

(Convenience translation into English from the original previously issued in Portuguese)

ELEKEIROZ S.A.

**NOTES TO THE FINANCIAL STATEMENTS
AS OF 30 SEPTEMBER AND 30 JUNE 2010
(In thousands of Brazilian reais)**

1. OPERATIONS

Elekeiroz S.A. (“Company”) is a publicly-traded company controlled by Itaúsa - Investimentos Itaú S.A., with one plant in Camaçari - State of Bahia and another in Várzea Paulista - State of São Paulo, where its head office is located. The Company is engaged in processing and selling chemical and petrochemical products in general, including third-party products, importing and exporting them, in addition to holding equity interests in other companies.

The Company has a production capacity of over 700 thousand tons/year of chemical products, which are intended primarily for the industrial segment, especially civil construction, clothing, automotive and food.

2. PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The individual and consolidated financial statements of Elekeiroz S.A., approved by the Board of Directors on 4 November 2010, have been prepared in conformity with accounting practices established by the Brazilian Corporate Law, Pronouncements, Guidance and Interpretations issued by the Committee of Accounting Pronouncements (CPC) and standards of the Brazilian Securities and Exchange Commission (CVM) and reflect the changes introduced by Laws No. 11.638/07 and No. 11.941/09. With the enactment of Law No. 11.638/07, which updated Brazilian Corporate Law to allow convergence of Brazilian accounting practices with International Financial Reporting Standards (IFRS), new standards and technical pronouncements have been issued by the Committee of Accounting Pronouncements (CPC) in conformity with international accounting standards. During 2009 26 new technical pronouncements (CPCs) and 12 technical interpretations (ICPs) were issued by the Committee of Accounting Pronouncements, approved by CVM for mandatory application as from 2010 and 2009 for comparison purposes. Management has evaluated the new technical pronouncements and interpretations considering the Company’s operations and has determined that the following apply to the Company:

CPC	Title
16	Inventories
18	Investments in associated and controlled companies
20	Borrowing costs

CPC	Title
21	Interim financial statements
22	Segment reporting
23	Accounting policies, changes in accounting estimates and correction of errors
24	Subsequent event
25	Provisions, contingent liabilities and contingent assets
26	Presentation of financial statements
27	Property, plant and equipment
30	Revenues
32	Income taxes
33	Employee benefits
36	Consolidated financial statements
37	First-time adoption of International Financial Reporting Standards
38	Financial instruments: recognition, measurement and evidencing
39	Financial instruments: presentation
40	Financial instruments: disclosures
43	Initial adoption of CPC technical pronouncements 15-40
ICPC	Title
08	Accounting for proposed dividends Individual, separated and consolidated financial statements, and adoption of the equity method of accounting
09	Interpretation about the initial application of CPC Technical Pronouncements No. 27, 28 37 and 43 to property, plant and equipment and investment property.
10	

Pursuant to CVM Resolution No. 603 of 10 November 2009, the Company elected to present its quarterly financial statements (ITR) for the third quarter of 2010 under the accounting practices in effect until 31 December 2009. Management is completing an assessment of the possible impacts of the new pronouncements. This assessment includes a review of flows, internal controls, systems and other relevant aspects and to date management has not progressed enough in the analyses to present accurate estimates of possible effects of the adoption of the new accounting pronouncements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

a. Results of operations -

Results of operations are recorded on the accrual basis. Sales revenue is recognised in operations when all the product's risks and benefits are transferred to the buyer. Revenue whose realisation is uncertain is not recognised. Starting 1 January 1 2008 the provision for income tax is net of tax incentive amounts.

b. Use of estimates -

The preparation of individual and consolidated financial statements in conformity with Brazilian accounting practices requires use of estimates and assumptions based on management's judgment. These estimates and assumptions include the determination of the residual value of property, plant, and equipment, estimates of the useful lives of assets and the recognition of deferred income and social contribution taxes, allowances for doubtful accounts, inventory valuation allowances and provisions for tax, labour and civil risks. Transaction settlement involving those estimates may result in values different from estimates, due to the inherent inaccuracy of the process. The Company and its controlled companies review estimates and assumptions at least annually.

c. Current and non-current assets

- **Cash and cash equivalents** - include the balances of bank accounts and temporary cash investments redeemable within up to 90 days from the investment date, recorded at cost, plus income earned to the balance sheet date, which does not exceed market value. Temporary cash investments are recognised at amortised cost, plus agreed yields recognised proportionately through the balance sheet dates, which approximate market values. (note 5)
- **Financial instruments** - non-derivative financial instruments include financial investments, debt and equity instruments, accounts receivable and other receivables, cash and cash equivalents, loans and financing, as well as accounts payable and other debts. Non-derivative financial instruments are initially recognised at their fair value plus, for instruments which are not recognised at fair value in operations, any directly attributable transaction costs. After initial recognition, non-derivative financial instruments are measured according to their respective classification:

Held-to-maturity instruments - If the Company has the positive intention and ability to hold its debt instruments to maturity, these instruments are classified as held-to-maturity and stated at amortised cost using the effective interest method, less impairment losses

Available-for-sale instruments - The Company's investments in debt and equity securities are classified as available-for-sale. After initial recognition, they are stated at fair value and their fluctuations, except impairment losses, and the foreign currency differences of these instruments, are recognised directly in equity, net of tax effects. When an investment fails to be recognised, the gain or loss accumulated in equity is transferred to the statement of operations.

Financial instruments at fair value in the statement of operations - An investment that is held for trading is recorded on initial recognition as a financial asset at fair value in the statement of operations. Financial instruments are carried at fair value in the statement of operations if the Company manages these investments and takes purchasing and sales decisions according to their fair value and the investment and risk management strategy. After initial recognition, attributable transaction costs are recognised in the statement of operations when incurred. Financial instruments stated at fair value in the statement of operations are determined according to their fair value and their fluctuations are recognised in the statement of operations.

Other - Other non-derivative financial instruments are stated at amortised cost using the effective interest rate method, adjusted for possible impairment losses.

- **Trade receivables** - Refer to receivables from customers, reduced by allowances to adjust to probable realisable values. The allowance for doubtful accounts is set up in an amount deemed sufficient by management to cover possible losses on the realisation of accounts receivable. (note 6)
- **Inventories** - are stated at average acquisition or production cost, not exceeding market values. When applicable, we set up a provision for obsolescent inventories and to adjust the values of inventories carried in excess of realisable values. (note 7)
- **Investments** - Investments in controlled and associated companies were accounted for under the equity method, with a contra entry to income (loss) from operations, except for exchange rate gains (losses) on foreign investments that are recognised as a shareholders' equity component and subsequently recorded in the statement of operations upon write-off or sale of the investment. Other investments are stated at acquisition cost monetarily adjusted through 31 December 1995 and written down to market value where applicable. (note 11)
- **Property, plant and equipment and depreciation** - Property, plant and equipment are carried at acquisition or construction cost monetarily adjusted through 31 December 1995, including interest charges incurred over the construction period. Depreciation is recorded using the straight-line method at rates based upon the useful lives of assets. The unit-of-production method is adopted for equipment and facilities used directly in the production process based upon the useful lives of the assets. (note 12)
- **Intangible assets** - Refer to goodwill from business acquisitions. The amortisation of the goodwill was discontinued in January 2009 and the balance is subject to impairment testing. (note 13)

- **Impairment** - The Company carries out periodic impairment tests to check whether there is any indication that the carrying amount of an asset will not be recovered. Recoverable amount is the higher of: (a) an asset's fair value less costs to sell, and (b) its value in use. Value in use is the discounted present value of the future cash flows (before taxes) expected to arise from the continuing use of an asset by the end of its useful life. Regardless of any indication of impairment, goodwill arising from business combination is tested for impairment at least once a year. If the residual value of the asset exceeds the recoverable amount, the Company recognises an impairment loss. The grouping for impairment is the cash generating unit, which is the smallest identifiable group of assets that generates cash inflows.
- **Other current and non-current assets** - Stated at realisable value plus income, monetary changes and exchange rate gains (losses) where applicable or, in the case of prepaid expenses, at cost.

d. Current and non-current liabilities

- **Current and non-current liabilities** - Recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Some liabilities involve uncertainties concerning term and amounts. They are estimated as incurred and recorded as provisions. Provisions are recorded according to the best estimates of risks involved.

The estimate of tax, civil and labour contingencies involves management's judgment. The Company is a party to lawsuits involving tax, civil and labour matters that have arisen in the ordinary course of business. The Company recognises a provision for probable losses on said lawsuits when amounts involved can be reliably measured. The Company's judgment is based on the opinion of its in-house and external attorneys. The balances are adjusted so as to reflect changes in circumstances of the lawsuits in progress. Actual results could differ from those estimates.

They are indexed to exchange rates and finance charges under agreements in effect, to reflect the amounts incurred through the balance sheet dates. The non-current items are discounted to present value where applicable.

- **Taxation** - Sales revenues are subject to the following taxes:

	Rates
ICMS (State of São Paulo)	18%
ICMS (State of Bahia)	17%
ICMS (other States)	7% or 12%
IPI (Federal VAT)	0% or 5%
PIS (tax on sales)	1.65%
COFINS (tax on sales)	7.6%

These charges are recognised as sales deductions in the statement of operations. Credits resulting from the non-cumulativeness of PIS/COFINS are accounted for by reducing the cost of goods of sold in the statement of operations.

Income tax is calculated at the rate of 15% on taxable income plus a 10% surtax and tax losses can be offset against taxes payable. Social contribution tax is calculated at the rate of 9% on adjusted book income, also considering utilisation of tax losses. The Company has been granted a tax benefit that reduces by 75% the income tax on the income (loss) from the operations of its Camaçari, Bahia, plant until 31 December 2015 (note 9a). Deferred income and social contribution taxes are recorded in non-current assets and liabilities. (note 9b)

- **Escrow deposits, provision for taxes and provision for contingencies** - As a result of the adoption of CVM Resolution No. 489/05, escrow deposits are reclassified to liabilities as valuation allowances to reduce “Provision for taxes” and “Provision for contingencies”. (note 17)
- **Loans and financing** - Loans and financing are adjusted according to monetary changes or exchange rate gains (losses), when applicable, plus interest incurred to the balance sheet date. (note 15)

e. **Earnings (loss) per share**

Earnings (loss) per share are calculated according to the number of shares outstanding at the balance sheet date.

4. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in conformity with consolidation principles and CVM standards. Consolidation consists of the following:

- a. Elimination of the balances of intercompany assets and liabilities;
- b. Elimination of investments in proportion to the parent company’s participation in the respective shareholders’ equity of controlled companies;
- c. Elimination of the balances of intercompany revenues and expenses; and
- d. Elimination of unrealised profit resulting from intercompany transactions, when material.

The consolidated companies and the Company have the same fiscal year.

Summarised information on the controlled company’s financial statements:

ASSETS			
Current		1,156	1,226
Total assets		1,156	1,226
Liabilities and shareholders' equity			
Current		57	61
Shareholders' equity		1,099	1,165
Total liabilities and shareholders' equity		1,156	1,226
Statement of operations			
Operating expenses, net		(3)	(3)
Loss for the year		(3)	(3)

5. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	Sept/2010	Jun/2010	Sept/2010	Jun/2010
Cash	15	16	15	16
Banks	325	618	325	618
Temporary cash investments				
Held-to-maturity	913	891	913	891
Trading	43,878	39,371	43,878	39,371
Investments in stocks - available for sale	1,512	1,415	1,512	1,415
Total	46,643	42,311	46,643	42,311
Current	46,643	42,311	46,643	42,311
Non-current	-	-	-	-

Investments classified as held-to-maturity investments refer to reinvestment deposits in BNB - Banco do Nordeste do Brasil related to income tax incentives.

Investments classified as trading investments are represented mainly by certificates of bank deposits (CDBs) with yield based on the CDI (interbank deposit rate). Due to the nature of these investments, the book values reflect the redemption value at the balance sheet date.

Investments in stocks refer to Eletrobrás shares stated at fair value with fluctuations recognised in shareholders' equity.

6. TRADE RECEIVABLES

	Company		Consolidated	
	Sept/2010	Jun/2010	Sept/2010	Jun/2010
Domestic	144,890	106,001	144,890	106,001
Foreign	47,063	40,442	47,063	40,443
Advance on export contracts - ACE	(29,324)	(36,533)	(29,324)	(36,533)
Allowance for doubtful accounts	(3,409)	(3,282)	(3,409)	(3,282)
Total	159,220	106,628	159,220	106,629

7. INVENTORIES

	Company and Consolidated	
	Sept/2010	Jun/2010
Finished goods	28,640	29,916
Raw materials, auxiliary and packaging materials	29,864	28,308
Storeroom supplies	9,968	9,666
Goods in transit and held by third parties	3,752	4,206
Advances to suppliers	355	2,916
Imports in transit	3,656	6,264
Inventory valuation allowances	(59)	(58)
Total	76,176	81,218

8. TAX CREDITS AND RECOVERABLE TAXES

	Company and Consolidated	
	Sept/2010	Jun/2010
Recoverable taxes		
Income tax	58	145
ICMS (State VAT) on asset acquisitions	1,813	1,965
(-) Discounted present value	(186)	(209)
Accumulated ICMS credits - Bahia State	38,970	36,207
Accumulated ICMS credits from exports - Bahia State	14,036	25,489
(-) Discounted present value	(7,972)	(9,250)
Accumulated PIS/COFINS credits	2,028	2,209
Accumulated PIS/COFINS credits taken on asset acquisitions	691	808
Other	625	259
Total	50,063	57,623
Stated as:		
Current	23,152	23,843
Non-current	26,911	33,780

The ICMS credits accumulated by the Company's plant in Bahia have been derived from: (i) exports, (ii) sales in the domestic market to companies that enjoy the benefit of ICMS tax deferral in the State of Bahia, and (iii) sales to other States with interstate rates lower than the internal rates applicable to the purchase of supplies.

In May 2008, the Bahia State Government reduced the tax rate for intrastate sales of certain chemical products, including the main raw materials used by the Company, which allowed it to utilise part of the accumulated credits.

In December 2008 the Company entered into an agreement with the Finance Department of the Bahia State with a schedule of release dates for accumulated tax credits, which in 2009 and until the third quarter of 2010 were partially transferred to third parties. Under this agreement, the provision for loss was reversed and the Company's management to estimate the realisation of its ICMS credits. A discount to present value was calculated and recorded to reflect the adjusted amount of these tax credits.

9. INCOME AND SOCIAL CONTRIBUTION TAXES

a. Reconciliation of income and social contribution tax expense

	<u>Company and Consolidated</u>	
	<u>Sept/2010</u>	<u>Sept/2009</u>
Breakdown of the income and social contribution tax expense		
Income (loss) before income and social contribution taxes	39,354	(33,864)
(-) Offset of income and social contribution tax losses	(11,806)	-
Income and social contribution taxes at the rate of 34%	(13,380)	-
Permanent add-backs and deductions	41	-
Temporary add-backs and deductions	(1,121)	(2,365)
Interest on equity capital	1,766	-
Deferred taxes on income and social contribution tax losses	-	28,563
Tax incentives	3,200	-
Income and social contribution taxes	(9,494)	26,198
Current income tax	(2,837)	-
Current social contribution tax	(2,262)	-
Deferred income tax	(3,241)	21,528
Deferred social contribution tax	(1,154)	4,670

b. Breakdown of the balance of deferred income and social contribution taxes

Pursuant to CVM Resolution No. 273 and CVM Instruction No. 371, the Company has recorded in Non-Current Assets deferred taxes arising from temporary differences and tax loss carry forwards in the amount of R\$35,356. The consolidated balance of deferred income and social contribution taxes as of 30 September 2010 consists of:

	<u>Consolidated balance as of Sept/2010</u>
Temporary differences represented by:	
Income and social contribution tax losses	21,124
Allowance for doubtful accounts	1,159
Provision for labour contingencies	3,336
Provision for tax contingencies	2,145
Discounted present value - non-current assets	3,035
Amortised goodwill	294
Other provisions	4,263
	<hr/>
Total	<u>35,356</u>

Expected realisation of tax credits arising from temporary differences

2010	3,036
2011	5,670
2012	1,779
2013	179
2014 onwards	3,568
Total	<u>14,232</u>

Based on the Company's history of profits and projections of results for the next years, it recognised in assets the tax credits arising from income and social contribution tax losses, in the amount of R\$19,224 and R\$3,765, respectively.

Expected realisation of tax credits arising from income and social contribution tax losses

2010	4,387
2011	7,410
2012	7,368
2013	1,959
Total	<u>21,124</u>

The Company has recorded in non-current liabilities deferred income and social contribution taxes in the amount of R\$1,434 arising from a capital gain on the credit sale of its plant located in Taubaté. The capital gain is taxed as sales instalments are received.

10. OTHER RECEIVABLES

	Company and Consolidated	
	Sept/2010	Jun/2010
Receivables from sale of assets	8,400	9,141
Receivables from assignment of receivables	3,514	3,930
Other	2,588	2,892
(-) Discounted present value	(768)	(857)
Total	<u>13,734</u>	<u>15,106</u>
Current	11,509	11,028
Non-current	<u>2,225</u>	<u>4,078</u>

11. INVESTMENTS

Significant information on the investment accounted for under the equity method and cost as of 30 September:

	Sept/2010	Jun/2010
Castletown Trading S.A.		
Shareholders' equity	1,099	1,165
Number of shares held (thousand)	7,350	7,350
Ownership interest (%)	100	100
Exchange rate gain (loss) on the investment	65	39
Equity in earnings (losses) of controlled companies	(2)	(2)
Total investments accounted for on the equity method	1,162	1,162
Investments valued at acquisition cost	7,247	7,247
	<hr/>	<hr/>
Total investments	8,409	8,409

12. PROPERTY, PLANT AND EQUIPMENT

12.1. BREAKDOWN OF PROPERTY, PLANT AND EQUIPMENT

The depreciation of industrial equipment and facilities varies according to production amounts and applicable rates vary from 8% to 10% per year.

	Annual depreciation rates	COMPANY AND CONSOLIDATED			
		30/09/2010		30/06/2010	
		Adjusted cost	Accumulated depreciation	Residual value	Residual value
Land		11,088	-	11,088	11,088
Buildings	4%	56,286	(33,804)	22,482	22,691
Equipment and facilities	8%-10%	385,735	(227,161)	158,574	158,990
IT equipment	20%	3,353	(2,471)	882	934
Furniture and fixtures	10%	6,522	(5,198)	1,324	1,237
Vehicles	20%	2,649	(1,440)	1,209	1,215
Other assets	10% and 20%	17	(15)	2	2
Property, plant and equipment in progress		16,179	-	16,179	20,555
TOTAL		481,829	(270,089)	211,740	216,712

13. INTANGIBLE ASSETS

	Company and Consolidated	
	Sept/2010	Jun/2010
Intangible assets	644	724
Goodwill on acquisition of investments	18,801	18,881

The Company has goodwill determined according to the investees' expected future earnings and projected results based on estimated cash flows. After the merger of the parent company into the controlled company, goodwill was transferred from the investment caption to deferred charges and, due to the changes introduced by Law No. 11.638/07, to intangible assets.

14. RELATED-PARTY TRANSACTIONS

Transactions with entities owned by the parent company Itaúsa consist of purchase and sale of goods and services under usual market terms and conditions.

Company	Ref	Nature of the transaction	Sept/2010		Mar/2009
			Assets	Liabilities	
Itaú Seguros	a	Provision of services			(614)
Itaú Banco	b	Financial investment	13,821		998
Itaú Corretora	c	Provision of services			(63)
Itaúsa Empreendimentos	d	Provision of services and dividends		4	(188)
Itautec	e	Provision of services			(112)
Duratex	f	Sale of goods	630		6,178
Itaúsa	g	Dividends		3,524	

- a. Itaú Seguros - acquisition of insurance policies.
- b. Itaú Banco - cash and cash equivalents.
- c. Itaú Corretora - provision of stock custody services.
- d. Itaúsa Empreendimentos - provision of economic and financial analysis services; dividend payment.
- e. Itautec - acquisition of hardware, software and services.
- f. Duratex - property lease and purchase of finished goods.
- g. Itaúsa - dividend payment.

15. FINANCIAL INSTITUTIONS

Financing agreements for investments in the expansion and modernisation of facilities and working capital have the following characteristics:

Type	Charges %	Collaterals	Amortisation	End	Sept/2010		Jun/2010	
					Current	Non-current	Current	Non-current
MODERMAQ - FINAME CHARGES ADVANCE ON FOREIGN EXCHANGE CONTRACTS	10.95 p.a.	Chattel mortgage	Monthly	15/10/2010	6	-	30	-
	1.66 p.a. TJLP (LONG- TERM INTEREST RATE) + EXCHANGE RATE VARIATION	-	Final	22/11/2010	58	-	94	-
BNDES INDUSTRIAL CREDIT NOTE - BNB MODERMAQ - FINAME	1.65-4.50 p.a.	Surety bond and collateral endorsements	Monthly and semi-annual	15/07/2014	3,288	11,079	3,045	9,864
	8.5 p.a.	Chattel mortgage	Monthly	28/12/2010	1,839	-	3,679	-
	7.00 p.a.	Chattel mortgage	Monthly	15/09/2011	191	-	195	127
Total Company and consolidated					5,382	11,079	7,043	9,991

Non-current amounts mature as follows:

	Company and Consolidated	
	Sept/2010	
2011		885
2012		3,549
2013 onwards		6,645
Total		11,079

To finance modernisation, rationalisation and automation programs in the future with the aim of increasing efficiency and reducing operating costs, a long-term credit line was obtained from BNDES in the amount of R\$116,681. As of 30 September 2010 R\$17,674 were already released.

16. DIVIDENDS AND PROFIT SHARING

	Company and Consolidated	
	Sept/2010	Jun/2010
Interest on equity capital	3,837	5,278
Management profit sharing	845	1,158
Employee profit sharing	805	749
Total	5,487	7,185

Management profit sharing is limited to 10% of the net income after income tax and the amount of compensation under the Company's by-laws. Employee profit sharing is linked to targets pursuant to an agreement with the employees appointed to a commission set up specifically for this purpose.

17. TAXES PAYABLE IN NON-CURRENT LIABILITIES AND PROVISION FOR CONTINGENCIES

The Company shows in Non-Current Liabilities as taxes payable the total amount of unpaid taxes as per legal actions, with monetary adjustment, and sufficient provisions for tax, labour and civil contingent liabilities initially classified as probable. Management, based on the opinion of its attorneys, believes that the provisions are sufficient to cover probable losses arising from unfavourable judicial decisions and that final decisions will have no material impacts on the Company's financial position as of 30 September 2010. The table below shows contingencies, provisions and escrow deposits:

a. Non-current taxes payable

	Company and Consolidated	
	Sept/2010	Jun/2010
PIS and COFINS (taxes on sales)	21,852	21,651
COFINS and education allowance	16,097	16,097
(-) Escrow deposit	(16,097)	(16,097)
Other	298	207
(-) Escrow deposit	(85)	(85)
Total non-current taxes payable	38,247	37,955
Total escrow deposits	(16,182)	(16,182)
Total net	22,065	21,773

The Company has offset credits arising from a lawsuit that questions the constitutionality of Decree-Laws 2445 and 2449 of 1988 which changed the way of calculating PIS, and has accrued in non-current liabilities the adjusted credit offset in the amount of R\$21,852.

Due to the legal actions that question the legality of charging the 1% difference in the rate of COFINS and education allowance, the Company has deposited in escrow the amount of R\$16,097 related to said taxes that are fully accrued in non-current liabilities.

b. Provision for contingencies

	Company and Consolidated	
	Sept/2010	Jun/2010
Labour and civil	38,869	38,444
Probable	14,377	13,779
Possible	24,492	24,665
Tax	55,784	54,935
Probable	20,212	19,605
Possible	35,572	35,330
Total probable	34,589	33,384
(-) Escrow deposit	(2,935)	(2,923)
Total net	31,654	30,461
Total possible	60,064	59,995

Labour, civil and tax lawsuits classified as probable loss are fully accrued in the Company's non-current liabilities.

18. SHARE CAPITAL

a. Subscribed and paid-in capital

Subscribed and paid-in capital as of 30 September 2010 is R\$220,000, represented by 31,485,170 shares without par value: 14,518,150 common shares and 16,967,020 non-voting preferred shares.

b. Characteristics of the shares

Non-voting preferred shares have the following characteristics:

- a. Priority over common stock in the distribution of mandatory dividends;
- b. Dividends greater than dividends on common stock;
- c. Participation in capital increases resulting from capitalisation of reserves and profits;

- d. Priority over common stock in the reimbursement of capital without premium in the event of Company liquidation;
- e. In the event of transfer of control, the right to be included in the tender offering with a unit price equal to 80% of the price paid per voting share of the control stock;
- f. Minimum, annual, non-cumulative priority dividend of R\$2.00 per thousand shares, which will be adjusted in the event of stock split or reverse stock split.

19. DIVIDENDS AND INTEREST ON EQUITY CAPITAL

Shareholders are entitled to receive a mandatory dividend equal to 25% of the net income for the year, adjusted by increasing or decreasing the amounts specified in letters “a” and “b” of item I of article 202 of Law No. 6404/76 and items II and III of the same law.

Prepaid dividends were calculated as follows:

	<u>Sept/2010</u>
Net income for the period (until 30 June 2010)	18,106
(-) Statutory reserve (5%)	(905)
(-) Tax incentive recognised in the statement of operations	<u>(1,504)</u>
(=) Calculation base	<u>15,697</u>
Mandatory minimum dividends (25%)	3,924
Interest on equity capital declared in the period	5,195
(-) IRRF (withholding income tax)	<u>(779)</u>
(=) Annual net compensation	<u><u>4,416</u></u>

As allowed by legislation and established by the Company’s by-laws, the interest on equity capital, net of income tax, is being allocated to the mandatory dividend.

20. FINANCIAL INCOME

Financial income consists of financial revenues and expenses as follows:

	Company		Consolidated	
	Sept/2010	Sept/2009	Sept/2010	Sept/2009
Financial revenue	5,542	8,063	5,542	8,063
Monetary and exchange rate gains	17,460	5,237	17,460	5,237
Reversal of the discounted present value	1,938	2,067	1,938	2,067
Total financial revenue	24,940	15,367	24,940	15,367
Financial expense	(2,825)	(6,376)	(2,825)	(6,376)
Interest on equity capital	(5,195)	(756)	(5,195)	(756)
Monetary and exchange rate losses	(17,688)	(6,179)	(17,688)	(6,179)
Total financial expense	(25,708)	(13,311)	(25,708)	(13,311)
Financial income, net	(768)	2,056	(768)	2,056

21. FINANCIAL INSTRUMENTS

The estimated realisable values of the financial assets and liabilities of the Company and its controlled company are determined by means of information available on the market and suitable valuation methods. Considerable judgment was required to interpret market data and to make the most adequate fair value estimates. As a result, the estimates presented below are not necessarily indicative of the amounts that could be realised in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

These financial instruments are managed through operating strategies following the principles of liquidity, profitability and security. The control policy consists of a permanent tracking of contractual rates versus market rates. The Company and its controlled company do not have speculative trading in derivatives or other risky assets.

a. Fair value

In conformity with technical pronouncement CPC 14 “Financial Instruments: Recognition, Measurement and Disclosures”, as of 30 June 2010 the fair value of the main financial instruments reported does not differ significantly from the carrying amounts. The classification of the financial instruments is shown in the table below.

Cash and cash equivalents and temporary cash investments - Cash and cash equivalents refer to cash and banks and correspond to their carrying amounts.

Temporary cash investments in CDB (certificate of bank deposit) and investment funds are classified as trading investments. Other temporary cash investments refer to reinvestment deposits (income tax incentive) and are classified as held-to-maturity investments. Investments in stock refer to Eletrobras shares and are classified as available-for-sale investments. The carrying values of financial instruments approximate their fair values.

	Consolidated	
	Carrying amount	Market value
Cash and cash equivalents	340	340
CDB - trading investments	43,420	43,420
Investment funds - trading investments	458	458
Other investments - held-to-maturity investments	913	913
Stock - available-for-sale investments	1,512	1,512
Total	46,643	46,643

Current and non-current financing The carrying amount was determined using the interest rates agreed with the financial institutions, which reflect the fair value, considering the conditions and the nature of these operations and the Company's size, among others.

b. The main risks affecting the Company's business are the ones listed below:

Credit risk: The Company's credit exposure is spread over a large number of customers and no customer accounts for more than 5% of its net sales. The Company has a credit policy setting limits and terms based on liquidity criterion and several rating instruments. In addition to the diversification in the domestic market, a significant portion of the Company's products is intended for the foreign market, following the same risk assessment procedure.

Exchange rate risk: A significant portion of the Company's revenues derives from exports and, as a result, the Company uses export credit lines to cover its working capital needs, since these credit lines have more attractive rates and conditions than other working capital financing in local currency.

Price risk: The Brazilian chemical industry is highly integrated in the globalised market and the prices in general are strongly influenced by international supply and demand conditions. Accordingly, our sale prices as well as our purchase prices for raw materials rise almost simultaneously, preserving an average margin that allows sustaining the business.

Interest rate risk: Borrowings have fixed rates under usual market conditions and are adjusted and recorded at realisable value at the balance sheet date.

c. Derivatives

The Company has no derivative contract as of 30 September 2010.

d. Sensitivity analysis

Foreign exchange risk - Based on the balances of assets and liabilities exposed to the foreign exchange risk as of 30 September, the Company made two simulations with increases in exchange rates (R\$/US\$) of 25% and 50%, the results of which are summarised below:

Exchange rate gain (loss) risk					
Transaction	Balance 30/09/2010	Effects on income (loss) until maturity			
		Probable		Possible (+/- 25%)	Remote (+/- 50%)
FINANCIAL ASSETS					
Exports receivable	17,739	134	Decrease US\$	(4,334)	(8.803)
			Increase US\$	4,602	9,071
Other	3,514	76	Decrease US\$	(800)	(1,677)
			Increase US\$	952	1.829
FINANCIAL LIABILITIES					
BNDES – Revolving credit	1,750	(292)	Decrease US\$	218	729
			Increase US\$	(803)	(1.313)
BNDES - Revolving credit	432	(128)	Decrease US\$	12	152
			Increase US\$	(269)	(409)
Foreign suppliers	28,213	(1,242)	Decrease US\$	7,985	14,727
			Increase US\$	(5,501)	(12,243)
NET EXPOSURE	(9,142)	(1,453)	Decrease US\$	3,080	5,129
			Increase US\$	(1,018)	(3,066)

22. **STOCK OPTION PLAN, PENSION PLAN, MANAGEMENT COMPENSATION AND MANAGEMENT PROFIT SHARING**

a. Stock option plan

With the purpose of increasing management and employee commitment to the Company's medium- and long-term development shareholders decided at the Extraordinary Shareholders' Meeting held on 31 July 2003 to set up a stock option plan, allowing employees and management the opportunity to share in the success of the Company for their hard work and dedication. By the date of the financial statements, said plan had produced no effects to be recognised in the Company's statement of operations.

b. Pension plan

Elekeiroz S.A. offers all its employees a defined contribution pension plan (“PAI-CD Plan”) This plan is managed by Fundação Itaúsa Industrial, a non-profit private pension entity of which the Company is one of the sponsors. Due to the nature of the plan, there is no actuarial risk and the investment risk belongs to the plan participants. Under prevailing regulations, the sponsor’s contribution is 100% of the employees’ contributions, which resulted in employees’ and sponsors’ contributions of R\$1,479 by the third quarter of 2010 (R\$1,238 by the third quarter of 2009).

c. Management compensation

Management compensation as of 30 September 2010 was R\$2,081 as fees, recorded as “Administrative Expenses” (R\$1,440 as of 30 September 2009).

As of 30 September 2010 R\$2,405 were paid as profit sharing for the first half of 2010 (R\$2,652 for the balance of profit sharing on 2008’s income as of 30 September 2009).

Deposits of R\$744 were made in the third quarter of 2010 (R\$592 as of 30 September 2009) for the Management’s Supplemental Pension Plan.

23. INSURANCE COVER

Management considers the level of cover sufficient to face possible claims due to the nature of the Company’s assets and inherent risks. As of 30 September 2010 cover for insurance and sundry risks on property, plant and equipment and inventories is R\$261,869 (R\$261,869 as of 30 September 2009).

24. NON-RECURRING INVENTORY LOSSES

It is the Company’s practice to keep raw material and finished goods inventory levels sufficient for its usual operations.

At the beginning of 2009, due to the global financial crisis, significant declines in prices and sales resulted in inventories of sulphur, sulphuric acid and isobutene at levels higher than demand levels.

As of 31 March 2009, the Company recognised the total loss of R\$43,354 on such inventories as shown on a separate line of the financial statements for better presentation.

25. STATEMENT OF CALCULATION OF EBITDA

	Company		Consolidated	
	Sept/2010	Sept/2009	Sept/2010	Sept/2009
Income (loss) from operations before financial income, equity in earnings (losses) of controlled companies and goodwill amortisation	39,623	(37,144)	39,621	(37,148)
(+) Depreciation and amortisation	20,841	17,950	20,841	17,950
(+) Residual value of written-off assets	350	(132)	350	(132)
EBITDA	60,814	(19,326)	60,812	(19,330)

STATEMENT OF VALUE ADDED

(In thousands of Brazilian reais - R\$)

YEARS ENDED 30 SEPTEMBER					
		COMPANY		CONSOLIDATED	
		2010	2009	2010	2009
1	REVENUES	790,541	526,392	790,541	526,392
	Sale of goods	790,753	520,023	790,753	520,023
	Allowance for doubtful accounts	(212)	(214)	(212)	(214)
	Other revenues	-	6,583	-	6,583
2	INPUTS ACQUIRED FROM THIRD PARTIES	696,939	508,620	696,941	508,625
	Cost of goods sold	636,571	436,288	636,571	436,288
	Materials, electricity, third-party services, and expenses	60,368	72,332	60,370	72,337
3	GROSS VALUE ADDED (1 - 2)	93,602	17,772	93,600	17,767
4	WITHHELD AMOUNTS	20,840	17,950	20,840	17,950
	Depreciation, amortisation, and depletion	20,840	17,950	20,840	17,950
5	NET VALUE ADDED GENERATED BY THE COMPANY (3 - 4)	72,762	(178)	72,760	(183)
6	VALUE ADDED RECEIVED IN TRANSFER	24,938	15,834	24,940	15,839
	Equity in earnings (losses) of controlled companies	(2)	467	-	472
	Financial income	24,940	15,367	24,940	15,367
7	TOTAL VALUE ADDED AVAILABLE FOR DISTRIBUTION (5 + 6)	97,700	15,656	97,700	15,656
8	VALUE ADDED DISTRIBUTION	97,700	15,656	97,700	15,656
	Personnel	40,178	34,974	40,178	34,974
	Direct compensation	32,846	28,080	32,846	28,080
	Benefits	5,245	4,849	5,245	4,849
	Severance Pay Fund - FGTS	2,087	2,045	2,087	2,045
	Taxes, fees and contributions	20,810	(10,359)	20,810	(10,359)
	Federal	18,383	(13,844)	18,383	(13,844)
	State	1,556	2,525	1,556	2,525
	Municipal	871	960	871	960
	Return on debt	6,852	(1,294)	6,852	(1,294)
	Interest	6,852	(1,294)	6,852	(1,294)
	Return on equity	29,860	(7,665)	29,860	(7,665)
	Interest on equity capital	5,195	756	5,195	756
	Retained earnings (accumulated losses) for the year	24,665	(8,421)	24,665	(8,421)

The accompanying notes are an integral part of these financial statements.

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