social contribution taxes

Note 12 – Intangible assets

Note 11 – Property, plant and equipment

Note 19 – Provision and judicial deposits

3 Description of significant accounting policies

The accounting policies described below have been consistently applied by the Company and its subsidiaries to the two years presented in these parent company and consolidated financial statements.

a. Consolidation bases

a.1. Subsidiaries

Subsidiaries are entities in which the parent company, including indirect parent companies, has partner rights that ensure preponderance on resolutions and the power to elect the majority of management members.

The subsidiaries are fully consolidated as of the date control is transferred to the Company, and stop being consolidated as of the date when control no longer exists, if applicable. In cases in which there is joint control, consolidation of financial statements will be proportional to the percentage interest.

To prepare the consolidated financial statements, the financial statements of subsidiaries and of joint-controlled subsidiaries are employed, with the same base date and consistent with the Company's accounting policies.

(In thousands of Reais, unless otherwise indicated)

a.2. Main consolidation procedures

Main consolidation procedures include the horizontal sum of balance sheet accounts and of income of companies included in consolidation, with the elimination (i) of asset and liability account balances arising from consolidated company transactions; (ii) Of investments in the shareholders' equity of subsidiaries and joint ventures; and (iii) of intercompany income and expense balances and unearned income arising from intercompany transactions; Unrealized gains originating from transactions with investee companies recorded using the equity method, are eliminated against the investment in the proportion of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only up to the point where there is no evidence of loss due to impairment.

Interest of non-controlling shareholders in shareholders' equity and income (loss) are highlighted in a separate caption in the financial statements.

a.3. Subsidiaries included in the consolidated financial statements

	2011			**2010**		
	% in the total capital			**% in the total capital**		
	Direct	**Indirect**		**Direct**	**Indirect**	
	Total	**Voting**	**Calculated**	**Total**	**Voting**	**Calculated**
IT/Telecom Sector						
CTBC Telecom	90.21	97.03	-	90.21	97.03	-
CTBCCelular	7.41	-	83.57	-	-	76.16
CTBCMultimídia	-	-	81.50	-	-	81.50
Engeset	-	-	90.21	-	-	90.21
Algar Tecnologia	-	-	90.21	-	-	90.21
Synos	-	-	90.21	-	-	90.21
Image	-	-	90.21	-	-	90.21
Algar Mídia	-	-	90.18	-	-	90.18
Agribusiness Sector:						
ABC Norte	77.04	98.98	-	77.04	98.98	-
Algar Agro	100	100	-	100	100	-
ABC Inco	24.89	24.89	75.11	24.89	24.89	75.11
ABC A&P	-	-	100	-	-	100

(In thousands of Reais, unless otherwise indicated)

Services and Leisure Sector:						
Algar Aviation	99.93	99.93	-	99.93	99.93	-
Space Tecnologia	100	100	-	100	100	-
Space Vigilância	-	-	100	-	-	100
Space Empreendimentos	100	100	-	100	100	-
Jointly-controlled subsidiaries						
COMTEC	50	50	-	50	50	-
RQ Empar	50	50	-	50	50	-
RQEI	50	50	-	50	50	-

We demonstrate below a summary of balance sheets and statements of income for the fiscal years ended on December 31, 2011 and 2010 of the subsidiaries jointly with RQ Empar, RQEI, and Comtec:

	RQ Empar		**RQ EI**		**Comtec**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Assets						
Current assets	90,000	69,787	426	10,078	2,940	1,187
Non-current assets	453,577	412,291	5,924	12,188	1,623	3,054
Long-term assets	17,162	27,639	5,209	11,530	54	700
Investments	13,907	13,907	672	610	-	-
Intangible assets	926	396	-	-	1,545	2,077
Investments property	5,470	5,470	-	-	-	-
Property, plant and equipment	416,112	364,879	43	48	24	277
Total assets	543,577	482,078	6,350	22,266	4,563	4,241
Liabilities						
Current liabilities	87,760	69,163	1,090	1,166	1,225	1,231
Non-current liabilities	243,311	229,898	4,910	13,155	5	11
Interest of non-controlling shareholders	12,306	10,727	-	-	-	-
Shareholders’ equity	200,200	172,290	350	7,945	3,333	2,999
Total liabilities and shareholders’ equity	543,577	482,078	6,350	22,266	4,563	4,241

(In thousands of Reais, unless otherwise indicated)

	RQ Empar		RQEI		Comtec	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Income (loss)						
Net operating income	176,129	164,256	-	-	9,951	9,144
Cost of services rendered	(87,345)	(83,613)	-	-	(6,037)	(5,259)
Gross profit	88,784	80,643	-	-	3,914	3,885
Operating income (expenses)	(51,357)	(44,848)	(476)	7,846	(2,665)	(3,780)
Income (loss) before income and social contribution taxes	37,427	35,795	(476)	7,846	1,249	105
Income and social contribution taxes	(9,930)	(8,883)	(184)	(503)	(80)	(27)
Interest of non-controlling shareholders	(1,579)	(1,482)	-	-	(194)	-
Net income (loss) for the year	25,918	25,430	(660)	7,343	975	78

b. *Foreign currency transactions and balances*

Transactions in foreign currency are translated into the respective functional currency of the Company and its subsidiaries at the exchange rates on the dates of the transactions. Monetary assets and liabilities denominated and calculated in foreign currencies on the date of presentation are converted into the functional currency at the exchange rate determined on that date. Gains or losses on the translation of foreign currencies on monetary items are the difference between the value of the amortized cost in the functional currency at the beginning of the reported year, adjusted based on the rate and actual payments made during the year, and the value of the amortized cost in foreign currency translated based on the rate in effect at the end of the reported year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency of the Company and its subsidiaries at the foreign exchange rate on the date the fair value was determined Exchange differences arising from the conversion are directly recognized in income for the year.

Gains and losses resulting from the update of such assets and liabilities verified between the exchange rate in effect on the date of transaction and the closing of the year are recognized as financial income or expenses in the result.

c. *Financial instruments*

c.1 Non-derivative financial instruments

The Company and its subsidiaries recognize loans, receivables and deposits as of the initial date when they were originated. All other financial assets (including assets designated at fair value through profit or loss) are initially recognized on the date of the negotiation under which the Company and its subsidiaries become a party to the contractual provisions of the instrument.

The Company and its subsidiaries writes-off a financial asset when the contractual rights to the cash flow of the asset expire, or when essentially all the risks and benefits of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company and its subsidiaries is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when the Company and its subsidiaries have a legally enforceable right and the intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Company and its subsidiaries have the following non-derivative assets: financial assets recorded at fair value through profit or loss, investments held to maturity and loans and receivables.

c.2 Financial assets recorded at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is held for trading, that is, stated as such when initially recognized. Financial instruments are stated at fair value through profit or loss if the Company and its subsidiaries manage these investments and make decisions on investment and redemption based on fair value according the strategy of investment and risk management documented by the Company and its subsidiaries. After the initial recognition, the attributable transaction costs are recognized in profit or loss when incurred. Financial instruments stated at fair value through profit or loss are measured at fair value and changes in the fair value of such assets are recognized in the income for the year.

c.3 Financial assets held to maturity

These are non-derivative assets with fixed or determinable payments, with defined maturities for which the Company and its subsidiaries has the positive intention and capacity to hold its debt instruments until maturity, these are classified as held to maturity. Investments held to maturity are measured by the amortized cost using the effective interest rate method, less any reductions in their recoverable value. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity date would result in the reclassification of all held to-maturity investments as available-for-sale, preventing the Company from classifying investments as held-to-maturity for the current and the following two financial years.

c.4 Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments, but not quoted on any active market. Such assets are initially recognized at fair value plus any transaction costs directly assignable. After their initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, reduced by any impairment losses.

Receivables comprise trade accounts and other credits, including receivables from agreements or concession of services.

c.5 Derivative financial instruments

The Company and its subsidiaries holds derivative financial instruments to hedge risks relating to foreign currencies, interest rates and commodity inventories.

Derivatives are initially recognized at their fair value, and the attributable transaction costs are recognized in profit or loss when incurred. After the initial recognition, derivatives are measured at fair value and changes are accounted for in profit or loss.

c.6 Fair value hedge

Changes in the fair value of a derivative instrument of coverage designated as hedge of fair value are recognized in the result. the hedged item is also measured by the fair value in relation to the risk to be covered. The gain or loss assignable to the covered risk is recognized in the result, with the value of the hedged item adjusted.

c.7 Financial liabilities

They are classified among the categories below according to the nature of the financial instruments contracted or issued:

c.7.1 Financial liabilities at fair value through profit or loss - They include financial liabilities usually traded before maturity, liabilities designated in the initial recognition at fair value by means of the result and derivatives, except for those designated as *hedge* instruments. They are measured at fair value at each balance sheet date. Interest, monetary adjustment, foreign exchange variation and any variations arising from measurement at fair value, when applicable, are recognized in income when incurred in the "Financial income (expenses)" line.

c.7.2 Financial liabilities not measured at fair value - Non-derivative financial liabilities that are usually traded before maturity. After the initial recognition they are measured at the amortized cost by based on the effective interest rate method. Interest, monetary adjustment, and foreign exchange variation, when applicable, are recognized in income in the financial income (expenses) caption.

c.8 Market value

The market value of the financial instruments actively traded in organized markets is determined with a basis on the values quoted in the market on the balance sheet closing date. If there is no active market, the market value is determined by means of valuation techniques, including techniques the use of recent market transactions between independent parties, reference to the market value of similar financial instruments, analysis of the discounted cash flows or other valuation models.

For the subsidiaries that have derivative operations, the technical pronouncements CPC 38, 39 and 40 allow the application of the hedge accounting methodology. On December 31, 2011 and 2010 none of the subsidiaries had adopted a hedge accounting, method that recorded changes in fair value of derivative financial instruments directly in the income figures.

Current and non-current assets

d. Cash and cash equivalents

Include cash balances, demand bank deposits in current accounts, and short term interest earning bank deposits redeemable within up to 90 days after the balance sheet date, or considered highly liquid. They also include available cash balances abroad in reference to receipts in transit related to accounts receivable of transactions on the foreign market, available cash balances abroad in brokerage accounts used for the margining of derivative operations, interest earning bank deposits in local currency, and cash balance in indirect subsidiaries abroad, which are considered as an extension of business in Brazil.

Interest earning bank deposits are stated at cost plus income calculated up to the balance sheet date and do not overcome the market value.

Cash and cash equivalents on the international market in U.S. Dollars ("USD") are translated into local currency on the date of the balance sheet.

e. *Trade accounts receivable*

Trade accounts receivable are recorded in the amount billed. Include the sales of services and processed products. Include, also, receivables for services provided but not billed up to the balance sheet date.

When applicable, trade accounts receivable are adjusted to present value, and include the respective direct taxes for which the Company is responsible, less the taxes withheld, which are considered tax credits. The calculation of present value is made for each transaction based on an interest rate that reflects the term, the currency, and the risk of each transaction. The corresponding entry of adjustments to present value of accounts receivable is the gross revenue in income/expenses. The difference between the present value of a transaction and the face value of the turnover is considered financial revenue and will be allocated with a basis on the amortized cost method and method of the effective interest rate over the maturity period of the transaction.

f. *Inventories*

The inventories of commodities (soybeans, corn, soybean meal and vegetable oil) of the subsidiary Algar Agro are appraised at fair value. To mitigate the price risks caused by market fluctuations, the subsidiary have a policy for using futures and options operations to minimize net exposure of commodities inventory. Changes in fair value of these inventories are recognized monthly in the financial income (loss). These commodities have liquidity and prices quoted on the active market. The fair values are measured based on prices quoted on the Chicago Mercantile Exchange/Chicago Board of Trade (CBOT).

Advances to soybean suppliers are made based on contracts with growers whereby conditions are established for the marketing of soybeans. The modalities operated by the subsidiary include: a) Advance purchases, which sets the prices, quantities and delivery date of soybeans; b) Advances with price to be established, in which the contractual charges are set, as well as the quantity to be marketed and future conditions of the deadline for setting the price and delivery of the soybeans.

Advances granted are updated using exchange and inflation fluctuations (when applicable) up to the balance sheet date pursuant to contractual provisions, net of the provision to reduce recoverable value.

Unrealized net gains and/or losses in forward sale and purchase agreements, commodities futures and options agreements reflect the fair values of these financial instruments and are stated in the Company's balance sheet as financial income.

Other inventories are valued based on the historical cost of acquisition or production, increased by expenditures related to transportation, storage and non-recoverable taxes. The amounts of such recorded inventories do not exceed the market values.

g. Biological assets

Biological assets are measured at fair value.

The subsidiary Algar Agro and its subsidiary ABC A&P hold regular assessments by specialized consultants on the fair values of biological assets. When there is evidence of gain or loss in the variation in fair values, the values are recognized in the income statement of the year in which they occurred.

h. Investments

Investments in subsidiaries and subsidiaries under joint ownership were valued by the equity method of accounting. Other investments that do not fit into the category above are stated at cost of acquisition, less the provision for loss on investment, when applicable.

i. Property, plant and equipment

i.1 Recognition and measurement

Items of property, plant, and equipment are measured at acquisition or construction cost, net of taxes recoverable, accumulated depreciation and *impairment* losses, when applicable.

The costs of items recorded under fixed assets include all those directly attributable to the acquisition or formation of the asset. The costs of assets constructed by the Company itself and its subsidiaries include the cost of materials and salaries of employees directly involved in the projects of construction or formation of such assets, as well as any other costs directly attributable to such asset until it is able to be used for the purposes foreseen by the Company's Management. Also include costs of impairment of assets and restoration of the sites where such assets are installed, and costs of loans of qualifiable assets.

Purchased software that is integral to the functionality of a piece of equipment is capitalised as part of that equipment.

When parts of a fixed asset have significantly different useful lives, these parts constitute individual items and are recorded and controlled separately, also for depreciation purposes.

Gains and losses on disposal of property, plant and equipment items are recognized at the net value, directly in income (loss) for the year.

i.2 Subsequent costs

Costs incurred with repairs, maintenance or replacements of parts of a fixed asset are recognized in the current balances of such fixed assets provided that an increase of the future benefits is expected either through increase of useful life or through increase of productivity, and that the costs of such parts may be determined on a reliable manner.

(In thousands of Reais, unless otherwise indicated)

i.3 Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in income (loss) using the straight-line method, since this is the method that best reflects the consumption pattern of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term or the estimated useful life of the asset, unless it is reasonably certain that the Company will obtain ownership at the end of the lease term. Leasehold improvements are amortized according to the lease of property term Land is not depreciated.

The useful estimated lives for the comparative periods are as follows:

	Average useful life (in years)	
Group description	**2011**	**2010**
Buildings and improvements	33	33
Switching equipment	10	10
Terminal equipment	4	4
Equipment and transmission means	17	17
Power and air conditioning equipment	14	14
Machinery and equipment of common use	20	20
Infrastructure	25	25
Vehicles and tractors	6	6
Furniture and fixtures	10	10
System data processing and others	5	5

The depreciation methods, useful lives and residual values are reviewed at each reporting date and potential adjustments will be recognized as a change in accounting estimates.

j. Leases

Finance lease agreements are recognized under property, plant and equipment in assets and under "Loans and financing" in liabilities, at the present value of the mandatory minimum installments of the agreement, or at the fair value of the asset, whichever is lower, plus, when applicable, the direct initial costs incurred in the transaction. Loans and financing interests are recognized in income, according to contract duration, at the effective interest rate method.

Operating lease agreements are recorded as expenses on a system which represents the period in which the benefit over the leased asset is obtained, even if such payments are not made this way.

k. Intangible assets

k.1 Goodwill

The goodwill arising from the acquisition of businesses is classified in intangible assets. Goodwill is stated at cost net of provisions for losses due to the decrease in recoverable value, in connection with this asset's impairment, when applicable.

k.2 Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred.

Development activities involve a plan or project for the commercialization of new or substantially improved products. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and use or sell the asset. The expenditures capitalized include the cost of materials, direct labor and deployment costs that are directly attributable to preparing the asset for its intended use, and borrowing costs. Other development expenses are recognized in profit or loss as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

k.3 Concessions and licenses

The subsidiaries CTBC Telecom, CTBC Celular, CTBC Multimídia and Image have recognized intangible assets arising from concession and licensing agreements, with regard to rights for exploitation and use as in the case of the right of use of the spectrum of radiofrequency waves - PPDUR and the right of backbone use, among others.

Intangible assets received as payment for infrastructure construction work or service expansion are measured at fair value upon initial recognition.

k.4 Other intangible assets

The licenses for acquired computer programs (software) and Enterprise Management Systems acquired are measured at cost. Expenditures with the acquisition and implementation of business management systems are capitalized as intangible assets when it is probable that future economic benefits generated by it will be higher than respective cost, considering its economic and technological feasibility.

k.5 Subsequent expenses

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred.

k.6 Amortization

Intangible assets with finite service lives are amortized based on their actual use or a method that reflects the economic benefit of the corresponding asset. Amortization is calculated on the cost value of this intangible asset, or on another value that substitutes cost value, minus the residual value of such intangible asset. Amortizations are recognized in income for the year at the straight line basis, based on assets' estimated useful lives.

Intangible assets' estimated useful lives for comparative periods are as follows:

	Average useful life (in years)	
Description of Group	**2011**	**2010**
Trademarks and patents	10	10
PPDUR - Radio Frequency Public Price	14	14
Right of use of Backbone	5	5
Regulatory grants	19	19
IT system	5	5

The useful lives of concessions, licenses, and rights of use of backbone are adjusted according to the agreements' terms.

l. *Investment property*

Investment property is stated at cost of acquisition.

m. Impairment

m.1 Financial assets (including receivables)

A financial asset not measured at fair value through profit or loss is assessed at each reporting date for objective evidence of impairment loss. An asset is impaired when there is objective evidence that a loss event has occurred after the initial recognition of the asset, and that such loss event had a negative effect on the projected future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of the amount due to the Company and its subsidiaries on terms that the Company and its subsidiaries would not consider otherwise, indication that the debtor or issuer will file for bankruptcy, or disappearance of an active market for a security. In addition, for an equity instrument, a significant or prolonged decrease in the fair value of the asset, below its cost, is objective evidence of impairment.

m.2 Financial assets measured by the amortized cost

The Company and its subsidiaries consider as evidence of impairment of assets measured at amortized cost (for receivables and investment securities held to maturity) both individually and on an aggregate basis. Individually significant receivables are assessed for impairment. All the receivables and investment securities held to maturity which are material on an individual basis, identified as non-impaired on an individual basis are collectively assessed for any impairment loss not yet identified. Individually significant assets are assessed on an aggregate basis in relation to impairment by grouping the notes with similar risk characteristics.

When assessing impairment on an aggregate basis the Company and its subsidiaries make use of historical trends of probability of default, the recovery term and the amounts of losses incurred, adjusted to reflect the management's judgment in relation to the assumptions, if the current economic and credit conditions are such that the actual losses will probably be higher or lower than those suggested by historical trends.

A decrease in the recoverable value of a financial asset measured at amortized cost is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The losses are recognized in an allowance in the income statement against receivables or assets held to maturity. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The provision for impairment of trade accounts receivable is recognized based subsidiaries' losses history, which normally refers to credits overdue for more than 90 days, whose recovery is considered unlikely by Management.

m.3 Non-financial assets

The carrying amounts of the non-financial assets of the Company and its subsidiaries, except for inventories and deferred income and social contribution taxes are reviewed at each reporting date for indication of impairment. If such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets with an undefined useful life, the recoverable value is estimated on an annual basis.

An impairment loss is recognized when the carrying amount of an asset or its CGU (cash generating unit) exceeds its recoverable value.

The recoverable value of an asset or cash-generating unit is the greater of its value in use and its fair value less selling expenses. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions as to the recoverability period of capital and the risks specific to the asset or CGU.

For the purpose of impairment testing, the assets that cannot be individually tested are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash flows of other assets or group of assets (the cash generating unit or CGU). For goodwill recoverable value testing purposes, the goodwill amount calculated in a business combination is allocated to the cash generating unit or group of units to which the benefit of the combination synergies is expected. That allocation reflects the lowest level in which the goodwill is monitored for internal purposes and is not greater than an operating segment determined under IFRS 8 and CPC 22.

Impairment losses are recognized in profit or loss. Losses recognized for CGUs are initially allocated to reduce any goodwill attributed to the CGUs (or group of CGUs) and then to reduce other assets within the CGU (or group of CGUs) on a pro-rata basis.

An impairment loss related to goodwill is not reversed. Regarding other assets, impairment losses are reversed only with the condition that the book value of the asset does not exceed the book value that would have been calculated, net of depreciation or amortization, if the value loss had not been recognized.

Management reviews the net book value of assets annually in order to assess events or changes in economic, operating, or technological circumstances likely to point out impairment or loss of their recoverable value. When these evidences are detected and the net book value exceeds recoverable value, a deterioration provision is created to adjust net book value to recoverable value. These losses, if applicable, are accounted for as other operating expenses.

Current and non-current liabilities

Current and non-current liabilities are stated at known or calculable amounts, plus, when applicable, the corresponding charges and monetary and exchange variations incurred through the balance sheet date. Are recorded at present value, for each transaction, based on interest rates that reflect the term, currency and risk of each transaction. The contra-entry of adjustment at present value is the statement of income account that gave rise to such liability. The difference between the present value of one transaction and the face value of the liability is recognized in profit or loss throughout the term of the contract based on the amortized cost and the effective interest rate method.

n. Concession of telecommunication services payable

Recorded based on rules issued by ANATEL at the percentage of 2% of net revenues from switched fixed telephony service calculated in the year prior to payment, net of taxes and social contributions.

o. Provisions

A provision is recognized on the balance sheet when the Company and its subsidiaries have a legal or constructive obligation as a result of a past event, which can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recorded considering the best estimates of the risk involved.

The provision for contingencies is determined by Management, according to the expected losses, based on the opinion of internal and external legal consultants, by amounts considered sufficient to cover losses and risks.

p. Employee benefits

p.1 Pension plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (Pension Fund) and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution pension plans are recognized as employee benefit expenses in profit or loss for the periods in which the services are rendered by the employees.

Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

p.2 Short-term employee benefits, including profit sharing plan

Obligations for short-term employee benefits are measured on a non-discounted basis and incurred as costs or expenses as the related service is rendered.

The liability is recognized at the amount expected to be paid under the cash bonus plans or short-term profit sharing if the Company and its subsidiaries have a legal or constructive obligation to pay this amount as a result of prior service rendered by the employee, and the obligation can be reliably estimated.

q. Income and social contribution taxes on net income

The income and social contribution taxes, both current and deferred, are calculated based on the rates of 15% plus a surcharge of 10% on annual taxable income in excess of R$ 240 for income tax; and 9% on taxable income for social contribution on net income, and consider the offsetting of tax loss carryforward and negative basis of social contribution, limited to 30% of the annual taxable income. Offset of tax loss carryforwards is considered, limited to 30% of annual taxable income.

Deferred income and social contribution taxes are recognized in relation to temporary differences between assets' and liabilities' accounting values and corresponding amounts used for taxation purposes.

Deferred income and social contribution taxes are measured at rates that are expected to be applied to temporary differences that are reversed, based on laws that were enacted or substantially enacted up to financial statements presentation date.

To determine current and deferred income tax, the Company and its subsidiaries take into consideration the impact of uncertainties on positions taken on taxes and if the additional income tax and interest payment has to be made. The Company and its subsidiaries believe that the provision for income tax recorded in liabilities is adequate for all outstanding tax periods, based on its evaluation of several factors, including interpretations of tax laws and past experience. This evaluation is based on estimates and assumptions that may involve several judgments on future events. New information may be provided, making the Company and its subsidiaries change its judgment on the existing provision adequacy; such changes will impact income tax expenses for the year in which they are made.

Deferred tax assets and liabilities are offset when there is a legal enforceable right to set off current tax assets against tax liabilities, and the latter relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred income and social contribution tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized.

Deferred income and social contribution tax assets are reviewed at each reporting date and reduced when their realization is no longer probable.

r. Shareholders' equity

Reserves, dividends, and interest on own capital

- Profit reserve: refers to a method of allocation of net income for the year, and the legal and profit retention reserve is applicable to the Company and its subsidiaries.

- *Legal reserve*: The Company and its subsidiaries constitutes a legal reserve in accordance with the Brazilian Corporation Law and the Company's Articles of Incorporation, on the basis of 5% of net earnings of each fiscal year, obeying the limit of 20% of the capital stock.

- *Profit retention reserve* based on the requirements of Law 11.638/2007, the and its subsidiaries reclassified the remaining balances of retained earnings to profit reserves, in order to be applied in modernization and expansion, according to the proposal by the Company's Management, based on the budget to be approved at the Shareholders' Meeting.

Dividends and interest on own capital holders of preferred shares (with no voting rights) of the Company and its subsidiaries are entitled to reimbursement of capital and dividends. Interest on capital paid during the year was calculated based on Law no. 9,249/1995. In order to comply with tax provisions, interest on capital payable is accounted for as financial expenses. However, in the preparation of financial statements, interest on capital expense is reclassified to accumulated earnings, stated as distribution of income, in compliance with accounting practices adopted in Brazil.

s. Income and expenses

s.1 Recognition of income

The revenue is stated net of taxes, returns, rebates or discounts.

The operating income (expense) is determined in conformity with the accrual basis of accounting of the year and is not recognized if there is a significant uncertainty on its realization or measurement of its value.

s.2 Sales of services

Revenues related to telephony services are accounted for at the tariff value effective on the date service was provided, and are comprised of tariffs for subscription, network use, and maintenance services and other services provided to subscribers and clients. All services are billed on a monthly basis, in accordance with measurement made by operating systems that identify information for accounting recognition and recording in proper revenue components. Services provided from billing date to month end are calculated and accounted for as revenue for the month in which service was provided. Revenues from pre-paid cell phone recharge are deferred and recognized in income upon effective consumption.

s.3 Sales of goods and products

Sale of goods are measured at fair value of the amounts received or receivable, net of returns, trade discounts and cash rebates on certain types of transactions. Revenue is recognized when:(i) there is persuasive evidence of the existence, normally in the form of sale agreements already entered into by the parties, according to which (ii) risks and benefits from asset ownership have already been transferred to the buyer, and when (iii) associated costs may be reliably measured, as well as (iv) possible return of assets, (v) there is no further involvement of the Company's management and its subsidiaries with assets sold and (vi) revenue value may be reliably measured.

s.4 Interchange transactions with assets and services (barter transactions)

The subsidiaries CTBC Telecom and CTBC Multimídia have interchange transactions with assets and services, i.e., interchange of services and infrastructure with companies of the same segment or different segments.

The purpose of infrastructure interchange is mainly to guarantee redundancy of services provided by these entities, as a strategy to guarantee the continuity of services in case of damage caused to its computerized networks or computerized systems, or any other eventuality that may jeopardize service rendering by entities. The purpose of this procedure is to reduce or even eliminate risks to these services' final clients.

Certain interchange transactions do not characterize a commercial transaction. Thus, in transactions with this characteristic, the subsidiaries do not recognize revenues or costs in the statements of income, and recognizes only taxes levied on billing of these infrastructure interchange contracts.

Interchange transactions of commercial essence are normally recognized as regular transactions, i.e., their revenues and costs are recognized as in any other commercial transaction of the subsidiaries.

s.5 Construction contracts

Contract revenue includes the original amounts agreed on in the contract plus variations arising from additional requests, complaints and contractual incentive payments, provided that it is probable that they will result in revenue and may be reliably measured. As soon as the result from a construction contract may be reliably estimated, contract revenue is recognized in income, according to contract completion stage. Contract expenses are recognized when incurred, unless they create an asset related to future contract activity.

The stage of completion is evaluated by reference to research on accomplished works. When income from a construction contract cannot be reliably measured, contract revenue is recognized up to the limit of costs recognized, provided that incurred costs may be recovered. Contract losses are immediately recognized in income.

s.6 Government subsidies

Government assistance granted to the Company's subsidiaries, normally granted in exchange for future or past compliance with certain conditions in connection with the entity's operating activities, are stated according to the nature of these government subsidies, as shown below:

- if unconditional, when characterized as receivables, are directly recognized in income for the year under caption other operating revenues;

- when complied with before the entity being entitled to these subsidies, they are recognized as deferred revenues at their fair value, if there is a reasonable chance that the conditions will be complied with and that the entity is really entitled to be given such subsidies;

- they are a subsidy or refund for expenses already incurred by the entity, are recognized in the income figures as other operating income systematically, over the same periods for recognition of expenses;

- they are a subsidy or refund for an asset's construction costs, are recognized in the income figures through an asset's useful live systematically.

s.7 Financial income and expenses

Financial income includes interest on investments made by the Company and its subsidiaries (including marketable securities and investments available for sale), dividends received, adjustments to present value of financial assets, gains from disposal of financial assets, changes in fair value of financial assets assessed at fair value through income, and gains from derivative financial instruments.

Financial expenses comprise expenses on interest and foreign exchange variations in loans and financing, inflation adjustments for taxes paid in installments, changes in fair value of financial assets at fair value through profit or loss, losses from adjustments to financial asset impairment, and losses on financial derivative instruments are recognized in income (loss) for the year. Borrowing costs which are not directly attributable to the acquisition, construction, or production of a qualifying asset are recognized in profit or loss for the year on the accrual basis.

Foreign exchange variation gains or losses are stated at net value in income for the year.

t. *Income per share*

The basic earning per share is calculated based on the result for the financial year attributable to the Company's controlling and non-controlling shareholders and the weighted average of outstanding common and preferred shares in the respective year. The diluted earnings per share are calculated based on the mentioned average of outstanding shares, adjusted by instruments that can potentially be converted into shares, with a dilution effect, in the years presented.

u. *Statements of added value*

The Company prepares parent and consolidated Statements of Added value in accordance with the technical pronouncement CPC 09, which are presented as an integral part of the financial statements under BRGAAP applicable to publicly-held companies, whereas under IFRS they represent additional financial information.

v. *New standards and interpretations not yet adopted*

During 2011, the IASB published a package of five new or revised standards (so-called the "package of five") addressing the accounting treatment for consolidation, involvement in joint agreements and disclosure of involvement with other entities.

These standards will be applicable to annual periods beginning on or after January 1, 2013, with advanced application permitted, considering that each of the standards in the "package of five" is also applied in advance (advanced application by entities in Brazil is generally not permitted until these standards are issued in the form of CPC and approved by CVM - Brazilian Securities and Exchange Commission and CFC - Federal Accounting Council).

However, it is permitted to incorporate the disclosures required by IFRS 12 into the financial statements, without characterizing early application of this standard and, consequently, the other four rules issued. One of the most significant changes is the edition of IFRS 11 "Joint Arrangements," which replaces IAS 31, eliminating the option available in this standard of accounting for investments in jointly controlled entities by the proportional consolidation method (maintaining only the equity method, unlike what is now required in Brazil by CPC 19).

The “package of five” includes the following standards:

IFRS 10 – “Consolidated Financial Statements”,

IFRS 11 – “Joint Arrangements”,

IFRS 12 – “Disclosure of Interests in Other Entities”,

IAS 27 – “Separate Financial Statements”,

IAS 28 – “Investments in Associates and Joint Ventures”.

Management will apply resolutions of pronouncements applicable to the Company and its subsidiaries after the issuance of these standards by CPC. In 2011, IASB also published IFRS 13 "Fair Value Measurement", which replaces, through a single standard, guidelines for measurements at fair value included in IFRS literature. However, it does not introduce any new or revised requirement as to which items should be measured at fair value or which should have their fair value disclosed. IFRS 13 is applicable for annual periods beginning on or after 01 January 2013, with early application permitted (earlier application by entities in Brazil is not usually allowed until the standard is published in the form of CPC and approved by the CFC). Management will apply resolutions of applicable pronouncements to the Company and its subsidiaries after the issuance of these standards by CPC.

The Company and its subsidiaries did not estimate the extent of the impact of these new rules in their financial statements.

(In thousands of Reais, unless otherwise indicated)

4 Cash and cash equivalents

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Cash and banks	55,809	133,554	2,946	1,670
Interest earnings bank deposits	431,929	159,775	20,402	21,048
Cash available abroad [1]	38,600	45,681	-	-
Cash available in brokerage firms - (NDF currencies) [2]	5,614	23,442	-	-
Cash available in brokerage firms - (hedge inventories) [2]	14,728	17,241	-	-
	546,680	**379,693**	**23,348**	**22,718**

[1] Foreign market customer receipts (US$) not interned, to settle ACC contracts with financial institutions by Algar Agro.

[2] Kept by Algar Agro in overseas securities brokers to cover (margin) derivatives transactions at the Chicago Exchange ("CBOT").

Financial investments refer mainly to bank deposit certificates, remunerated at Interbank Deposit Certificate (CDI) rate variation.

5 Accounts receivable

	Consolidated	
	2011	**2010**
Amounts billed		
Falling due	222,134	171,280
Up to 30 days overdue	53,906	7,438
Overdue between 31 and 60 days	16,097	5,418
Overdue between 61 and 90 days	6,013	57,097
Overdue between 91 and 120 days	6,372	755
Overdue for more than 120 days	70,872	64,794
Total billed	**375,394**	**306,782**
Unbilled amounts	68,291	76,025
	443,685	**382,807**
Provision for impairment	(74,014)	(66,619)
	369,671	**316,188**

(In thousands of Reais, unless otherwise indicated)

Financial assets included in trade accounts receivable are classified as loans and receivables stated at amortized cost. Their net book value is similar to their fair value.

The operation of the provision for impairment is shown below:

	Consolidated	
	2011	**2010**
Opening balance	66,619	70,672
Provision for the year	19,078	13,947
Write-offs against accounts receivable	(11,683)	(18,000)
Closing balance	**74,014**	**66,619**

Maximum credit risk exposure on the financial statements' date is the book value for each maturity aging range as reflected in the accounts receivable aging range table previously shown.

The exposure of the Company and its subsidiaries to credit risks and impairment losses, related to trade accounts receivable, are disclosed in Note 31.

6 Inventories

	Consolidated	
	2011	**2010**
Finished goods	6,390	9,478
Work in process	32,233	42,272
Raw material	145,027	63,728
Advance to soybean suppliers	243,245	288,440
Animals	12,135	13,598
Inventory for resale and works	12,585	10,987
Storeroom and others	4,036	6,451
	455,651	**434,954**
Provision for impairment	(6,703)	(5,587)
	448,948	**429,367**

(In thousands of Reais, unless otherwise indicated)

The measurement of the inventories of soybeans, degummed vegetable oil, and soybean meal (commodities) at fair value was R$13,876 on December 31, 2011 (R$22,507 on December 31, 2010) recognized in income (loss), in the group of financial income (expenses).

The Company has derivative financial instruments as a means of protecting inventories (hedge), as described in Explanatory Note 31.

7 Biological assets

Below, we present the composition of the Company's biological assets, through its subsidiary ABC A&P:

a. *Crops under formation - Current assets*

	Consolidated	
	2011	**2010**
Crops under formation (soybean and corn)		
Soybean and corn	13,042	11,374
Total fair value	**13,042**	**11,374**

b. *Permanent crops and animals (sires and dams of cattle, pigs) - non-current assets*

	Consolidated		
	Balance at 12.31.2010	**Additions (Write-offs)**	**Balance at 12.31.2011**
Permanent crops	1,500	(470)	1,030
Animals	7,387	(364)	7,023
Total fair value	**8,887**	**(834)**	**8,053**

In 2011, soybean planted related to the harvest of 2011/2012 covers approximately 6827 hectares of farm land (in relation to the 7,471/2011 crop season: 7471 hectares). Corn planted in the 2011 / 2012 harvest covers roughly 2304 hectares (2010 regarding the 2010 / 2011 harvest: 1672 hectares).

The book balance of plantations being formed with regard to the plantations listed above covers expenses with land preparation for the 2011 / 2012 harvest and is measured according to costs incurred.

The subsidiary ABC A&P is exposed to a number of risks related to its plantations:

- Regulatory and environmental risks

The indirect subsidiary ABC A&P is subject to the laws and regulations of the places where it operates. Environmental procedures focused on the compliance with environmental laws and others have been prepared. The management carries out regular analyses to identify environmental risks and assure that systems under operation are appropriate to manage those risks.

- Supply and demand risk

The indirect subsidiary ABC A&P is exposed to risks arising from price fluctuations of the volumes sold from its plantations. Where possible, the Company and its subsidiary manage this risk by aligning its extraction volume with market supply and demand. The management analyzes on a regular basis the trend of the active market to ensure that the price structure is in accordance with market and to ensure that estimated volumes of harvest are consistent with expected demand.

- Climatic risks and others

The plantations of the indirect subsidiary ABC A&P are exposed to risks of damage caused by climate change, diseases, forest fires, and other natural causes. The Company and its subsidiary has processes in progress to monitor and reduce those risks, including health regulation inspections and analysis of diseases and plagues.

(In thousands of Reais, unless otherwise indicated)

Criteria for assessing biological assets employed by the subsidiary ABC A&P

- For the crops under formation, the following measurement criteria were adopted:

The subsidiary ABC A&P is presenting its growing crops of soy and corn measured at cost incurred, since the end of the planting season is near the balance sheet date and there were no relevant biological transformations in its assets related to temporary and short-cycle crops (roughly six months). Plantations in formation are assessed at fair value when they are ready for harvesting, estimated for the end of the following year's first quarter.

- For cattle (bovine) biological assets (dams, sires and animals in inventory):

The subsidiary ABC A&P is measuring its cattle biological assets at market price obtained by a specialized consultancy report. The evaluation criterion is determined by the animal-husbandry classifications with the characteristics of category, age, sex, weight and breed standard. The pricing of the animals was based on the local market price of the respective units through the prices listed on Bovespa-BM, CEPEA/USP, BeefPoint and auctions held in December 2011.

8 Recoverable taxes

	Consolidated	
	2011	**2010**
ICMS - property, plant and equipment (a)	40,500	38,154
ICMS	20,822	23,339
COFINS	2,176	2,224
PIS	739	582
IRRF	6,557	4,623
INSS	3,019	397
ICMS recoverable	8,216	2,116
Others	8,086	8,228
Total	**90,115**	**79,663**
Portions of current assets	57,300	48,385
Portions of non-current assets	32,815	31,278

(In thousands of Reais, unless otherwise indicated)

(a) The sums regarding "ICMS tax - fixed assets" refer to ICMS tax credits from the acquisition of fixed assets, which are offset at a rate of 1/48 per month in accordance with Law no. 102 of 2000.

9 Income and social contribution taxes

a. *Income and social contribution tax payable*

	Consolidated	
	2011	**2010**
Income and social contribution taxes	(53,949)	(50,271)
Advance of income tax and social contribution	50,219	41,044
	(3,730)	**(9,227)**

b. *Deferred income and social contribution taxes*

Deferred Corporate Income Tax ("IRPJ") and Social Contribution ("CSLL") have the following nature:

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Assets				
Income tax				
- Tax losses	105,813	129,579	32,978	32,681
- Provision for contingencies and others	65,394	60,135	6,203	6,204
- Adjustment to value realization	(75,765)	(106,161)	(39,181)	(38,885)
	95,442	83,553	-	-
Social contribution				
- Negative basis	40,368	47,856	11,858	11,750
- Provision for contingencies and others	23,416	22,915	2,233	2,233
- Adjustment to value realization	(29,431)	(40,420)	(14,091)	(13,983)
	34,353	30,351	-	-
Total non-current assets	**129,795**	**113,904**	**-**	**-**

(In thousands of Reais, unless otherwise indicated)

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Liabilities				
Income tax				
- Gains on derivative transactions	535	5,317	-	-
- Temporary exclusions	28,608	28,395	9,121	9,121
- Income tax - Deemed cost and others	117,998	126,817	411	411
	147,141	160,529	9,532	9,532
Social contribution				
- Gains on derivative transactions	193	1,915	-	-
- Temporary exclusions	19,571	10,229	3,285	3,285
- Social contribution - Deemed cost and others	47,722	39,254	148	148
	67,486	51,398	3,433	3,433
Total non-current liabilities	**214,627**	**211,927**	**12,965**	**12,965**

The Company and its subsidiaries, based on a technical assessment on the expectations of generating future taxable income prepared by the Company's management and approved by the Board of Directors, recognized tax credits on fiscal losses, social contribution negative bases, and temporary differences, for which there is no statutory limitation period.

Based on the technical study regarding estimated generation of future taxable income, the Company and its subsidiaries foresee the recovery of tax credits in the following years:

	Consolidated
	2011
2012	28,582
2013	31,707
2014	23,419
2015	20,210
2016	25,877
	129,795

(In thousands of Reais, unless otherwise indicated)

c. *Income (loss) for the year*

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Social contribution:				
Current	(18,076)	(13,770)	-	-
Deferred	6,662	(8,609)	928	-
	(11,414)	(22,379)	928	-
Income tax:				
Current	(47,851)	(36,500)	-	-
Deferred assets	17,245	(24,253)	2,577	-
	(30,606)	(60,753)	2,577	-
	(42,020)	**(83,132)**	**3,505**	-

The reconciliation between income and social contribution tax expense as calculated by the combined nominal rates and expense charged to income is presented below:

	Consolidated	
	2011	**2010**
Income before income and social contribution taxes	242,321	267,671
Income and social contribution taxes at the nominal combined statutory rate of 34%	(82,389)	(91,008)
Corporate Income Tax (IRPJ)/Social Contribution on Net Income (CSLL) on addition (exclusion) items:		
Reverse split of shares	9,672	-
Permanent additions/exclusions	9,344	-
Recognition (write-off) of deferred income tax and social contribution	18,875	-
Amortization of goodwill	7,349	4,626
Provision for contingencies and others	(4,871)	3,250
Income and social contribution tax expenses in income for the year	(42,020)	(83,132)
Effective rate	17.34%	31.06%

(In thousands of Reais, unless otherwise indicated)

10 Investments

	Consolidated		Parent Company	
	2011	2010	2011	2010
Interest on controlled companies	-	-	1,052,585	922,486
Other investments	5,254	7,844	876	3,289
	5,254	7,844	1,053,461	925,775

a. *Change in investments*

	CTBC Telecom	Algar Agro	ABC Inco	Space Emp.	Others subsidiaries	Total
Balance at December 31, 2009	**323,197**	**233,292**	**77,309**	**80,900**	**100,542**	**815,240**
Income distributed	-	-	-	(12,414)	-	(12,414)
Dividends and interest on own capital	(27,850)	(4,739)	(1,570)	-	(1,110)	(35,269)
Write-off due to capital reduction	-	-	-	(3,924)	(197)	(4,121)
Additional dividends	(6,796)	-	-	-	-	(6,796)
Effects of the initial adoption	(1,447)	-	-	-	(439)	(1,886)
Equity in net income	111,281	19,954	6,612	12,464	17,421	167,732
Balance at December 31, 2010	**398,385**	**248,507**	**82,351**	**77,026**	**116,217**	**922,486**
Capital increase in subsidiary	-	-	-	-	10,177	10,177
Dividends and interest on own capital	(30,091)	(4,565)	(1,513)	(12,300)	(295)	(48,764)
Gain in acquisition of interest in subsidiary -		-	-	-	2,320	2,320
Capital reduction	-	-	-	(1,615)	(1,140)	(2,755)
Additional dividends	(11,173)	-	-	-	-	(11,173)
Equity in net income	124,187	19,221	6,370	15,588	14,928	180,294
Balance at December 31, 2011	**481,308**	**263,163**	**87,208**	**78,699**	**142,207**	**1,052,585**

b. *Information on main subsidiaries and subsidiaries under joint ownership, based on financial statements*

	Capital		Shareholders' equity		Total assets		Current liabilities	
	2011	2010	2011	2010	2011	2010	2011	2010
CTBC Telecom	271,640	271,640	533,541	441,618	1,369,857	1,221,784	281,894	266,264
AlgarAgro	97,104	97,104	263,024	248,506	267,730	253,248	4,705	4,879
ABC Inco	153,249	153,249	352,646	330,858	1,308,775	1,056,504	708,523	510,324
Space Empreendimentos	28,433	30,048	78,700	77,027	109,366	95,644	2,912	830
RQ Empar	1,721	1,721	200,201	174,306	543,579	482,078	87,760	69,163
Space Tecnologia	880	880	6,696	7,763	15,946	14,900	4,209	4,537

(In thousands of Reais, unless otherwise indicated)

	Non-current liabilities		Net revenues		Net income (loss) for the period	
	2011	2010	2011	2010	2011	2010
CTBC Telecom	554,422	472,325	745,325	739,318	137,664	123,353
AlgarAgro	-	-	-	-	19,221	19,954
ABC Inco	247,606	212,946	1,105,357	887,042	25,591	26,566
Space Empreendimentos	27,754	17,787	29,996	17,093	15,588	12,464
RQ Empar	243,311	229,898	176,129	164,256	25,917	25,430
Space Tecnologia	5,041	7,763	31,095	27,309	(246)	2,911

	CTBC Telecom	Algar Agro	ABC Inco	Space Emp.	RQ Empar	Space Tec.
Number of shares or quotas held						
ON Shares	273,551	98,113,022	4,626,495	-	4,293,710	-
Preferred shares	33,531	-	346,743	-	-	-
Shares	-	-	-	32,665,790	-	606,705
% of direct interest of the parent company						
In capital stock	97%	100%	25%	100%	50%	100%
In the voting capital	91%	100%	25%	100%	50%	100%

In order to preserve the respective cash, financial planning, and normal course of business of its subsidiary CTBC Celular, on March 15, 2010 the subsidiary CTBC Telecom entered into an Agreement for Advance of a Future Capital Increase ("AFAC") which, in compliance with the rules defined under CPC-39 - Financial Instruments: Evidence, was considered an equity instrument.

The Extraordinary Shareholders' Meeting held on September 16, 2011 ratified the capital increase of subsidiary CTBC Celular through the capitalization of an advance for future capital increase ("AFAC") contributed by CTBC Telecom, in the amount of R$ 72,500 and capital payment of R$ 10,177 by the Company in addition to a capital payment by other shareholders in the amount of R$ 3,192, corresponding to 387,867, 54,369 and 17,151 nominative shares without par value, respectively. Accordingly, subsidiary CTBC Celular capital increased by R$ 85,869, with issuance of 459,387 new shares, of which 249,715 are common shares and 209,672 are preferred shares.

(In thousands of Reais, unless otherwise indicated)

11 Property, plant and equipment

a. Cost movement

	Consolidated				
	31.12.2010	**Additions**	**Write-offs**	**Transfe-fers (*)**	**31.12.2011**
Buildings and improvements	383,234	9,038	(5,738)	9,552	396,086
Switching equipment	297,758	-	(18,848)	10,556	289,466
Terminal equipment	141,959	-	(625)	34,167	175,501
Equipment and transmission means	881,418	3,145	(7,911)	12,074	888,726
Power and air conditioning equipment	89,151	27	(2,479)	10,033	96,732
Machinery and equipment of common use	103,882	3,990	(125)	857	108,604
Infrastructure	104,237	498	(1,818)	3,637	106,554
Vehicles	47,539	15,603	(2,779)	2,311	62,674
Furniture and fixtures	63,340	2,659	(590)	2,946	68,355
System for data processing and others	334,667	3,155	(5,110)	19,947	352,659
	2,447,185	**38,115**	**(46,023)**	**106,080**	**2,545,357**
Land	418,171	18,346	(7,838)	193	428,873
Works in progress and others	253,393	429,226	4,207	(206,754)	480,071
	3,118,749	**485,687**	**(49,654)**	**(100,481)**	**3,454,301**

b. Accumulated depreciation movement

		Consolidated				
	Average useful life (years)	**31.12.2010**	**Additions**	**Write-offs**	**Trans-fers (*)**	**12.31.2011**
Buildings and improvements	33	(75,754)	(13,981)	936	105	(88,694)
Switching equipment	10	(229,276)	(10,403)	18,848	(1)	(220,832)
Terminal equipment	4	(102,422)	(22,763)	568	(4)	(124,621)
Equipment and transmission means	17	(655,938)	(32,614)	5,466	(196)	(683,282)
Power and air conditioning equipment	14	(55,248)	(5,284)	2,439	(118)	(58,211)
Machinery and equipment of common use	20	(37,956)	(4,351)	45	(71)	(42,333)
Infrastructure	25	(53,337)	(3,295)	202	60	(56,370)
Vehicles	6	(15,519)	(4,486)	1,432	1,449	(17,124)
Furniture and fixtures	10	(44,908)	(2,723)	555	(351)	(47,427)
System for data processing and others	5	(227,357)	(27,114)	4,684	380	(249,407)
		(1,497,715)	**(127,014)**	**35,175**	**1,253**	**(1,588,301)**
Balance		**1,621,034**	**358,673**	**(14,479)**	**(99,228)**	**1,866,000**

(*)Transfers refer to reclassification of property, plant and equipment values in progress , identified as intangible assets.

(In thousands of Reais, unless otherwise indicated)

c. Cost movement

	Parent Company			
	12.31.2010	**Additions**	**Write-offs**	**12.31.2011**
Buildings and improvements	9,857	1,617	-	11,474
Machinery and equipment of common use	175	44	-	219
Vehicles	400	245	(87)	558
Furniture and fixtures	650	188	-	838
System for data processing and others	1,829	361	(354)	1,836
	12,911	2,455	(441)	14,925
Land	1,874	820	-	2,694
	14,785	**3,275**	**(441)**	**17,619**

d. Accumulated depreciation movement

	Average useful life (years)	12.31.2010	Parent Company		12.31.2011
			Additions	**Write-offs**	
Buildings and improvements	50	(1,266)	(185)	-	(1,451)
Machinery and equipment of common use	10	(129)	(11)	-	(140)
Vehicles	5	(305)	(57)	25	(337)
Furniture and fixtures	10	(365)	(51)	-	(416)
System for data processing and others	5	(1,535)	(57)	779	(813)
		(3,600)	(361)	804	(3,157)
Balance		**11,185**	**2,914**	**363**	**14,462**

e. Depreciation method

The Company and its subsidiaries perform periodic review of the service life of PP&E, which are unchanged compared to the previous year.

Additional information on fixed assets - Subsidiary CTBC Telecom

(In thousands of Reais, unless otherwise indicated)

a. Assets related to Concession

In accordance with STFC concession contracts, the assets of subsidiary CTBC Telecom that were considered indispensable to render services and were qualified as "reversible assets", upon concession extinction will be automatically transferred to ANATEL, and the subsidiary will not be obliged to pay indemnities provided for in legislation and in respective concession agreements.

2010 amounts presented below refer to the reversible assets list forwarded to ANATEL and approved in April 2011. These amounts replace those disclosed upon presentation of 2010 financial statements, which were considered as previous at the time. Assets listed in 2011 comprise a previous list of reversible assets to be submitted to ANATEL approval in April 2012, in conformity with regulation.

Values of reversible assets' are as follows (unaudited).

	CTBC Telecom					
	2011			**2010**		
	Cost	**Accumulated depreciation**	**Net**	**Cost**	**Accumulated depreciation**	**Net**
Buildings and improvements	17,426	(4,351)	13,075	17,377	(3,863)	13,514
Power and air conditioning equipment	42,698	(34,820)	7,878	41,319	(34,498)	6,821
Switching equipment	239,496	(206,014)	33,482	239,873	(201,777)	38,096
Data processing equipment	44,974	(39,594)	5,380	44,766	(36,391)	8,375
Equipment and S	606,461	(506,077)	100,384	609,353	(497,946)	111,407
Terminal equipment	39,578	(30,815)	8,763	39,103	(27,787)	11,316
Infrastructure	67,324	(43,660)	23,664	67,523	(42,531)	24,992
PPDUR concession licenses	5,419	(1,743)	3,676	5,255	(1,286)	3,969
Furniture and fixtures	15,861	(14,857)	1,004	15,942	(14,535)	1,407
Regulatory grants	2,637	(2,097)	540	2,637	(2,056)	581
IT systems	93,188	(69,703)	23,485	92,074	(60,021)	32,053
Land	4,266	-	4,266	4,285	-	4,285
Vehicles	2,396	(532)	1,864	865	(288)	577
	1,181,724	**(954,263)**	**227,461**	**1,180,372**	**(922,979)**	**257,393**

(In thousands of Reais, unless otherwise indicated)

b. Assets given in guarantee and pledges

As of December 31, 2011, the Company and its subsidiaries had property, plant and equipment items pledged in guarantee of lawsuits and loans and financing, including lease, as follows:

	Consolidated					
	2011			2010		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Buildings and improvements	94,445	(15,803)	78,642	59,041	(5,764)	53,277
Switching equipment	405	(240)	165	405	(183)	222
Terminal equipment	5	(3)	2	1,239	(1,235)	4
Equipment and transmission means	3,342	(2,750)	592	7,425	(4,597)	2,828
Power and air conditioning equipment	384	(355)	29	386	(286)	100
Machinery and equipment of common use	4,277	(3,176)	1,101	5,496	(3,587)	1,909
IT systems	-	-	-	124	(124)	-
Infrastructure	45	(32)	13	45	(29)	16
Vehicles	4,298	(1,603)	2,695	4,124	(1,839)	2,285
Land	13,619	-	13,619	24,864	-	24,864
Furniture and fixtures	1,221	(560)	661	1,711	(793)	918
	122,041	**(24,522)**	**97,519**	**104,860**	**(18,437)**	**86,423**

12 Intangible assets

a. Cost movement

	Consolidated				
	12.31.2010	Additions	Write-offs	Transfers (*)	12.31.2011
Trademarks and patents	3,116	16	(1)	-	3,131
PPDUR- Radio Frequency Public Price	5,996	-	1	677	6,674
Right of use of Backbone	59,909	-	-	23,832	83,741
Right of use of satellite TV (DTH)	7,137	-	1	-	7,138
Other regulatory	46,489	183	(1)	25,861	72,532
IT systems	200,317	3,258	(1,267)	49,456	251,764
Goodwill from investment in subsidiaries	169,562	-	-	-	169,562
	492,526	**3,457**	**(1,267)**	**99,826**	**594,542**

(In thousands of Reais, unless otherwise indicated)

b. Movement of amortization

		Consolidated				
	Average useful life (years)	12.31.2010	Additions	Write-offs	Transfe-fers (*)	12.31.2011
Trademarks and patents	10	(2,245)	(279)	-	-	(2,524)
PPDUR- Radio Frequency Public Price	14	(1,469)	(570)	-	-	(2,039)
Right of use of Backbone	5	(28,857)	(5,414)	1	(66)	(34,336)
Right of use of satellite TV (DTH)	5	(1,078)	(1,083)	-	-	(2,161)
Other regulatory	19	(14,690)	(3,098)	-	-	(17,788)
IT systems	5	(117,733)	(24,316)	-	(780)	(142,829)
Goodwill from investment in subsidiaries		(38,442)	-	1,038	248	(37,156)
		(204,514)	**(34,760)**	**1,039**	**(598)**	**(238,833)**
Balance		**288,012**	**(31,303)**	**(228)**	**99,228**	**355,709**

(*)Transfers refer to reclassification of refers to reclassifications of property, plant and equipment values in progress, identified as intangible assets.

c. Cost movement

	Parent Company		
	12.31.2010	Additions	12.31.2011
Trademarks and patents	82	-	82
IT systems	576	457	1,033
Goodwill from investment in subsidiaries	114,779	-	114,779
	115,437	**457**	**115,894**

d. Movement of amortization

	Parent Company			
	Average useful life (years)	12.31.2010	Additions	12.31.2011
Goodwill from investment in subsidiaries	-	(22,271)	-	(22,271)
IT systems	5	-	(825)	(825)
		(22,271)	(825)	(23,096)
Balance		**93,166**	**(368)**	**92,798**

The breakdown of goodwill may be summarized as follows:

(In thousands of Reais, unless otherwise indicated)

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
CTBC Telecom	92,508	92,508	92,508	92,508
CTBC Celular	16,209	16,209	-	-
Algar Aviation	966	966	-	-
Synos	17,731	17,731	-	-
Others	3,706	3,706	-	-
	131,120	**131,120**	**92,508**	**92,508**

Goodwill refers to the acquisition of corporate interests for a sum above the total investment assessed under the equity accounting method, under the economic assumption of the expected future profitability of the investee companies. Amortizations until December 31, 2008 were found based on projections of income in the investee companies for periods not in excess of ten years, using as a discount rate the weighted average cost of the Company's capital. As from January 1, 2009, this goodwill are no longer amortized, and are submitted to an annual impairment test.

Goodwill for future profitability

Includes goodwill of R$ 17,722 arising from a share purchase and sale contract dated March 15, 2010, in which indirect subsidiary Algar Tecnologia acquired all capital shares of Synos, company headquartered in Belo Horizonte, Minas Gerais State, and operating in Brasília, Rio de Janeiro and São Paulo, through branches established in those cities.

The acquired company operates in software development and maintenance activities and offers solutions such as outsourcing and maintenance of applications, software projects, advisory, training and licensing. Acquisition of Synos is a key synergy factor with the activities of Algar Tecnologia and will permit the expansion of its operating basis and penetration in several market segments.

In addition to supplementing Algar Tecnologia portfolio, that offers hosting co-location services, service desk, IT security, credit recovery, among others, Synos will strengthen its portfolio by adding approximately 40 clients of the public and private sectors which will position the company at operating levels compatible with growth projections and business sustainability.

(In thousands of Reais, unless otherwise indicated)

Based on the balance sheet of the acquired company as of February 28, 2010, a goodwill on acquisition was determined based on future profitability, as follows:

Statement of goodwill due to future profitability

Consideration effectively transferred/ to transfer	10,000
Fair value of investee's identifiable assets and liabilities:	
Current assets	
Cash and cash equivalents	119
Accounts receivable	1,371
	1,490
Non-current assets	
Deferred income and social contribution taxes	4,041
Property, plant and equipment	409
Intangible assets	14
	4,464
	5,954
Current liabilities	
Suppliers	(602)
Tax and labor liabilities	(454)
Other liabilities	(540)
	(1,596)
Non-current liabilities	
Provision for contingencies	(11,886)
Other liabilities	(194)
	(12,080)
	(13,676)
Goodwill for future profitability	**17,722**

Impairment test for cash generating units containing goodwill:

As of December 31, 2011, the Company and its subsidiaries evaluated the recovery of goodwill accounting value based on its value in use, using the discounted cash flow model for the cash generating unit (CGU). The process to estimate value in use involves assumptions, judgments and estimates of future cash flows and represent the best Company's estimate, approved by Management. The asset recovery test conducted by the Company concluded that it is not necessary to recognize impairment losses.

Combined goodwill accounting value for each CGU is as follows:

Identified CGUs	2011
CTBC Telecom	20,971
CTBC Celular	24,392
CTBC Multimídia	37,366
Algar Tecnologia	17,722
Algar Mídia	11,851

CGU's recoverable values were based on their values in use. The methodology applied to determine CGU's values is the discounted cash flow. The basic concept of this methodology is the calculation of free cash flows in a determined period, as a result:

- of operating income;
- of the return of property, plant and equipment depreciation, which was recognized in income for the year, to operating income; and
- of incremental net working capital requirement, determined as a result of the subsidiaries' financial cycle.

Cash balances per period are calculated at present value, which is discounted by applying the rate that determines Weighted Average Cost of Capital (WACC). This rate considers several components of financing, debt and own capital used by the Company to finance its activities. The Company and its subsidiaries' capital cost was calculated at the CAPM (Capital Asset Pricing Model) method.

(In thousands of Reais, unless otherwise indicated)

A cash flow period of five to seven years, according to the Company and its subsidiaries' projections, was considered, plus residual value calculated by the perpetuity of cash balance on the fifth or seventh year, discounted to present value at WACC.

The main assumptions used to calculate CGU's value in use as of December 31, 2011 are as follows:

Identified CGUs	**Discount rate WACC (i)**	**EBITDA(ii)**
CTBC Telecom	7.9%	200,956
CTBC Celular	7.9%	59,952
CTBC Multimídia	7.9%	135,879
Algar Tecnologia	8.4%	19,252

(i) Discount rate was calculated before taxes.

(ii) Average EBITDA of the 5-year budgeted period.

Management determined budgeted EBITDA based on past performance and on expected market development. Average weighted growth rates are consistent with estimates included in the segment's report. Discount rate used corresponds to rates before taxes and reflects specific risks in relation to relevant operating segments.

Sensitivity analysis upon change of assumptions

The Company and its subsidiaries evaluated, as of December 31, 2011, the effects of change in main assumptions used to determine the recoverable value of assets. Management identified two main assumptions for which possible changes may result in accounting value higher than recoverable value, although these facts are. These assumptions are associated to the increase of 1 percentage point in the discount rate resulting from the increase in business risk and the 1 percentage point reduction in the Company's EBITDA margin, simultaneously to risk increase.

The table below presents the amount for which simultaneous changes in two basic assumptions may result in recoverable value lower than accounting value:

(In thousands of Reais, unless otherwise indicated)

Identified CGUs	Increase (reduction) in accounting value
CTBC Telecom	12,511
CTBC Celular	12,547
CTBC Multimídia	25,173
Algar Tecnologia	1,718

13 Loans and financing

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Loans:				
In foreign currency	53,054	3,115	-	-
In local currency	376,459	272,159	19,640	19,955
Advances against exchange contract	489,447	256,363	-	-
Financing in local currency				
BDMG	59,675	33,613	-	-
BNDES (*)	295,490	283,428	-	-
Industrial and export credit note	212,396	203,481	-	-
Leases	11,869	8,869	-	-
	1,498,390	1,061,028	19,640	19,955
Less: installments classified in current liabilities	(742,941)	(572,846)	(2,675)	(748)
	755,449	**488,182**	**16,965**	**19,207**

(*) Amounts correspond to direct financing and fund on lending through BDMG, Brasil and Unibanco.

In 2011, the subsidiary CTBC Telecom and its subsidiaries raised approximately R$ 340,000 from financial institutions, for the purpose of supplying investment needs of projects related to its operations. Development banks BDMG and BNDES represent 20% of that amount. The amount of R$ 32,733 was raised from BDMG and R$ 35,218, corresponding to releases referring to agreements signed in December 2009, was released by BNDES.

(In thousands of Reais, unless otherwise indicated)

Other material amounts were raised with Banco IBM, in the approximate amount of R$ 88,370. Banco Safra was responsible for the release of R$ 52,500 in December 2011. The subsidiary CTBC Telecom and its subsidiary Algar Tecnologia also entered into contracts with Banco HSBC, in the amounts of R$ 60,000 and R$ 5,000, respectively. In April 2011, subsidiary CTBC Celular entered into a contract with CEF in the amount of R$ 30,000.

Other funds were raised with Bradesco and Banco do Brasil, in the amount of R$3,900 and R$ 21,800, respectively. Lease contracts amounting to R$ 10,335 were signed with SG Equipment Finance and HP Financial Services.

Long-term financing referring to the line of credits taken by the indirect subsidiary ABC Inco from Banco de Desenvolvimento de Minas Gerais ("BDMG") and Banco do Nordeste do Brasil ("BNB"), regarding financing of projects for the installation of packaging line ("PET"), warehouses, installation of new industrial plant in the state of Maranhão.

For working capital loans, including ACCs, the subsidiary Algar agro offers guarantees, such as: Pledge of soy and surety of Algar S.A.

The financing agreements in foreign currency and in local currency of the Company and its subsidiaries are indexed as follows:

	Consolidated		**Parent Company**	
	2011	**2010**	**2011**	**2010**
CDI	343,926	265,085	19,640	19,955
Long Term Interest Rate (TJLP)	167,563	165,773	-	-
Dollar	549,375	265,591	-	-
Without index	146,491	129,310	-	-
TR	226,360	201,657	-	-
IPCA	59,675	33,612	-	-
INPC (Brazilian Consumer Price Index)	5,000	-	-	-
	1,498,390	**1,061,028**	**19,640**	**19,955**

Annual interest rates on loans and financing are as follows:

(In thousands of Reais, unless otherwise indicated)

	Subsidiary companies	
Interest	**Financial institution**	**2011**
From 3% to 8%	ABC Brasil, BNDES, Brasil, BNB, Deutsche Bank, HSBC, Rabobank,	522,670
From 8% to 10%	Amazônia, BDMG, BNB, BNDES, Brasil, CEF e Safra	367,080
From 10% to 12%	ABN AMRO, BDMG, BNDES, Brasil, IBM, Itaú BBA, Pine, Rabobank,	342,341
From 12% to 15%	ABN AMRO, BDMG, Bradesco, Brasil, Credit Suisse, HSBC, Itaú BBA,	245,504
From 15% to 17%	Brasil eLeasing	1,155
		1,478,750

	Parent Company	
Interest	**Financial institution**	**2011**
11%	Itaú BBA	19,640
	Consolidated	
		1,498,390

Total current loan and financing balance refers to current maturity of long-term contracts. Long-term loans mature as follows:

	2011	
	Parent Company	**Consolidated**
2013	278,741	3,798
2014	144,422	3,798
2015	143,337	4,517
2016 onwards	188,949	4,852
	755,449	**16,965**

Some loan and financing contracts of the subsidiary CTBC Telecom and its subsidiaries establish maximum indebtedness rates and minimum rates for debt coverage, which should be maintained during respective contract periods.

(In thousands of Reais, unless otherwise indicated)

The subsidiary CTBC Telecom and its subsidiaries CTBC Celular, CTBC Multimídia and Image Telecom have entered into loan and financing contracts containing restrictive clauses ("*covenants*") that total R$ 408,188 as of December 31, 2011 (R$ 477,821 in 2010), maturing from 2012 to 2018. According to contract clauses, indices are required on consolidated bases and are calculated on a quarterly basis to verify compliance.

Failure to comply with agreed on indices implies the anticipated maturing of loans and financing covered by this contract provision.

As of December 31, 2011 and 2010, the required ratios for CTBC Telecom were complied with and are as follows:

Indicators	**Consolidated**	
	2011	**2010**
Net debt / EBITDA (*) - realized	**= 1.54**	**= 1.15**
BNDES, Credit Suisse, HSBC, Rabobank, Unibanco (quarterly target)	< 2.25	< 2.25
EBITDA / Net financial expenses - realized	**= 4.70**	**= 6.08**
BNDES, Credit Suisse, HSBC, Rabobank, Unibanco (quarterly target)	> 2.00	> 1.75
Price-earnings ratio(PL / AT) - realized	**= 0.28**	**= 0.27**
BNDES (quarterly target)	> 0.25	> 0.20
Short-term net financial debt (**) / EBITDA - realized	**= 0.02**	**= -0.04**
BNDES (quarterly target)	< 0.35	< 0.35

(*) Gross income balance less selling, general and administrative expenses and other net operating expenses/revenues, plus "depreciation and amortization" balance (including goodwill amortization, net of negative goodwill) and operating lease transaction expenses.

(**) Current liabilities debt comprised of loans and financing, debentures, onerous debt with suppliers and loan, net of cash and cash equivalents, and short-term loan.

14 Debentures

On August 2, 2007, 2,500 debentures, not convertible into shares and issued in a single series by the subsidiary CTBC Telecom, were subscribed and paid under the firm guarantee regime, with unit face value of R$ 100, totaling R$ 250,000. On the same date, funds were used to anticipate payment of loans and financing.

(In thousands of Reais, unless otherwise indicated)

Debentures are valid for seven years, counted as of issuance date and maturing on July 2, 2014, and are remunerated at CDI rate + 0.85% p.a. The amounts are shown below:

	Consolidated	
	2011	**2010**
Debentures (*) 1st issue: single series.		
Local currency:		
Principal	214,286	250,000
Interest	13,091	14,007
	227,377	**264,007**
Current liabilities	84,520	49,721
Non-current liabilities	142,857	214,286

(*) Unsecured debentures

Non-current balance of debentures matures as follows:

	Consolidated
	2011
2013	71,429
2014	71,428
	142,857

Indices established by financial institutions, related to debentures and calculated based on consolidated financial statements of CTBC Telecom, were met as of December 31, 2011 and December 31, 2010 and are presented in Note 13.

15 Authorization for telecommunication services payable and equipment suppliers

In May 2011, CTBC Celular signed with ANATEL the contract for the acquisition of H Band license for R$ 30.5 million, and is authorized to offer 3G services in over 230 municipalities of Minas Gerais State. Of this license total amount, 90% will be financed by ANATEL itself, and is adjusted at IST (Telecommunication Services Index) + 1% p.m. Payment period is 8 years, with amortizations paid in annual and equal installments beginning as of the 3rd year.

(In thousands of Reais, unless otherwise indicated)

As of December 31, 2010, the Company and its subsidiaries CTBC Celular and CTBC Multimídia acquired from Huawei do Brasil and Huawei Serviços, data transmission equipments and services to be used in its operating activities. Debt balance with final maturity in 2011 bears average interest corresponding to 100% of CDI + 0.99% p.a..

	Consolidated	
	2011	**2010**
Huawei do Brasil	-	2,284
Huawei Serviços	-	7,259
Aymoré Financiamentos	-	56
Cemig Distriuições	339	-
National Telecommunications Agency (ANATEL)	24,530	-
	24,869	**9,599**
Current liabilities	339	9,599
Non-current liabilities	24,530	

16 Tax liabilities

	Consolidated	
	2011	**2010**
PIS	2,316	2,074
COFINS	10,627	9,460
ICMS	28,129	28,767
Funrural	589	738
Federal taxes - IRPJ / CSSL	10,460	8,640
ISS	2,842	2,284
Others	1,463	629
Total	**6,426**	**52,592**

(In thousands of Reais, unless otherwise indicated)

17 Salaries, provisions and social charges

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Salaries and wages	21,498	16,623	-	-
Payroll charges on salaries and wages	18,254	13,366	225	571
Vacations and social security charges	78,949	48,956	1,368	1,077
Bonuses	14,284	36,309	4,214	3,272
Others	8,597	4,894	23	15
	141,582	**120,148**	**5,830**	**4,935**

18 Tax installments

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Pension contributions	2,198	8,865	-	-
Federal taxes	33,284	47,696	2,019	6,574
Others	9,443	14,927	60	1,566
Total	**44,925**	**71,488**	**2,079**	**8,140**
Current liabilities	13,059	27,541	1,416	5,859
Non-current liabilities	31,866	43,947	663	2,281

(In thousands of Reais, unless otherwise indicated)

Taxes payable in long-term installments mature as follows:

	2011	
	Consolidated	**Parent Company**
2013	19,618	663
2014 onwards	12,248	-
	31,866	**663**

The Company and its subsidiaries are complying with obligations within terms and conditions provided for in installment plans and respective laws.

Installment Law 11,941 of May 27, 2009 - REFIS IV

The Company and its subsidiaries joined the Installment Program established by Law 11,941/2009, and it may divide debts managed by the Brazilian Federal Revenue Service and the National Treasury Attorney General (PGFN), including the remaining balance of debts consolidated in the tax recovery program ("REFIS"), PAES and PAEX that matured until November 30, 2008, into up to 180 monthly installments.

Adhesion was authorized and the Company and its subsidiaries indicated debts for consolidation on 2011, according to the established legal period.

The sums regarding late and ex officio fines, and late interest on liabilities included in this installment payment were paid off using the tax loss and the negative base of social contribution on net income.

Subsidiaries Algar Mídia and CTBC Multimídia were not able to consolidate II (import tax), IPI (excise tax), PIS and COFINS (taxes on revenue) debts with PGFN, due to an alleged error when informing the adhesion code. PGFN rejection is the object of a lawsuit and a reserve was recorded for debts (reserve amounts to R$ 12,814).

(In thousands of Reais, unless otherwise indicated)

19 Provisions and judicial deposits

	Consolidated				
	Labor	**Tax**	**Adm. lawsuits Anatel**	**Civil and others**	**Total**
Provisions 12.31.2010	28,500	106,420	23,635	19,926	178,481
Judicial deposits	(16,917)	(64,907)	(1,694)	(4,969)	(88,487)
Net provisions	11,583	41,513	21,941	14,957	89,994
Provisions 12.31.2010	28,500	106,420	23,635	19,926	178,481
Additions	3,943	27,245	5,233	5,941	42,362
Price-level restatement	15	13,930	-	804	14,749
Write-offs	(3,696)	(1,868)	(163)	(5,358)	(11,085)
Provisions 12.31.2011	28,762	145,727	28,705	21,313	224,507
Judicial deposits	(20,528)	(72,137)	(1,754)	(4,674)	(99,093)
Net provisions	**8,234**	**73,590**	**26,951**	**16,639**	**125,414**

	Parent Company			
	Labor	**Tax**	**Civil and others**	**Total**
Provisions 12.31.2010	6,781	13,912	6,121	26,814
Judicial deposits	(4,696)	(19)	(971)	(5,686)
Net provisions	2,085	13,893	5,150	21,128
Provisions 12.31.2010	6,781	13,912	6,121	26,814
Additions (write-offs)	34	-	(500)	(466)
Provisions 12.31.2011	6,815	13,912	5,621	26,348
Judicial deposits	(4,796)	-	(1,116)	(5,912)
Net provisions	**2,019**	**13,912**	**4,505**	**20,436**

The Company and its subsidiaries periodically evaluate their risks of losses, based on legal, economic and accounting criteria. These risks are classified based on expected probable, possible or remote losses, according to the contingency level, considering legal advisors' analyses. Either due to a legal determination or to care, escrow deposits are made, and they may be linked to contingencies for which a provision has been may have been recorded or not.

Court and administrative proceedings provisioned

The key purpose of court and administrative proceedings provisioned are:

ANATEL civil and administrative proceedings

(i) Administrative and legal proceedings that discuss penalties applied by ANATEL against the subsidiary CTBC Telecom and its subsidiaries

(ii) Lawsuits filed by consumers (registration with consumer protection service "SPC", service enabling, discussion of accounts and service blockade), former suppliers and/or former commercial partners ;

(iii) Public Civil Action discussing changes in service plans, against the subsidiary CTBC Telecom

(iv) Administrative and legal proceedings discussing the divergence in calculation bases of amounts owed related to STFC concession extension and SMP authorization of subsidiary CTBC Telecom and its subsidiaries;

(v) Legal proceedings with Electric Power Concessionaires discussing amounts charged for infrastructure sharing of subsidiary CTBC Telecom and its subsidiaries

(vi) Lawsuits with regard to the interruption of storage agreement with service providers in the indirect subsidiary Algar Agro.

Labor claims

Labor claims discussing employment relationships, overtime, RSI/DORT indemnities and salary differences.

Tax

(i) Social Contribution on Net Income ("CSLL"): the indirect subsidiary Algar Tecnologia obtained a final court decision that was issued in the Declaratory Action, according to which non existence of a tax legal relationship deriving from the enactment of Law 7,689/88, which established CSLL, was recognized. The Federal Revenue Service ("RFB") did not consider the effects of said decision and issued an assessment notice. (Provision:R$ 14,295 **-** Linked escrow deposit: R$ 9,082).

(ii) Telecommunication Services Universalization Fund ("FUST"): the subsidiary CTBC Telecom and its subsidiaries, CTBC Multimídia and CTBC Celular, filed a lawsuit on changes imposed by Abstract no. 07/2005 of ANATEL, which prohibited exclusion of interconnection revenues and EILD from the contribution calculation basis, and imposed its charge retroactive to 2000. (Provision: R$ 24,390 **-** Linked escrow deposit: R$ 22,471).

(iii) Social Integration Program (PIS) and Contribution for social security funding (COFINS): The subsidiary CTBC Telecom and its subsidiaries, CTBC Multimídia, CTBC Celular and Image, discuss the inclusion of ICMS in PIS and COFINS calculation bases, as they understand that this portion does not represent earned revenue (Provision value: R$ 34,940 and linked escrow deposit: R$ 35,003).

(iv) Social Investment Fund ("FINSOCIAL"): tax collection proceeding whose object is debt whose expiration date has been reached. The subsidiary CTBC Telecom joined REFIS in 2000 to divide other debts in installments and Federal Revenue Service included such debts on an unilateral basis. In view of this, National Treasury understood that there was a tacit waiver on the right on which Clarifications on Collection are based. (Provision: R$ 5,228).

(v) PIS, COFINSd, Corporate income tax (IRPJ)and CSLL (Social Contribution on Net Income): subsidiary CTBC Telecom and its subsidiaries CTBC Celular and CTBC Multimídia conducted, in December 2011, a write-off of amounts owed to third parties as a result of the end of the applicable statute of limitations. (Provision: R$ 11,519).

(vi) COFINS: the subsidiary CTBC Telecom and its subsidiary CTBC Celular are discussing the classification of some products and services to determine contributions. (Provision: R$ 16,480).

(vii) Service Tax ("ISS"):the subsidiary CTBC Telecom and its subsidiary CTBC Celular have to pay ISS on revenues from services that are taxed by ICMS. (Provision: R$ 1,073).

(viii) Value-Added Tax on Sales and Services ("ICMS"): the subsidiary CTBC Telecom and its subsidiary CTBC Celular claim for the recognition of the right to ICMS credit related to debt reversals made upon rendering of telecommunication services. (Provision: R$ 2,466).

(ix) ICMS: the indirect subsidiary CTBC Multimídia is discussing the use of ICMS credit in a establishment other than that indicated in the tax document. (Provision: R$ 3,148).

(x) Import Tax ("II") and Excise Tax ("IPI"): the indirect subsidiary Algar Mídia has filed a lawsuit to guarantee the consolidation of II and IPI debts into payment in installments of Law no. 11 941/2009. (Provision: R$ 1,709).

Legal and administrative proceedings for which a provision is not recorded

The main tax lawsuits of the Company and its subsidiaries with risk level considered as possible by its legal advisors and for which there is no accounting provision, are as follows:

(In thousands of Reais, unless otherwise indicated)

Consolidated		
	2011	**2010**
Occupation of right of way	18,885	-
INSS	17,714	16,575
TFI	16,176	15,053
ICMS	11,487	6,814
FUNTTEL	4,470	969
FUST	3,234	3,414
ISS	3,843	-
EBC	3,212	1,919
Federal taxes	1,619	680
Others	1,041	828
	81,681	**46,252**

(i) Federal taxes: non homologation of offsets made by subsidiary CTBC Telecom and its subsidiaries considering divergences between information included in offset statements and accessory obligations delivered to tax authorities. (Amount involved: R$ 1,619).

(ii) Installation Inspection Fee ("TFI"): harge to indirect subsidiary CTBC Celular upon extension of the operation license for its stations. Charge is based on ANATEL Resolution that extended the hypothesis of levy of said fee. CTBC Celular presented the competent objection to that charge. (Amount involved: R$ 16,176).

(iii) Fund for the Technological Development of Telecommunications ("FUNTTEL") and FUST: he subsidiary CTBC Telecom and its subsidiaries CTBC Celular, CTBC Multimídia and Image object to entries related to differences determined upon payment of contributions to FUNTTEL and FUST, as a result of the inclusion of interconnection revenues and services other than telecommunication services in the contribution calculation basis (Amount involved: R$ 7,704)

(iv) INSS: Federal Revenue Service tax assessment notices to indirect subsidiaries Algar Tecnologia and Algar Mídia requiring social security contribution on payroll transportation voucher and employer contribution to private pension plans. A portion of debts understood as owed was settled by subsidiaries and the remaining amount was divided into installments, and the difference in relation to total tax assessment notice was subject to an administrative objection, whose outcome was unfavorable to the Company. Attorney office collected the debt related to two of the three administrative proceedings, and we conducted the discussion through Clarifications, by pledging properties in guarantee In addition to STF favorable decision, an Abstract strengthening the thesis was issued by AGU, thus increasing the likelihood of success.(Amount involved: $17,714).

(v) Contribution to Empresa Brasil de Comunicação ("EBC"):In October 2007, Provisional Act no. 398 was issued and later enacted into Law no. 11,652/08, which established the Contribution to Public Radio Broadcast, and the subsidiary CTBC Telecom and subsidiary CTBC Celular are discussing in court the unconstitutionality of said Contribution. Owed amounts are being deposited in court. (Amount involved: R$ 3,212 **-** deposited in court).

(vi) ISS: The indirect subsidiary CTBC Multimídia is discussing with Municipalities the levy of ISS on rental of dark fiber. (Amount involved: R$ 3,843).

(vii) Import ICMS: Tax collection filed by Minas Gerais State against indirect subsidiary CTBC Celular to collect ICMS on import of equipment made by one of its suppliers, which promoted the entry of equipment through São Paulo State, where it is headquartered. (Amount involved: R$ 6,319).

(viii) Lawsuits of subsidiary CTBC Telecom and its subsidiaries with road Concessionaires discussing the legality of charging values for the underground passage of cables in the right of way, which is considered of common use, not included in the concession granted to Concessionaires. (Amount involved: R$ 18,885)

(ix) ICMS: Subsidiary indirect CTBC Multimídia is discussing the recording of ICMS credits in an establishment other than that indicated in the tax document. (Amount involved: R$ 4,299)

(In thousands of Reais, unless otherwise indicated)

(x) Lawsuits not accounted for pertaining to indirect subsidiary Algar Agro and its subsidiary, relate to civil and tax lawsuits with a degree of risk considered possible according to the opinions of the internal and external legal advisors of the Company and its subsidiaries.

20 Rio Quente Vacation Clube Agreements - ("RQVC")

RQVC is a form of *Time Sharing* that uses one of its definitions to market the right to use a hotel unit. Created in 1999 by the indirect subsidiary CTRQ, RQVC aims to create additional income from the idle capacity of existing hotels. When joining this program, customers may select to purchase a certain amount of points with a limited validity for use according to the rules for each product, contractually provided for between CTRQ and the customer, to be used as convenient for the customer. A customer may use annually as many points as deemed convenient, yet if it does not use these during the contractual acquisition period, it will be bound to pay a maintenance fee, a sort of annual condominium fee, in addition to a certain sum of points obtained by dividing the points acquired by the validity term. The agreement will terminate after using the balance of points or on its expiry, whichever occurs first. When using the hotel's facilities, a customer exchanges point for accommodations. These points are stated as revenues, considering the contractual value's division by the number of points acquired, to find the individual value. Acquirers are charged a maintenance fee at each use, according to the respective agreement, which is updated for inflation annually under the IGP-M rate in order to cover all accommodation overheads and variables such as laundry, cleaning, bed linen, among others.

A part of the sums received are stated in "current liabilities", in view of an estimated realization during the subsequent fiscal year.

	Consolidated	
	2011	**2010**
Current	13,908	3,939
Non-current	43,739	43,881
	57,647	**47,820**

21 Amounts to be refunded to shareholders

In January 2006, pursuant to the terms of Article 12 of Law no. 6,404/76, the subsidiary CTBC Telecom conducted a reverse stock split at the rate of 1,000 shares for each share. The purpose of the reverse stock split was: (a) to reduce administrative and operating costs to the subsidiary and its shareholders; (b) improve efficiency of recording systems, controls and information disclosure; and (c) reduce the likelihood of information and communication errors, improving service to the shareholders of subsidiaries.

After the reverse stock split, a communication was issued to shareholders that became holders of a share fraction to express their intention of remaining in the company, capitalizing the remaining share fraction, or of receiving calculated credit. After the legal period, amounts were recorded in current liabilities, available to shareholders.

In December 2011, the subsidiary CTBC Telecom and its subsidiaries CTBC Celular and CTBC Multimídia wrote off amounts previously accounted for as current liabilities as a contra entry to other operating revenues, based on the elapsing of the statute of limitations provided for in the civil law applied to unredeemed credits. Wrote-off amounts were R$ 15,312 in the subsidiary CTBC Telecom, R$ 6,299 in CTBC Celular and R$ 6,852 in CTBC Multimídia, totaling R$ 28,463. As of December 31, 2010, amounts recorded were R$ 15,404 in the Company, R$ 6,338 in CTBC Celular and R$ 6,892 in CTBC Multimídia, totaling R$ 28,634 in the consolidated.

22 Shareholders' equity

a. Capital

The Company's authorized capital is represented by 150,000,000 common and preferred shares, all nominative and with no par value.

Preferred shares do not give to their holders the right to vote in social resolutions and hate priority in receiving the mandatory minimum dividend of 25% on net income.

On April 27, 2011, a Common and Special Shareholders' Meeting approved a capital increase by means of R$ 160,387 in retained earnings, with equity capital being raised from R$ 465,025 to R$ 625,412.

On December 31, 2011, subscribed and paid-in capital of the Company was of R$ 625,412, represented by 50,682,049 shares, of which 50,681,367 are common shares and 682 are preferred shares. On December 31, 2010, subscribed and paid-in capital of the Company was of R$ 465,025, represented by 49,024,842 shares, of which 49,024,182 are common shares and 660 are preferred shares.

b. Revaluation reserve

Created as a result of revaluations of fixed assets and stated by a joint subsidiary in previous fiscal years.

The Company opted to maintain the respective revaluation reserves' balances on December 31, 2007 until they are entirely realized.

Realizing this reserve in 2011 in proportion to the depreciation of revalued assets of R$ 309, was fully transferred to retained earnings (R$ 309 in 2010).

c. Legal reserve

It is formed in conformity with Brazilian Corporation Law, on the basis of 5% of the net income of each year until it reaches 20% of the capital.

d. Profit reserve

The remaining balance of retained earnings was reclassified to profit reserves, pursuant to Law 11.638/2007, to be applied to the modernization and expansion, as proposed by Management, based on the budget to be approved at Shareholders' Meeting.

(In thousands of Reais, unless otherwise indicated)

e. Dividends

Preferred shares are non-voting, and their shareholders are guaranteed priority in the repayment of capital.

The Company's Articles of Incorporation establish a minimum dividend of 25% calculated on the annual net income, adjusted in the manner established by article 6404 of Law 1976/76.

The dividends proposed by the Company for the year ended December 31, 2011 and 2010 are as follows:

	Consolidated	
	2011	**2010**
Net income (loss) for the year	180,615	164,024
Realization of reserves and deemed cost	7,182	309
Base income for allocation of legal reserve	187,797	164,333
Legal reserve - 5%	(9,390)	(8,217)
Base income for dividend distribution	178,407	156,116
Minimum dividends	44,602	39,029

23 Benefits to employees - Algar-Prev Pension Plan

The Company and its subsidiaries and part of their associates contribute as sponsors to a defined contribution Pension Plan managed by BrasilPrev.

The benefits of the aforementioned plan can be basically summarized as follows:

a. Retirement benefit for survival: a defined contribution plan the reserves of which are updated financially and not actuarially;

(In thousands of Reais, unless otherwise indicated)

b. Benefit of risks that are structured in defined benefit modality in the allocation regime. It is the Company's and its subsidiaries' responsibility to pay contributions, and it is BrasilPrev responsibility to recognize all reserves that are necessary for the commitment assumed, with benefit payment beginning as of the occurrence of the generating event, and not creating an actuarial liability to the Company.

In the year ended December 31, 2011, contribution related to the Company's portion and its subsidiary was approximately R$ 3,693 (R$ 2,810 in 2010)

24 Related party transactions

Main assets and liabilities' balances as of December 31, 2011 and 2010, as well as transactions that influenced income, referring to related-party transactions, are the result of transactions made by the Company with its subsidiaries and joint-controlled subsidiaries, key Management professionals and other related parties.

Transactions between the group's companies encompass commercial transactions for the purchase and sale of products and raw material, and the contracting of services and some financial fund transactions, as detailed below in respective accounting lines:

	Consolidated - Assets and liabilities			
	Árvore S.A. (i)	**Others (ii)**	**2011 Total**	**2010 Total**
Liabilities:				
Current:				
Other liabilities	(3,386)	-	(3,386)	(3,471)
Dividends and interest on own capital	(57,612)	(7,007)	(64,619)	(49,639)
Non-current:				
Other liabilities	-	-	-	(1,111)

	Consolidated - Result:			
	Tree (i)	**Others (ii)**	**2011 Total**	**2010 Total**
Result:				
Net financial (expenses)	-	(330)	(330)	(70)

(In thousands of Reais, unless otherwise indicated)

	Parent Company - Assets and liabilities								
	Space Emp (ii)	**CTBC Telecom (ii)**	**Engeset (ii)**	**Algar Aviation (ii)**	**Algar Agro (ii)**	**Árvore S.A. (i)**	**Others (ii)**	**2011 Total**	**2010 Total**
Assets:									
Current:									
Dividends	-	30,278		25	6,078	-	477	36,858	35,269
Accounts receivable	-	1,320	62	30	536	-	2,684	4,632	3,763
Other receivables	-	-	-	-	-	-	-	-	4 .056
Liabilities:									
Current:									
Other liabilities	-	-	-	-	-	(3,386)	(522)	(3,908)	(8,442)
Advances of dividends	(8,493)	-	-	-	-	-	(14,275)	(22,768)	(17,853)
Dividends and interest on own capital	-	-	-	-	-	(57,612)	-	(57,612)	(44,998)
Non-current:									
Related party transactions	-	(1,749)	-	-	-	-	(9,136)	(10,885)	(10,564)

	Parent Company – Result								
	Space Emp (ii)	**CTBC Telecom (ii)**	**Engeset (ii)**	**Algar Aviation (ii)**	**AlgarAgro (ii)**	**Árvore S.A. (i)**	**Others (ii)**	**2011 Total**	**2010 Total**
Result:									
Financial (expenses)	-	(204)	(263)	35	-	-	(379)	(811)	(1,210)

The Company incurred expenses such as internal audit, legal counsel, human resources and personnel training, among others, related to the Administration of the Group, which were transferred to the subsidiaries.

The Company owes R$ 522 to its subsidiary ACIM in connection with a short-term loan, updated with the CDI (interbank) rate, and owes R$ 3386 to the parent Árvore S.A., in connection with gains from the Refis IV installment program, assumed by the Company from the parent in 2005.

(In thousands of Reais, unless otherwise indicated)

There are R$ 1749 in liabilities with related parties owed to the subsidiary CTBC Telecom, in connection with a loan that earns CDI plus 2.15% p.a.

Sureties and guarantees

Company	**Guarantor**	**Financial institution**	**Debit balance**
		Banco do Brasil	1,115
Algar Aviation	Algar S/A	Banco IBM	6,101
		HSBC	765
		Santander	11,722

Company	**Guarantor**	**Financial institution**	**Debit balance**
ABC Inco	Algar S/A	Banco do Brasil	252,472
		Safra	57,618
		BASA	8,082
		Pactual	116,346
	Algar Agro	BNB	218,707
		BASA	8,082
		Bladex	47,508
		HSBC	44,773

Company	**Guarantor**	**Financial institution**	**Debit balance**
Algar S/A	CTBC Telecom	Itaú BBA	19,640

Management remuneration

Remuneration of Management members, responsible for the planning, administration and control of the Company and its subsidiaries businesses, which include members of the Board of Directors and statutory officers, is calculated as general and administrative expenses for the period, including corresponding benefits and payroll charges, as follows:

	Consolidated	
	2011	**2010**
Salaries and other short-term benefits - Executive Board	20,923	20,764
Fees - Board of Directors and Committees	495	351
	21,418	**21,115**

(In thousands of Reais, unless otherwise indicated)

25 Net operating income

	Consolidated	
	2011	**2010**
Fixed telephone services	969,966	958,553
Mobile telephone services	302,044	303,212
BPO /IT and consulting	392,748	314,239
Pay TV	77,195	34,368
Print shops and editing services	42,417	38,936
Construction and maintenance services	62,256	48,511
Multimedia communication	309,874	219,357
Total Telecom and IT industries	**2,156,500**	**1,917,176**
Commodities grains	459,880	404,119
Commodities degummed vegetable oil and soybean meal	448,848	340,902
Bottled vegetable oil	268,276	226,636
Total Agro industry	**1,177,004**	**971,657**
Passenger transportation, chartering, and maintenance and sale of aircrafts	48,872	67,719
Property security and surveillance technology services	111,130	85,287
Hot Park, Praia do Serrado, tourism and hospitality	97,162	90,663
Others	36,867	35,972
Total service and entertaining industry	**294,031**	**279,641**
Gross operating income	**3,627,535**	**3,168,474**
Sales deductions	(576,429)	(533,613)
Net operating income	**3,051,106**	**2,634,861**

(In thousands of Reais, unless otherwise indicated)

26 Cost of goods sold and services rendered

	Consolidated	
	2011	**2010**
Personnel	(489,649)	(391,163)
Materials	(69,845)	(81,296)
Outsourced services	(206,832)	(165,400)
Acquisition cost of raw materials and inputs	(881,795)	(648,824)
Interconnection costs	(210,077)	(220,013)
Connection means - EILD	(39,695)	(29,561)
Depreciation and amortization	(138,008)	(144,468)
Others	(109,505)	(83,070)
	(2,145,406)	**(1,763,795)**

27 Sales expenses

	Consolidated	
	2011	**2010**
Personnel	(132,537)	(112,945)
Materials	(1,857)	(2,131)
Outsourced services	(168,328)	(152,516)
Depreciation and amortization	(3,148)	(3,028)
Others	(39,714)	(32,162)
	(345,584)	**(302,782)**

(In thousands of Reais, unless otherwise indicated)

28 Administrative and general expenses

	Consolidated	
	2011	**2010**
Personnel	(89,670)	(79,071)
Materials	(1,850)	(1,333)
Outsourced services	(70,612)	(69,224)
Depreciation and amortization	(20,013)	(17,365)
Others	(15,426)	(11,481)
	(197,571)	**(178,474)**

29 Financial expenses, net

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Revenue from financial investment	23,720	22,622	3,325	2,166
Interest on overdue payments	5,605	7,513	-	-
Asset exchange variation	33,866	12,581	179	182
Gains with derivatives	271,421	172,637	1,213	6,698
Interest on taxes, rates and contributions	6,753	9,272	-	-
Other financial income	17,282	33,538	997	140
Total financial income	**358,647**	**258,163**	**5,714**	**9,186**
Interest on loans	(108,404)	(92,803)	(5,271)	(5,326)
Interest on debentures	(28,240)	(26,007)	-	-
Foreign exchange variations in liabilities	(98,580)	(22,726)	(387)	(621)
Discounts granted (i)	(6,776)	(6,520)	-	-
Charges on contingencies, taxes and rates	(19,469)	(12,066)	(119)	-
Bank rates and fees	(17,358)	(13,483)	(230)	(117)
Losses with derivatives	(201,163)	(200,339)	(1,274)	(2,656)
Other financial expenses	(8,191)	(15,794)	(1,758)	(1,445)
Total financial expenses	**(488,181)**	**(389,737)**	**(9,039)**	**(10,165)**
Financial expenses, net	**(129,534)**	**(131,574)**	**(3,325)**	**(979)**

(In thousands of Reais, unless otherwise indicated)

(i) Refers to discounts granted by CTBC Telecom with regard to public telephone cards and fixed telephone prepaid cards, and by CTBC Celular in the sale of prepaid cards and cell phones.

30 Other operating income, net

	Consolidated	
	2011	**2010**
Concession expenses	(4,782)	(7,279)
Provision for contingencies	(36,829)	(14,862)
Reversal of contingencies	5,969	15,927
Contractual and telecommunication service fines	10,929	12,027
Gain in the sale of property, plant and equipment	4,621	1,019
Industrial idleness	(968)	(4,120)
Reversal of amounts to be refunded to shareholders	28,463	-
Other income (expenses), net	1,907	6,723
	9,310	**9,435**

31 Financial instruments

The Company and its directly and indirectly controlled subsidiaries carry out operations with derivative and non derivative financial instruments The management of these instruments is done through operating strategies and internal controls, aimed at assuring liquidity, profitability and security. The contracting of derivative financial instruments with the objective of offering protection (hedge instruments) is performed by means of a periodic analysis of the risk exposure that Management intends to cover (exchange rate, interest rate, credit, financial) , which is approved by the Board of Directors. The control policy consists of permanent follow-up of the conditions engaged versus those in force in the market. The Company and its subsidiaries do not invest in derivatives or any other risk assets on a speculative basis. The Company’s Board of Directors is implementing, in conjunction with the Internal Audit department, policies to prevent the contracting of derivative financial instruments other than for hegding purposes and that are considered as standard instruments with known risks ("plain-vanilla"). The results obtained from such operations are consistent with the policies and strategies defined by Company's management.

Given the characteristics of the market performance of indirect subsidiary ABC Inco, the main market risk factors to which they are exposed are the volatility of foreign exchange rates, interest rates, and of soybean price (commodity) and their derivatives. With the aim of reducing cash flow exposures to market risk, strategies are defined, previously approved by the Board of Directors, including the use of derivative financial instruments. The Executive Board, responsible for executing the strategy, continually evaluates the position of ABC Inco for each risk identified in accordance with predetermined guidelines and strategies. The strategies exclusively seek the protection of operating assets and liabilities and financial exposure to fluctuations in the foreign exchange rate, interest rates, or prices, and do not include leveraged operations on derivatives markets. The derivative financial instruments are measured at their fair values, with contra-entry in income (loss).

The market value estimate of the non-derivative financial instruments of the Company and its subsidiaries for the year ended in December 31, 2011, considered the following methods and assumptions:

- Cash and cash equivalents: stated at market value, which is equivalent to the book value.

- Accounts receivable - domestic and foreign market: directly arise from operations of the Company and its subsidiaries, and are classified as held to maturity, and recorded by their original amounts, adjusted by the exchange variation, when applicable, and subject to provision for losses. The amounts recorded are similar to fair value on the date of the financial statements.

- Advances to suppliers (soybean producers): arise from soybean acquisitions of ABC Inco and recorded at contractual amounts and corrected for inflation, which are equivalent to market value. These values are subject to the provision for losses.

- Accounts receivable from related parties - are presented at original values adjusted for inflation.

(In thousands of Reais, unless otherwise indicated)

- Loans and financing (in local and foreign currency) and advances from clients: are classified as financial liabilities not measured at fair value, and recorded at the amounts provided for in the contracts. The fair values of these loans are equivalent to their book values.

a. *Financial indebtedness*

- On December 31, 2011 and 2010, the positions of non-derivative financial instruments of the Company and its subsidiaries were as follows:

	Consolidated					
	2011			2010		
	Local	Foreign currency	Total	Local	Foreign Currency	Total
Assets						
Current assets						
Cash and cash equivalents	292,512	254,168	546,680	292,166	87,527	379,693
Accounts receivable	369,671	-	369,671	316,188	-	316,188
Advances to soybean suppliers	64,773	173,718	238,491	154,894	128,791	283,685
Advances to sundry suppliers	6,364	-	6,364	4,675	-	4,675
Total current	733,320	427,886	1,161,206	767,923	216,318	984,240
Total assets	733,320	427,886	1,161,206	767,923	216,318	984,240
Liabilities						
Current liabilities						
Loans, financing, and debentures	333,450	494,010	827,460	363,005	259,562	622,567
Advances from clients	22,970	-	22,970	20,649	-	20,649
Suppliers	163,892	-	163,892	160,674	-	160,674
Total current	520,312	494,010	1,014,322	544,328	259,562	803,890
Non-current liabilities						
Loans, financing, and debentures	825,116	73,189	898,305	702,469	-	702,469
Advances from clients	43,754	-	43,754	84,302	-	84,302
Total non-current liabilities	868,870	73,189	942,059	786,771	-	786,771
Total liabilities	1,389,182	567,199	1,956,381	1,331,099	259,562	1,590,661
Net financial debt	655,862	139,313	795,175	563,176	43,244	606,421

b. *Determination of fair value of derivative financial instruments*

The main non-derivative financial instruments held by the Company and the respective explanatory notes and presented below:

Cash and cash equivalents – Note 4;

Accounts receivable – Note 5;

Loans and financing – Note 13;

Debentures – Note 14;

Financial Instruments – Note 31;

Rio Quente Vacation Club Agreements – Note 20;

Liability regarding the acquisition of interests in subsidiaries – Note 1;

Tax installments – Note 18.

The market value of derivative financial instruments for the year ended December 31, 2011 of the indirect subsidiary ABC Inco considered the following methods and assumptions:

- **Futures and options contracts (CBOT)**: **-** The market values of futures and options contracts of soybeans, soybean oil and were soybean meal were obtained from information available on the active market where such financial instruments are traded.

- ***Swaps:*** were calculated by projecting cash flows for operations (assets and liabilities) using curves from BM&F and bringing these flows to present value using the BM&F future CDI rate. In order to find payment of the positions in foreign currency, a term of 360 consecutive days was employed. For the swaps used for version of the costs of loans contracted in domestic currency, the same accounting practices applied to loans and financing was considered.

- ***Non Deliverable Forward*** **("NDF")**: market values of NDF contracts were obtained through information available on the active market where these instruments are traded.

- **Forward contracts**: Market values were obtained from the future soy contracts on their expiry date (CBOT), plus the value of the soy premium delivered at the port and net of logistics costs for the soy's physical delivery in the USA.

Management of subsidiary believes that the results obtained with these derivative operations meet the protection strategies of price and exchange rates and interest rates set by Algar Agro

The fair values of financial assets and liabilities are determined based on available market information and appropriate valuation methodologies. The use of different market assumptions and/or estimation methodologies could cause a different effect on estimated market values.

On December 31, 2011 and 2010, the subsidiary ABC Inco had the following positions with derivative financial instruments:

	Consolidated			
	2011		2010	
	Notional value (R$)	Fair value (R$000)	Notional value (R$)	Fair value (R$000)
Non-Deliverable Forwards				
CBOT	81,235	14,728	112,983	17,241
Banco Pine	207,848	(6,483)	2,534	41
Swap ***contracts***				
Interest rate swap	55,000	2,722	55,729	5,359
Total currency derivatives	**344,083**	**10,967**	**171,246**	**22,641**
Future contracts	500,168	5,614	459,886	23,442
Forward commodities contracts	323,607	38,237	354,200	93,538
Total derivative of commodities	**823,775**	**43,850**	**814,086**	**116,980**

c. *Fair value hierarchy*

For fair values measured and recognized in the balance sheet, CPC 40 **-** Financial Instruments (IFRS 7), requires a breakdown into each class of derivative financial instruments and its measured fair value. For that purpose, IFRS 7 requires the Algar Agro to classify its derivative financial instruments in accordance with the following classes, observing the importance and relevance of the inputs used for measurement:

- **Level 1:**fair value obtained directly by quotations in active markets; Are updated by quotations of market prices published by Chicago Board of Trading (CBOT) commodity markets;
- **Level 2**: fair value obtained by applying a calculation method that uses data and assumptions that are observable in an active market; Are updated according to their future value, based on the agreed on rates and indices and discounted to their present value using market rates disclosed by external sources (BM&F), for the period to expiry.
- **Level 3:** fair value obtained by applying a calculation method that uses data and assumptions that are internally generated in the entity. The fair value of Level 3 is estimated using information on prices of less active markets. For measuring the fair value of derivative financial instruments, inputs from both observable and non-observable markets are used. This level covers commodity forward purchase and sale contracts that are measured at fair value, by using market data of the calculation date, related to the components that form the trading prices of those transactions. These inputs include prices guided by ESALQ, Safras e Mercados, Chicago Board of Trading (CBOT), and the items not observable due to the structure of the Company's expenditures.

The subsidiaries ABC Inco and CTBC Telecom showed, in the table below, their respective derivative financial instruments, as well as the classifications thereof at the aforementioned levels:

(In thousands of Reais, unless otherwise indicated)

	Consolidated							
	2011				2010			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Non Deliverable Forward (NDF) contracts	14,728			**14,728**	17,241			**17,241**
Futures contracts (Commodities)	5,614	-	-	**5,614**	23,442	-	-	**23,442**
Options contracts (USD currency)	-	-	-	**-**	-		-	**-**
SWAP contracts	-	(3,602)	-	**(3,602)**	-	5,400	-	**5,400**
Forward Contracts	-	-	38,237	**38,237**	-	-	93,538	**93,538**
Inventory of commodities	-	-	13,876	**13,876**	-	-	22,507	**22,507**

Fair value is realized on purchase and sale contracts that already have a fixed price but have not been received, taking into consideration for evaluation purposes market prices at the end of each period, thus recognizing a loss or gain due to the difference between both prices, which is accounted for in income for the period in the financial income (expenses) caption.

The ABC Inco recorded gains and losses derivative financial instruments, as shown in the table below:

	Consolidated					
Derivatives intended for protection	Effects on balance sheet		Effects on P&L (*)	Effects on balance sheet		Effects on P&L (*)
	2011			**2010**		
	Current assets	**Current liabilities**		**Current assets**	**Current liabilities**	
Exchange risks						
NDF	14,728	-	14,076	17,241	-	3,615
SWAP	-	(6,196)	(6,443)	5,400	-	24,774
Currency Options	**1 4,728**	**(6,196)**	**7,633**	**22,641**	**-**	**28,389**
Transactions with commodities						
Forward transactions	38,237	-	(55,301)	93,538	-	93,538
operations with commodities futures	5,614	-	117,081	23,442	-	(132,055)
	43,851	**-**	**61,780**	**1 16,980**	**-**	**(38,517)**
	58,579	**(6,196)**	**69,413**	**139,621**	**-**	**(10,128)**

(In thousands of Reais, unless otherwise indicated)

d. Sensitivity analysis

The Company conducts their sensitivity analyses in three scenarios, one probable and two that may pose adverse effects with deterioration of 25% and 50% of the risk variable considered by the Company.

The Company monitors and analyzes only the variations in the prices of commodities, exchange rate variations and interest rate variations as main risk factors.

Prices of commodities

The Company conduct their analyses of price sensitivity of commodities based on the following scenarios:

Scenario I - considered the benchmark by the Company: are the prices (marked-to-market) of the commodities of the derivatives traded by the Company, outstanding as of the financial closing date. Based on the compilation of marketing projections extracted from reports of major consulting and brokerage firms, both domestic and international.

Scenario II and III - this scenario assumes a negative variation (deterioration) of 25% and 50% on prices (marked-to-market) of the commodities of the derivatives traded by the company, outstanding as of the financial closing date.

Sensitivity values in following table are variations of the derivative financial instruments under each scenario.

Operations	**Probable scenario (I)**	**Scenario (II) Deterioration of 25%**	**Scenario (III) Deterioration de 50%**
Forward purchase contracts	38,237	(52,224)	(142,685)
Futures and options *commodities* contracts	5,614	127,750	248,992
Inventories of *commodities*	13,876	(26,894)	(67,663)

(In thousands of Reais, unless otherwise indicated)

Exchange and interest rates

The Company includes foreign exchange and interest rate in the sensitivity analyses, based on the scenarios below:

Scenario I - considered the benchmark by the Company: obtained through the exchange rate quoted at R$1.8758/ US$1 and CDI rates, based on the compilation of projections extracted from marketing reports of major consulting firms, national and international financial institutions, and the Central Bank of Brazil.

Scenario II and III – reduction on CDI and exchange rates – this scenario considers a reduction (deterioration) of 25% and 50% on interest rates (marked-to-market) of the financial derivatives contracted by the Company and its subsidiary and outstanding as of the financial closing date.

Sensitivity values in following table are variations of the derivative financial instruments under each scenario.

Operations	**Probable scenario (I)**	**Scenario (II) 25% deterioration**	**Scenario (III) 50% deterioration**
NDFs (CBOT)	14,728	37,352	59,991
NDFs (Pine)	(6,483)	20,637	50,171
SWAP	287	17,101	33,260
Total	**8,532**	**75,090**	**143.422**

e. Risk management

Risk of commodity prices

In the normal course of its operations, the ABC Inco operate buying soybeans and selling soybeans and derivatives, soybean meal and soybean oil. Soybean prices are subject to volatility resulting from climatic conditions, harvest yield, transportation costs, warehousing costs, the government's agricultural policy, exchange rates and prices of these commodities on the international market, among other factors.

In this context, the ABC Inco conduct "hedge" financial operations without speculative purposes, with the sole purpose of protecting their assets against price fluctuations of soybeans and derivatives on the international market. As part of the risk management program, ABC Inco uses derivative financial instruments including futures and options contracts for the purchase and sale of commodities. The risks of price variation are covered by contracts of purchase/sale of soybean, soybean meal and soybean oil on the CBOT. The ABC INCO's policy requires a minimum of 95% coverage ("hedge") of its long position in grains. The option for the use of options contracts is intended to provide flexibility in managing margins and volumes throughout the commercial cycle of the business, especially in periods of high volatility.

Gains and losses on such operations, as well as variations in fair values of options, are recognized in income (loss) for the period, under the caption financial income (expenses).

Exchange rate risk, interest and derivative operations

The exchange rate risk is the risk that variations in exchange rates of foreign currencies may cause the Company and its subsidiaries to incur unexpected losses, leading to a reduction in assets or increase the values of the liabilities. The main exposures to which the Company is subjected, in terms of variations in exchange rate, refer to the fluctuation of U.S. Dollar against the Brazilian Real. The interest rate risk is the risk of the Company incur economic losses due to adverse changes in interest rates caused by factors related to economic crises and/or change in the monetary policy on domestic and foreign markets, etc.

The cost of products sold by the ABC Inco, soybeans, soybean oil and soybean meal, are referenced by the international quotation of these products and the U.S. Dollar, while a significant portion of the costs, expenses, investments and debt, are indexed in Brazilian Reais. Therefore, the cash flows of the Company is continually exposed to the volatility of the Dollar and interest rates, especially due to the oscillation of the R$ against the USD, since there is a portion of costs and expenses in R$.

To mitigate risk and reduce exposure in relation to the volatility of foreign currency and its effects on the accounts in R$ of ABC Inco and CTBC Telecom, Management has used derivative financial instruments, such as currency and interest rate NDFs and Swaps, which aims to cover any uncovered positions and subject to the effects of currency and interest rate fluctuations. The derivative operations have no initial disbursements, being due only upon the respective maturities.

Swap operations of ABC Inco have their asset and liability position estimated in accordance with market conditions, carried at present value. The difference arising from variations between asset and liability positions of *swap* contracts result in the fair value of derivative in the corresponding period.

The fair value is calculated by the discounted cash flow in ABC Inco, and the receipts and payments refer to cash flow forecasts for the period.

The gains and losses in operations arising from differences in the variations of the contracted rate on the rates of *swap* and NDFs are recorded in income (loss) on an accrual basis as expense or income from derivatives. Based on the rates in effect on December 31, 2011, the fair value of all modalities of *swap* and NDFs totaled the amount receivable of R$ 10,967 (US$ 22,641 on December 31, 2010) , consolidated, recorded as other receivables as a contra entry to financial income.

(In thousands of Reais, unless otherwise indicated)

Below is a summary of the net exposure of the Company to the exchange rate factor on December 31, 2011 and 2010:

	Consolidated (US$)		Parent Company (US$)	
	2011	**2010**	**2011**	**2010**
Clients in the foreign market	47,422	27,416	-	-
Cash and cash equivalents	135,498	52,531	-	-
Swap - assets	33,150	1,170	-	-
NDF Contracts - assets	7,851	10,347	-	-
Currency options contracts	-	27,669	-	27,669
Inventories paid and advances to soybean suppliers	142,380	1 80,307	-	-
Hedge (CBOT)	2,993	14,069	-	-
Total asset exposure	**369,294**	**313,509**	**-**	**27,669**
Loans and financing	(341,274)	(155,781)		
Swap operations - liabilities	(32,966)	(55,729)	-	-
NDF Contracts - liabilities	-	(2,534)	-	-
Swap with exchange rate verifications	-	(27,669)	-	(27,669)
Total liability exposure	**(374,240)**	**(241,713)**	**-**	**(27,669)**
Net exposure	**(4,946)**	**71,796**	**-**	-

The Company and its subsidiaries maintain internal controls on derivative instruments, which, in Management's opinion, are adequate to control risks associated to each market operation strategy.

All the swap transactions, the Company's as well as those of subsidiaries CTBC Telecom and ABC Inco, were duly recorded with CETIP and undersigned, the counterparts being first-class financial institutions.

Credit risk

The Company and its subsidiaries continuously monitor credit granted to their clients and the default level. At ABC Inco, credit risk is concentrated in accounts receivable from the sale of oil and meal and advances of funds to soybean producers. Credit risk is managed by specific standards that include rules for customer acceptance, credit analysis of customers and soybeans producers, and establishment of exposure limits per customer and producer.

The ABC Inco operates on the market anticipating the purchase of soybeans to assure the raw material necessary for the occupation of the industry's capacity and trading operations. The business is conducted in the modalities of advance purchase, with the price "to fix" and "fixed" with the possibility of advancing financial resources to the producer. The credit limit for each producer is defined according to the following criteria: Track record, actual production capacity, defined according to the average productivity of the region and limited to a percentage of its estimated revenues. Furthermore, through the Company's commercial agents of ABC Inco, every step of production is monitored with its producers, ranging from soil preparation to planting, crop treatment, and harvest, in order to assure the delivery of soybeans by these agents. In these operations, the following guarantees are required: agricultural lien (mortgage or pledge), agricultural pledge of the entire area of production financed and, if necessary, the endorsement. In the cases of advances of financial resources worth more than R$ 50, collateral of 200% of the amount advanced (1st degree mortgage) is still required.

In credit to customers of ABC Inco, the analysis is subdivided into Individuals and Legal Entities. Through the documentation requested for individual evaluation of the credit, and the limits are defined by evaluating the average transactions of the customer on the market (through consultations, especially with the competition), banking information (tradition, concept and operation), purchasing volume and punctuality vis-à-vis the market. It is also observed in determining the limit of overall knowledge of the customer (product, market size, structure, strategies and command, verified through visits to the customers).

Partial or total blocks take place in the subsidiary CTBC Telecom regarding fixed and cell phone service provision, whenever a customer's account remains unpaid, in accordance with terms defined by ANATEL and the subsidiary's strategy. The subsidiary also maintains credit limits for its resellers and distributors of prepaid and inductive cards, which are defined based on sales potential, risk history, payment punctuality and default. At Algar Tecnologia, subsidiary of CTBC Telecom, the credit risk related to services rendered, as well as the risk of revenue concentration in a few clients, is minimized by a credit analysis defined based on sales potential, risk history, payment punctuality and default of clients, as well as the distribution of client contracts in several operation types.

(In thousands of Reais, unless otherwise indicated)

Capital structure risk (or financial risk)

Results from the choice between own capital (capital transfers and profit retention) and third party capital that the Company and its subsidiaries make to finance its operations. To mitigate liquidity risks and optimize capital weighted average cost, the Company and its subsidiaries permanently monitor indebtedness level in accordance with market standards and index compliance ("*covenants*") provided for in loan, financing and debenture contracts. Under certain circumstances hedge operations are carried out to avoid fluctuations in the financial cost of the operations.

Liquidity risk

Financial liabilities' contractual maturities, including estimated interest and excluding impact from currency negotiation agreements by net positions, are as follows:

	2011				
	Book Value	**Contractual cash flow**	**1 to 2 years**	**2 to 5 Years**	**Over 5 years**
Secured bank loans	1,426,634	1,646,000	1,097,395	437,026	111,579
Debentures	227,377	257,290	180,037	77,253	-
Equipment suppliers	24,871	39,058	11,002	21,302	6,754
Liability regarding the acquisition of interests in subsidiaries	18,104	18,104	9,582	8,522	-
Total	**1,696,986**	**1,960,452**	**1,298,016**	**544,103**	**118,333**

32 Insurance coverage

The Company and its subsidiaries adopt the policy of contracting insurance coverage for properties subject to risks in amounts considered sufficient to cover any casualties, considering the nature of their activity. The risk assumptions, due to their nature, are out of the scope of the auditing of the financial statements, and therefore were not audited by our independent auditors.

At December 31, 2011, the insurance coverage against operational risks was comprised of R$ 1,517,966 for material damages, R$ 1,416,855 for loss of income, R$ 5,000 for civil liability, R$ 1,206 Performance Bond, consolidated.

33 Subsequent events

On January 3, 2012, indirect subsidiary Algar Tecnologia entered into a financing contract with BNDES, in the amount of R$ 68,000, with first fund release on January 27, 2012, in the amount of R$ 35,000. The period of this contract is 6 years and 6 months, bearing interest corresponding to TJLP + 3.28% p.a.

The contract establishes maximum indebtedness indices and minimum debt coverage indices, which must be observed by indirect subsidiary Algar Tecnologia during the entire period of these contracts, beginning as of 2012.

*   *   *

Board of Directors:

Luiz Alberto Garcia
Chairman

Members:
Alexandrino Garcia Neto
Helio Marcos Machado Graciosa
Walter Fontana Filho
Eduardo Moreira da Silva
Ozires Silva
Darc Antonio da Luz Costa
Geraldo Sardinha Pinto Filho

Statutory Board:

5313-Opinion/Notes
Cicero Domingos Penha - Corporate Vice President for Human Talents
Eliane Garcia Melgaço - Corporate Vice President for Marketing and Sustainability
Marcelo Mafra Bicalho - Corporate Vice President for Finance
Mauri Seiji Ono - Corporate Vice President for Strategy

José Adilson Gurgel
Accountant CRC-GO 7.580 T MG