

**NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 MARCH 2010 AND DECEMBER 2009
(Amounts in thousands of Brazilian reais – R\$)**

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 one in Várzea Paulista – State of São Paulo, where its head office is located. The Company is engaged in processing and sale of chemical and petrochemical products in general, including third-party products, import and export, 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. BASIS OF PRESENTATION

The individual and consolidated financial statements of Elekeiroz S.A., approved by the Board of Directors on 4 May 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 Commission (CVM) and reflect the changes introduced by Law No. 11638/07 and No. 11941/09. With the enactment of Law No. 11638/07, which updated the 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. In 2006, 26 new technical pronouncements and 12 interpretations have been issued by the CPC and approved by the CVM for mandatory application starting 2010 and 2009 for comparative information. Management has evaluated the new technical pronouncements and interpretations considering the operations developed by the Company and has determined that the pronouncements and interpretations that apply to the Company are as follows:

CPC	Title
16	Inventories
18	Investments in associates and subsidiaries
20	Borrowing costs
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

CPC	Title
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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 disclosures
39	Financial instruments: presentation
40	Financial instruments: disclosures
43	First-time adoption of technical pronouncements CPC 15 to 40

ICPC	Title
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08	Accounting for proposed dividends
09	Individual financial statements, separate financial statements, consolidated financial statements and application of the equity method
10	Interpretation on first-time application to property, plant and equipment and investment property of technical pronouncements CPCs 27, 28, 37 and 43

Pursuant to CVM Resolution No. 603 of 10 November 2009, the Company elected to present its quarterly financial statements (ITR) for the first quarter of 2010 under the accounting practices in effect until 31 December 2009. Management is finalizing 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. Revenue recognition

The results of operations are determined on the accrual basis. Product sales revenue is recognized when the risks and rewards of ownership are transferred to the buyer. If there is a high degree of uncertainty regarding its realisability the revenue is not recognised. Starting 1 January 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. Significant assets and liabilities subject to estimates include net book value of property, plant and equipment, allowance for doubtful accounts, inventories, deferred income and social contribution taxes and provision for contingencies. Due to the uncertainty inherent in the estimates and assumptions, actual results could differ from those estimates. The Company and its controlled companies review the estimates and assumptions at least on a quarterly basis.

c. Current and non-current assets

- **Cash and cash equivalents** – Consist of banks and temporary cash investments that can be redeemed within 90 days from the date of investment, stated at cost plus income earned through the balance sheet date, not in excess of market value. Temporary cash investments are stated at amortised cost plus income recognised proportionately through the balance sheet date, equivalent to market value. (note 5)
- **Financial instruments** – Non-derivative financial instruments comprise cash investments, investments in debt and equity securities, trade and other receivables, cash and cash equivalents, loans and financing, trade and other payables. Non-derivative financial instruments are recognised initially at fair value plus, for instruments which are not measured at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative 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 are measured 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. Subsequent to initial recognition, these instruments are stated at fair value and changes, except impairment and exchange differences arising on these instruments, are recognized directly in shareholders' equity, net of tax effects. When an investment is not recognised, the accumulated gain or loss in shareholders' equity is transferred to profit or loss.

Financial instruments at fair value through profit or loss – An investment that is held for trading is designated on initial recognition as a financial asset at fair value through profit or loss. Financial assets are designated as one to be measured at fair value through profit or loss if the Company manages these investments and makes purchase and sale decisions based on their fair value according to the Company's investment and risk management strategy. Subsequent to initial recognition, attributable transaction costs are recognised in profit or loss as incurred. Financial instruments at fair value through profit or loss are measured at fair value with fair value changes in profit or loss.

Other – Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less impairment losses.

- **Trade receivables** – Refer to receivables from customers, less allowance for doubtful accounts. An allowance for doubtful accounts is recognised in an amount considered sufficient by Management to cover losses from uncollectible accounts. (note 6)
- **Inventories** – Stated at average acquisition or production cost, not in excess of market value. Where applicable, a provision is recognised for obsolete inventory and to write down inventory to its net realizable value. (note 7)

- **Investments** – Investments in controlled and associated companies were accounted for under the equity method, with a contra entry to income, except for exchange variations on foreign investments that are recognised as a shareholders' equity component and subsequently included in income 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 2005, including interest charges incurred over the construction period. Depreciation is computed using the straight-line method at rates based upon the useful lives of the assets. The unit-of-production method is adopted for equipment and installations 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 amortization 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 carrying amount 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 and exchange variations 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. Certain liabilities involve uncertainties concerning term and amount and are estimated as incurred and recorded through a provision. Provisions are recorded considering the best estimate of the risk specific to the liability.

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 inside and outside attorneys. The balances are adjusted so as to reflect changes in circumstances of the lawsuits in progress. Actual results could differ from those estimates.

The balances are adjusted where applicable, under the terms of the contracts, so as to reflect exchange rates and financial charges as of the balance sheet date. The non-current items are adjusted to present value where applicable.

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

	<u>Tax rates</u>
ICMS (São Paulo State)	18%
ICMS (Bahia State)	17%
ICMS (other States)	7% or 12%
IPI	0 or 5%
PIS	1.65%
COFINS	7.6%

These taxes are included in the statement of operations as sales deductions. The credits arising from non-cumulative PIS/COFINS appear on the statement of operations as a reduction of cost of goods sold.

Income tax is calculated at the rate of 15% on taxable income plus a 10% surtax and tax losses can be offset against tax 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 operating income 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 adoption of CVM Resolution No. 489/05, escrow deposits are reclassified to liabilities as a reduction of "Provision for taxes" and "Provision for contingencies". (note 17)
- **Loans and financing** – Loans and financing are adjusted where applicable to reflect monetary or exchange variations and interest accrued through the balance sheet date. (note 15)

e. Earnings (loss) per share

Earnings (loss) per share are calculated based on 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. In consolidation, the following procedures have been adopted:

- a. elimination of intercompany accounts between consolidated companies;
- b. elimination of investments proportionately to controlling company's share of shareholders' equity of controlled companies;
- c. elimination of intercompany transactions between consolidated companies; and
- d. elimination of unrealised profits from transactions between consolidated companies if material.

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

Summarized information on the controlled company's financial statements:

Castletown Trading S.A.	Mar/2010	Dec/2009
ASSETS		
Current	1,208	1,180
Total assets	1,208	1,180
Liabilities and shareholders' equity		
Current	58	55
Shareholders' equity	1,150	1,125
Total liabilities and shareholders' equity	1,208	1,180
Statement of operations		
Net operating expenses	(1)	(5)
Loss for the year	(1)	(5)

5. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	Mar/2010	Dec/2009	Mar/2010	Dec/2009
Cash	25	21	25	21
Banks	620	803	620	803
Highly liquid cash investments				
Held-to-maturity	872	856	872	856
Trading	51,399	39,895	51,399	39,895
Investments in stocks – available for sale	1,953	1,886	1,953	1,886

Total	<u>54,869</u>	<u>43,461</u>	<u>54,869</u>	<u>43,461</u>
Current	54,869	43,461	54,869	43,461
Non-current	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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 fair value changes included in shareholders' equity.

6. TRADE RECEIVABLES

	Company		Consolidated	
	Mar/2010	Dec/2009	Mar/2010	Dec/2009
Domestic customers	99,970	69,092	99,970	69,092
Foreign customers	51,004	24,212	51,005	24,213
Advance on export contract – ACE	(39,680)	(10,127)	(39,680)	(10,127)
Allowance for doubtful accounts	<u>(3,224)</u>	<u>(3,197)</u>	<u>(3,224)</u>	<u>(3,197)</u>
Total	<u>108,070</u>	<u>79,980</u>	<u>108,071</u>	<u>79,981</u>

7. INVENTORIES

	Company and Consolidated	
	Mar/2010	Dec/2009
Finished goods	21,561	30,045
Raw materials, manufacturing supplies and packaging materials	25,173	21,427
Storeroom supplies	9,832	9,842
Goods in transit and goods out on consignment	6,290	21,117
Advances to suppliers	1,715	2,043
Imports in transit	2,239	2,345
Provisions for losses	(434)	(794)
Total	66,376	86,025

8. RECOVERABLE TAXES

	Company and Consolidated	
	Mar/2010	Dec/2009
Recoverable taxes		
Social contribution tax	-	121
Income tax	789	1,257
ICMS (state VAT) on asset acquisitions	2,105	2,341
(-) Present value adjustment	(233)	(272)
Accumulated ICMS credits – São Paulo State	192	675
Accumulated ICMS credits – Bahia State	40,289	38,575
Accumulated ICMS credits from exports – Bahia State	24,595	25,527
(-) Present value adjustment	(9,640)	(9,640)
Accumulated PIS and COFINS (taxes on revenue) credits	2,589	5,213
Accumulated PIS and COFINS credits from asset acquisitions	957	1,149
Other	1,531	3,192
Total	63,174	68,138
Reported:		
Current	30,107	34,916
Non-current	33,067	33,222

The ICMS credits related to 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 rates applicable to 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 in the first quarter of 2010 were transferred to third parties. Under this agreement, the provision for loss was reversed and the Company's Management could make an estimate of realisation of its ICMS credits. A present value adjustment was calculated and recorded to reflect the updated 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>Mar/2010</u>	<u>Mar/2009</u>
Income and social contribution tax expense		
Income (loss) before income and social contribution taxes	9,278	(51,589)
(-) Offset of tax losses	(2,784)	-
Income and social contribution taxes at the rate of 34%	(2,208)	-
Permanent additions and deductions	147	-
Temporary additions and deductions	(1,392)	6,121
Interest on capital	-	-
Deferred tax from tax losses	-	26,224
Tax incentives	847	
Income and social contribution taxes	(2,606)	32,345
Current income tax	(757)	-
Current social contribution tax	(607)	-
Deferred income tax	(916)	25,993
Deferred social contribution tax	(326)	6,352

b. 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 carryforwards in the amount of R\$ 38,926. The consolidated balance of deferred income and social contribution taxes as of 31 March 2010 is composed of:

	<u>Consolidated Mar/2010</u>
Temporary differences represented by:	
Tax loss carryforwards	23,774
Allowance for doubtful accounts	1,096
Provision for labour contingencies	3,077
Provision for tax contingencies	2,050
Present value adjustment – non-current assets	3,669
Goodwill amortised	381
Other provisions	<u>4,879</u>
Total	<u><u>38,926</u></u>

Expected realisation of tax credits arising from temporary differences

2010	4,087
2011	4,667
2012	2,725
2013	200
2014 onwards	<u>3,473</u>
Total	<u><u>15,152</u></u>

Based on the Company's history of profits and projections of results for the next years, the Company recognised in assets the tax credits arising from income and social contribution tax losses, in the amount of R\$ 19,792 and R\$ 3,982, respectively.

Expected realisation of tax credits arising from tax losses

2010	5,172
2011	7,410
2012	7,368
2013	<u>3,824</u>
Total	<u><u>23,774</u></u>

The Company has recorded in Non-Current Liabilities deferred income and social contribution taxes in the amount of R\$ 1,852 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

	<u>Company and Consolidated</u>	
	<u>Mar/2010</u>	<u>Dec/2009</u>
Receivables from sale of assets	9,966	11,013
Receivables from assignment of rights	4,330	4,438
Other	1,891	2,555
(-) Present value adjustment	<u>(917)</u>	<u>(1,036)</u>
Total	<u>15,270</u>	<u>16,970</u>
Current	9,331	9,232
Non-current	<u>5,939</u>	<u>7,738</u>

11. INVESTMENTS

Significant information on the investment accounted for under the equity method and cost:

	<u>Mar/2010</u>	<u>Dec/2009</u>
Castletown Trading S.A.		
Shareholders' equity	1,150	1,125
Number of shares held (thousand)	7,350	7,350
Equity interest (%)	100	100
Exchange variation on the investment	26	(386)
Equity in earnings (loss) of controlled company	<u>(1)</u>	<u>(4)</u>
Total investments accounted for under the equity method	<u>1,150</u>	<u>1,125</u>
Investments valued at cost	7,247	7,247
Total investments	<u>8,397</u>	<u>8,372</u>

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	Company and Consolidated				
	Annual depreciation rates	Adjusted cost	Accumulated depreciation	Mar/2010	Dec/2009
				Net book value	Net book value
Land	-	11,088	-	11,088	11,088
Buildings	4%	56,036	(32,914)	23,122	23,559
Equipment and installations (i)	8% to 10%	376,044	(214,293)	161,751	164,296
IT equipment	20%	3,063	(2,333)	730	782
Furniture and fixtures	10%	6,338	(5,071)	1,267	1,306
Vehicles	20%	2,247	(1,293)	954	1,041
Other assets	10% and 20%	17	(14)	3	4
Property, plant and equipment in progress	-	20,248	-	20,248	20,332
Total		475,081	(255,918)	219,163	222,408

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

13. INTANGIBLE ASSETS

	Company and Consolidated	
	Mar/2010	Dec/2009
Intangible assets	886	886
UNAMORTISED GOODWILL		
Goodwill and negative goodwill from investment acquisitions	53,072	53,072
Amortisation of goodwill and negative goodwill	(34,915)	(34,915)
	18,157	18,157
Total	18,966	19,043

The Company has goodwill arising from the difference between the purchase price and the value of the shareholders' equity of investees, which was determined at the date of acquisition in past years based upon investees' expected future earnings and projected results and cash flows for a 10-year period. 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. 11638/07, to intangible assets.

14. RELATED PARTIES

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

Entity	Ref	Nature of transaction	Mar/2010			Mar/2009		
			Assets	Liabilities	Income (loss)	Assets	Liabilities	Income (loss)
Itaú Seguros	a	Rendering of service			(209)			(147)
Itaú Banco	b	Cash investment	22,497		286	23,975		1,492
Itaú Corretora	c	Rendering of service			(12)			(21)
Itaúsa Empreendimentos	d	Rendering of service and dividends		1	(50)		5	(54)
Itautec	e	Rendering of service			(18)			(9)
Duratex	f	Sale of goods	823		2,133			1,502
Elekpart	g	Dividends		946			3,833	
Itaúsa	h	Dividends		39			156	

- (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 financial analysis services; dividend payment
- (e) Itautec – acquisition of hardware, software and services.
- (f) Duratex – property rent and purchase of finished goods.
- (g) Elekpart – dividend payment.
- (h) Itaúsa – dividend payment.

15. LOANS AND FINANCING

Loans and financing obtained to finance the expansion and modernisation of installations and working capital have the following characteristics:

Type	Charges %	Guarantees	Amortisation	End	Mar/2010		Dec/2009	
					Current	Non-current	Current	Non-current
POC – BNDES	TJLP + 4.95 p.a.	Promissory note	Monthly	06/15/2010	221	-	442	-
MODERMAQ – FINAME	10.95 p.a.	Financed assets	Monthly	10/15/2010	63	-	94	-
BNDES	TJLP + currency basket + 2.625 p.a.	Surety and collateral	Monthly and semi-annual	01/15/2010	-	-	392	-
BNDES	TJLP + exchange variation + 1.65 to 2.15 p.a.	Surety and collateral	Monthly and semi-annual	07/15/2014	3,004	9,870	3,012	10,572
IMPORT FINANCING	Libor + 4.4375 p.a.	-	Final	04/12/2010	5,345	-	5,112	-
INDUSTRIAL CREDIT NOTE – BNB	8.5 p.a.	Financed assets	Monthly	12/28/2010	5,519	-	7,359	-
MODERMAQ – FINAME	7.00 p.a.	Financed assets	Monthly	09/15/2011	65	33	50	49
Total Company and Consolidated					14,217	9,903	16,461	10,621

Non-current amounts mature as follows:

	Company and Consolidated
	Mar/2010
2011	2,253
2012 onwards	7,650
Total	9,903

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 31 March 2010 R\$ 14,619 had already been released.

16. DIVIDENDS AND PROFIT SHARING

	<u>Company and Consolidated</u>	
	<u>Mar/2010</u>	<u>Dec/2009</u>
Interest on capital	1,202	1,541
Management profit sharing	459	284
Employee profit sharing	479	-
Total	<u>2,140</u>	<u>1,825</u>

Management profit sharing is limited to 10% of the net income after income tax and the amount of compensation under the Company's Bylaws. Employee profit sharing is tied to targets met pursuant to an agreement with the employees through a commission elected specifically for this purpose.

17. PROVISION FOR TAXES AND PROVISION FOR CONTINGENCIES

The Company shows in Non-Current Liabilities as provision for taxes 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 the final decisions will have no material impacts on the Company's financial position as of 31 March 2010. The table below shows contingencies, provisions and escrow deposits:

a. Provision for taxes

	<u>Company and Consolidated</u>	
	<u>Mar/2010</u>	<u>Dec/2009</u>
PIS and COFINS	21,432	21,322
COFINS and education allowance	16,097	16,097
(-) Escrow deposit	(16,097)	(16,097)
Income and social contribution taxes	-	-
Other	134	105
(-) Escrow deposit	(105)	(105)
Total provision for taxes	37,663	37,524
Total escrow deposit	<u>(16,202)</u>	<u>(16,202)</u>
Total net	<u>21,461</u>	<u>21,322</u>

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 updated credits offset in the amount of R\$ 21,432.

Due to the legal actions that question the legality of the 1% charge on the rate of COFINS and education allowance, the Company has deposited in escrow until 31 March 2010 the amount of R\$ 16,097 related to said taxes that are fully accrued in Non-Current Liabilities.

b. Provision for contingencies

	<u>Company and Consolidated</u>	
	<u>Mar/2010</u>	<u>Dec/2009</u>
Labour and civil	38,128	40,059
Probable	13,487	12,469
Possible	24,641	27,590
Tax	75,620	74,938
Probable	19,353	19,227
Possible	56,267	55,711
Total probable	32,840	31,696
(-) Escrow deposit	(2,893)	(3,257)
Total net	29,947	28,439
Total possible	<u>80,908</u>	<u>83,301</u>

Labour, civil and tax lawsuits classified as probable loss are fully accrued in Non-Current Liabilities.

18. CAPITAL STOCK

a. Subscribed and paid-in capital

Subscribed and paid-in capital as of 31 March 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 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 CAPITAL

The shareholders are entitled to receive a mandatory dividend equal to 25% of the net income for the year, adjusted for the amounts specified in items “a” and “b” of paragraph I of article 202 of Law No. 6404/76 and paragraphs II and III of the same Law.

20. FINANCIAL INCOME

Financial income and expenses are as follows:

	Company		Consolidated	
	Mar/2010	Mar/2009	Mar/2010	Mar/2009
Financial income	1,612	3,001	1,612	3,001
Monetary and exchange variation	6,455	1,480	6,455	1,480
Reversal of present value adjustment	119	585	119	585
Total financial income	8,186	5,066	8,186	5,066
Financial expense	(909)	(3,303)	(909)	(3,303)
Monetary and exchange variation	(6,998)	(1,450)	(6,998)	(1,450)
Total financial expense	(7,907)	(4,753)	(7,907)	(4,753)
Net financial income	279	313	279	313

21. FINANCIAL INSTRUMENTS

The estimated fair values of the financial assets and liabilities of the Company and its controlled company have been determined using available market information and appropriate valuation methodologies. Considerable judgment was required to interpret market data and to develop the estimates of fair value. As a result, the estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market information and/or valuation 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. Far value

In conformity with technical pronouncement CPC 14 “Financial Instruments: Recognition, Measurement and Disclosures”, as of 31 March 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 Eletrobrás shares and are classified as available-for-sale investments. The carrying amount of the financial instruments reflects the fair value.

	<u>Consolidated</u>	
	<u>Carrying amount</u>	<u>Fair value</u>
Cash and cash equivalents	645	645
CDB – trading investments	50,446	50,446
Investment funds – trading investments	953	953
Other investments – held-to-maturity investments	872	872
Stock – available-for-sale investments	1,953	1,953
Total	<u>54,869</u>	<u>54,869</u>

Current and non-current loans and 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 that affect the Company's business are as follows:

Credit risk: The Company's credit exposure is spread over a large number of customers and no customer accounts for more than 5% of the net sales. The Company has a credit policy setting limits and terms based on the 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.

Foreign exchange risk: A significant portion of the Company's revenues has been derived 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 globalized 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 31 March 2010.

d. Sensitivity test

Foreign exchange risk – Based on the balances of assets and liabilities exposed to the foreign exchange risk as of 31 March 2010, the Company made two simulations with increases in exchange rates (R\$/US\$) of 25% and 50%, the results of which are summarized below:

Foreign exchange risk					
Operation	03/31/2010	Effects on income until maturity			
		Probable	Possible (+/- 25%)	Remote (+/- 50%)	
FINANCIAL ASSETS					
Exports receivable	11,324	43	Decrease US\$	(3,485)	(6,098)
			Increase US\$	1,741	4,354
Other receivables	4,330	133	Decrease US\$	(949)	(2,032)
			Increase US\$	1,216	2,298
FINANCIAL LIABILITIES					
FINIMP	5,309	(12)	Decrease US\$	1,318	2,648
			Increase US\$	(1,343)	(2,673)
BNDES FINEM			Decrease US\$		
			Increase US\$		
BNDES – revolving credit	2,066	(430)	Decrease US\$	194	818
			Increase US\$	(1,054)	(1,678)
Foreign suppliers	22,023	185	Decrease US\$	5,367	10,919
			Increase US\$	(5,737)	(11,290)
Net exposure	(13,744)	(81)	Decrease US\$	2,445	6,255
			Increase US\$	(5,177)	(8,989)

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

a. Stock option plan

With the objective of increasing management and employee commitment to the Company's medium- and long-term development program, the shareholders resolved 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 the success of the Company for their hard work and dedication. Until the date of the financial statements, said plan had produced no effects to be recognized in income.

b. Pension plan

Elekeiroz S.A. offers to all 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 the prevailing regulation, the sponsor’s contribution is 100% of the employees’ contribution, which resulted in employees’ and sponsors’ contributions in the total of R\$ 266 in the first quarter of 2010 (R\$ 768 in the first quarter of 2009).

c. Management compensation

Management compensation as of 31 March 2010 was R\$ 672 as fees, recorded under the caption “Administrative Expenses” (R\$ 465 as of 31 March 2009).

As of 31 March 2009 the Company paid R\$ 2,652 for profit sharing on net income for 2008.

Deposits of R\$ 108 in the first quarter of 2010 (R\$ 427 in the first quarter of 2009) have been made for the Management’s Supplemental Pension Plan.

23. **INSURANCE COVERAGE**

Based on the nature of the Company’s assets and the inherent risks, Management considers its insurance coverage adequate to cover any losses. As of 31 March 2010, the insurance coverage for property, plant and equipment and inventories was R\$ 261,869 (R\$ 246,907 as of 31 March 2009).

24. **NON-RECURRING INVENTORY LOSSES**

It is the Company practice to maintain sufficient raw material and finished goods inventory levels to meet only 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	
	Mar/2010	Mar/2009	Mar/2010	Mar/2009
Income (loss) from operations before financial income, equity in earnings of controlled companies and goodwill amortisation	9,930	(52,616)	9,929	(52,618)
(+) Depreciation and amortisation	6,376	5,238	6,376	5,238
(+) Net book value of assets written off	87	121	87	121
EBITDA	16,393	(47,257)	16,392	(47,259)

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