



RUSSELL BEDFORD BRASIL

**EMPRESA BRASILEIRA DE CORREIOS E TELÉGRAFOS - ECT -
Nº 9837**

INDEPENDENT AUDITORS' REPORT Nº 1-09/11-1

Financial Statements on December 31st, 2010



RUSSELL BEDFORD BRASIL

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

To
The Executive Officers and Shareholders of
EMPRESA BRASILEIRA DE CORREIOS E TELÉGRAFOS - ECT
Brasília/DF

We have examined the financial statements of Empresa Brasileira de Correios e Telégrafos - ECT, which comprise the balance sheet on December 31st, 2010 and the related income statements, changes in shareholders' equity and cash flows, for the year then ended, also the summary of the main accounting practices and other explanatory notes.

Management Responsibility on the Financial Statements

The management of Empresa Brasileira de Correios e Telégrafos - ECT is in charge with the preparation and fair presentation of those financial statements, according to the accounting practices generally accepted in Brazil, and of the internal controls that were established as necessary to allow the preparation of financial statements, free from material misstatement, regardless of whether due to fraud or mistake.

Independent Auditors' Responsibility

Our responsibility is to express an opinion about those financial statements, based on our audit, conducted in accordance with the Brazilian and international auditing standards. In order to follow those standards, auditors are requested to comply with ethical requirements and the audit must be planned and performed with the purpose to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves the performance of specific procedures to obtain evidence about the amounts and disclosures presented in the financial statements. The procedures chosen depend on the auditor's judgment, including the assessment of risks of material misstatement in the financial statements, regardless of whether due to fraud or mistake. For that risk assessment, the auditor ~~considers~~ the internal controls relevant to the preparation and fair presentation of the financial statements of

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Empresa Brasileira de Correios e Telégrafos - ECT to plan the auditing procedures that best suit those circumstances, but not with the aim to express opinion on the effectiveness of those internal controls of that Company. An audit also includes evaluation of the appropriateness of accounting practices used, and the reasonableness of accounting estimates made by the management, as well as the evaluation of the overall presentation of financial statements taken as a whole.

We believe that the auditing evidence obtained is sufficient and adequate to base our qualified opinion.

Basis for Qualified Opinion

We were hired as auditors of ECT after December 31st, 2010 and therefore, we did not follow the counting of availabilities in cash at that date. Through alternative means, it was not possible to be satisfied with the effective physical existence of the representative balance of cash, in the amount of R\$ 126.845.903,12. Consequently, we were not able to state an opinion about the adequacy of that balance and its possible effects thereof on the financial statements. In the financial statements the account cash R\$ 181.677,05 is presented as net of values from Banco Postal R\$ 126.664.226,07.

We were hired as auditors of ECT after December 31st, 2010 and therefore, we did not follow the physical inventory-taking of inventories at that date, recorded in Current Assets in the amount of R\$ 45.757.319,12. Through alternative means, it was not possible to be satisfied with the quantities in inventory on December 31st, 2010. Since the initial inventories are accounted for in the income statements and cash flows, we could not set up adjustments that would have been required to the financial statements.

According to explanatory notes 5.4 and 12.6, ECT has recorded in current assets the amount of R\$ 90.350.020,22 as international debits receivable and in current liabilities the amount of R\$ 50.089.682,23 as international accounts payable, for which, due to difficulties to generate and maintain internal controls, the Company is not able to show the adequacy of those accounting balances composition, the respective debtors/creditors, the subsequent settlements and the referred balances comparability with the operations effectively made/hired up to December 31st, 2010; reason why we could not state an opinion about the adequacy of those balances and their possible effects thereof on the financial statements.

Although there is the accounting recognition of provisions, of which value will be paid off in future years through outflow of resources, which characterizes the existence of a temporary difference between the accounting value of liabilities and its tax base, there was not the record of deferred tax assets related to IRPJ and CSLL; that will be recoverable in future years when this liabilities become deductible to



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establish the taxable income, which contradicts the NBC TG 32 – Tributos sobre o Lucro (Taxes on Income); calculations from Russell indicate the approximate amount of R\$ 686 million of IRPJ and CSLL deferred not recognized.

According to explanatory note 8.4, ECT has recorded in non-current assets the amount of R\$ 95.947.059,27, related to judicial, of appeals and administrative deposits, to face the demands in which the ECT acts as defendant. Considering that our examination showed some inconsistent information between the internal control and the accounting balance, we were not able to state an opinion about the adequacy of that balance and its possible effects thereof on the financial statements.

According to what is observed in explanatory note 3.3, ECT continued to consider, in general, the rates of depreciation allowed by tax law without the practice of periodic review of estimates of useful life and determination of residual value, which are fundamental to define the amount to be depreciated under the NBC TG 27 – Fixed Assets.

There are tangible assets in ECT, classified as fixed assets, though they are not items held for use in the production or supply of goods or services or for administrative purposes, which should be classified as property for investment, under the NBC TG 28, or held for sale under the NBC TG 31.

According to explanatory notes 12.1 and 15, ECT sponsors a closed private pension entity, denominated Instituto de Seguridade Social dos Correios e Telégrafos – POSTALIS, and for the payment of *reserva técnica de serviços anteriores* – RTSA (Technical Reserve of Previous Services), linked to the *plano de benefício definido* (Plan of Fixed Benefit), it is recorded in liabilities the amount of R\$ 1.439.004.459,20 (R\$ 96.469.572,68 in current liabilities plus R\$ 1.342.534.886,52 in non-current liabilities). On the other hand, in the financial statements of POSTALIS, according to the actuarial report and independent auditors' report, the *plano de benefício definido* (Plan of Fixed Benefit) would have a mathematical provision to constitute in the amount of R\$ 1.462.358.332,65 on December 31st, 2010, which represents an addition of R\$ 23.353.873,45 not yet recognized by ECT in liabilities, as a liability with POSTALIS.

According to explanatory notes 13.1 and 13.2, there are provisions constituted in relation to civil lawsuits and employment claims filed against ECT, in the amount of R\$ 274.449.845,35, as well as disclosure of other civil lawsuits and employment claims, approximately in the amount of R\$ 485,8 million, evaluated as possible loss by the legal advisors of ECT; it is thus concluded that, there is no provision constituted to deal with the cases that are pending in the administrative level. As an aggravating factor, the accounting policies and procedures of ECT set out that, there shall be effective provision of liabilities involving tax debts, only after the receipt of notification to make payments, result of decisions already *res judicata*, causing the vast majority of tax claims being automatically classified as a remote risk by the legal advisors. Therefore, such procedures do not meet the rules of measurement,



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recognition and disclosure set forth in NBC TG 25 – *Provisões, Passivos Contingentes e Ativos Contingentes* (Provisions, Contingent Liabilities and Contingent Assets).

ECT has adopted procedures in the investigation of PIS/COFINS, related to the taxation of revenue from postal and telegraphic services and other revenues, aided in interpretation from its lawyers and tax advisors, also in the investigation of IRPJ/CSLL, related to the deductibility of provisions in suppliers account that imply risks of tax contingencies, which haven't been measured by the company until DEC/31/10; consequently, they are not recognized in the financial statements.

The disclosures present in the statement of cash flows do not give appropriate and sufficient explanation about the equity variations existing in the fiscal year, so it is not compiled in accordance with the accounting practices accepted in Brazil, set out by NBC TG 03 – *Demonstração dos Fluxos de Caixa* (Statement of Cash Flows). The information required and disclosed with inaccuracies is related to the following features: line of other amounts and assets; line of non-current liabilities, line of investments in fixed assets, line of Interests on capital and dividends.

Qualified Opinion

In our opinion, except for the effects that might come from what is mentioned in the paragraph on the basis for qualified opinion, the financial statements aforementioned adequately represent, in all relevant aspects, the equity and financial position of Empresa Brasileira de Correios e Telégrafos - ECT on December 31st, 2010, the performance of its operations and cash flows related to the period then ended, according to the Brazilian accounting practices.

Emphasis

There are assets in ECT with substantially depreciated book value or even zero, and still in operation, generating economic benefits; however, amongst the accounting practices, the Company has not chosen to adopt the cost attributed to its fixed assets, and has not even released this option in explanatory notes.



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Other Subjects

Our examination was conducted with the aim to express opinion on the basic financial statements taken as a whole. The statement of added value, submitted to provide additional information about the Company, is not required as part of the basic financial statements, according to the Brazilian accounting practices. The statement of added value was submitted to auditing procedures and, in our opinion, is adequately presented, in all relevant aspects, in relation to the financial statements taken as a whole.

Curitiba, September 12th, 2011;


Pedro Nunes de Gouveia
Accountant CRCPR N^o 022.632/O-9


Paulo Sergio da Silva
Accountant CRCPR N^o 029.121/O-0

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