

A decorative graphic on the left side of the page features several vertical lines of varying colors (blue, yellow, green) that terminate in upward-pointing arrows of the same color. The lines and arrows are thin and have a slight transparency.

# 2012 Annual sustainability report

## ABOUT THIS REPORT

Algar has been posting the Group's annual information in an annual sustainability report since 2001 to improve communication with and accountability to its stakeholders. In 2011, Grupo Algar [Algar Group] started adopting the G3 sustainability reporting guidelines (Level C), set by the Global Reporting Initiative (GRI), to announce the achievements and challenges of all group companies in the previous year. The Company believes that adopting these guidelines and addressing relevant issues for the industries in which it is present help it produce a more and more thorough Annual Sustainability Report able to convey its vision of the future in a transparent manner to all its stakeholders: shareholders, associates, clients, suppliers, communities and governments. The Company seeks to compile and present information in an increasingly effective manner, with more detailed data and in a clear, direct language widely accessible to all its different types of stakeholders.

The information contained herein covers the performance of the Group's nine subsidiaries in the industries of IT/Telecom (Algar Telecom, Algar Tecnologia, Algar Mídia and Engeset), agribusiness (Algar Agro), services (Algar Aviation, Algar Segurança and Comtec) and tourism (Rio Quente Resorts) between January 1st and December 31, 2012. Audited by KPMG Auditores Independentes, the financial data were collected according to the criteria established by international accounting standards-IFRS (International Financial Accounting Standards). The social and environmental performance indicators were compiled and validated internally only. The GRI indicators are provided throughout the text and in an index.

This report reflects Grupo Algar's commitment to the economic, social and environmental pillars of sustainability both in its contents and in its format. As a result, it is available only as an electronic (PDF) file on the Algar website, in Portuguese and English. Producing this document involved the effort of the Company's and its subsidiaries' associates, who gathered and validated the data.

For further information and clarification, please contact:

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GRI: 2.1; 3.1; 3.2; 3.3; 3.4; 3.5; 3.6; 3.7; 3.8; 3.10; 3.11; 4.14; 4.15



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## FACTS AND FIGURES

**20,714 associates**

12,000-km optical fiber backbone  
23,000 km of cables managed by Engeset  
3 software factories

**2,000 clients**

1.3 million tonnes of originated soy

7.5 million boxes of oil produced

US\$367 million in exports

**6,700 students benefited by social programs**

655,000 printed directories

11 million accesses to the online guide

4 million newspaper copies

1.3 guests and visitors at Rio Quente Resorts



## MAIN INDICATORS

### Financial Indicators (R\$ million)

	2010	2011	2012	2012/2011
Gross Revenue	3,253	3,628	4,385	20.9%
Net Revenue	2,635	3,051	3,720	21.9%
EBITDA	517	512	534	4.3%
EBITDA margin	19.6%	16.8%	14.4%	-2.4 p,p,
Net income	185	200	171	-14.5%
Net margin	7.0%	6.6%	4.6%	-2.0 p,p,
Investments	489	288	440	52.8%
Total Debt	1,325	1,726	2,083	20.7%
Net debt	681	881	928	5.3%
Net Debt / EBITDA (times)	1,3	1,7	1,7	-

### Corporate indicators

#### Associates

2010	2011	2012	2012/2011
20,002	21,249	20,714	-2.5%

#### Training

Investment - R\$ million	12.6	15.1	11.0	-27.2%
Training hours	512,487	548,353	473,457	-13.7%
Amount invested by associate - R\$	629.9	710.6	535.7	-24.7

#### Greenhouse gases emission

Direct emissions	32,374	27,491	48,092	74.9%
Indirect emissions	4,989	2,948	7,380	150.3%

**GRI: 2.8**

For easier access to the sustainability indicators, see the GRI indicator index.



# VISION, MISSION AND VALUES

## Vision

People Serving People

## Mission

Develop relationships and sustainable businesses which generate perceived value

## Values

The Client is our reason for being.\*  
Valuing Human Talents • Integrity • Sustainability  
We believe in Brazil.

GRI: 4.8

(\*) A quote from our founder Alexandrino Garcia.



# People

## CORPORATE PROFILE

Organized as a privately-held holding company headquartered in Uberlândia, Minas Gerais State, and present throughout Brazil, Grupo Algar is one of Brazil's most solid private-sector business conglomerates. It went into business in 1929 and currently encompasses nine top companies in the industries of IT/Telecom (Algar Telecom, Algar Tecnologia, Algar Mídia and Engeset), agribusiness (Algar Agro), services (Algar Aviation, Algar Segurança and Comtec) and tourism (Rio Quente Resorts).

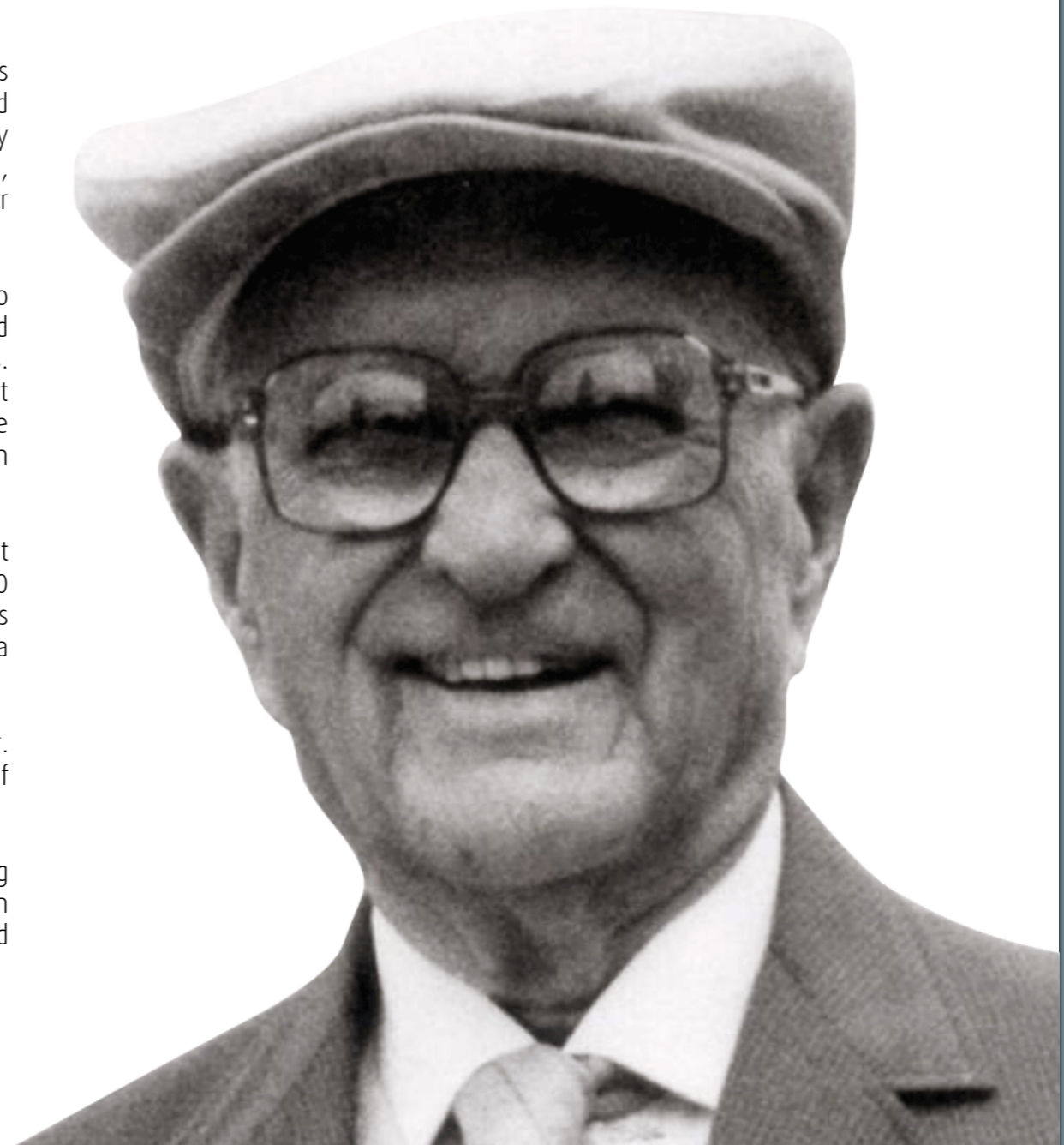
The Company's brand name comes from the initials of its founder, Mr. Alexandrino Garcia, whose ideals gave rise to the pillars of consistent Corporate Governance and Sustainability practices as a management concept pervading all the group's companies. The entrepreneur's legacy of values and beliefs, which comprise an ethical commitment to future generations and Brazil among others, is reflected in an ongoing effort to serve society, build excellent relationships and produce innovative solutions that, in addition to creating value for shareholders, contribute to sustainable development.

A benchmark for professionally-managed family businesses, Grupo Algar is present throughout Brazil. At the close of 2012, the Group's companies had about 21,000 associates serving over 2 million direct individual and corporate clients using its products and services in the whole of Brazil. Grupo Algar's consolidated operations generated a net value added of R\$2,025 million.

At Algar, we believe that business is fleeting whereas principles and values last forever. That is what distinguishes and what brings its different businesses and thousands of associates together.

That explains our ongoing effort to safeguard the Algar way of being—"People Serving People"—anywhere our companies are present, thus ensuring that the Group's mission of "developing relationships and sustainable businesses which generate perceived value" is fulfilled.

**GRI: 2.2; 2.3; 2.5; 2.6; 2.8**





## TIMELINE

- 1914 José Alves Garcia, a Portuguese immigrant, arrives in Brazil.
- 1929 The Garcia Family founds its first company in Uberlândia (State of Minas Gerais): a rice processing plant. In the same year, Mr. Alexandrino Garcia, Mr. José Alves Garcia's son, marries Mrs. Maria Silva Garcia, with whom he has three children: Walter (1930), Eleusa (1931) and Luiz Alberto (1935).
- 1940 Mr. Alexandrino Garcia joins other local entrepreneurs to acquire the newspaper Correio de Uberlândia, founded two years earlier.
- 1941 Mr. Alexandrino Garcia opens up the car dealership Irmãos Garcia e Companhia Ltda.
- 1949 Mr. Walter Garcia, Mr. Alexandrino Garcia's son, founds Intermáquinas Ltda, a farm equipment and machinery dealership.
- 1950 Mr. Alexandrino Garcia opens up the company Garcia S.A. Indústria e Comércio (Garinco), a car dealership.
- 1953 Mr. Alexandrino Garcia, as the president of the Commercial and Industrial Association of Uberlândia, leads a movement of entrepreneurs aimed to improve telecommunication services in the city.
- 1954 CTBC (Companhia de Telefones do Brasil Central, Central Brazil Telephone Company) is founded on February 15 and acquires Empresa Telefônica Teixeira (Teixeirinha Telephone Company) the following month.
- 1958 Mr. Alexandrino Garcia takes over CTBC (currently Algar Telecom) and starts expanding it.
- 1960 CTBC launches the microwave telecom system, connecting the cities of Rio de Janeiro, São Paulo and Brasília. The first phone call from Uberlândia to Brasília is made.
- 1969 Gráfica Sabe (printing business), currently Algar Mídia, is founded.
- 1976 The air taxi company Brasil Central Táxi Aéreo is founded. CTBC implements the codes for long-distance and international calls (DDD and DDI), installs the first public pay phones, launches the microwave telecom route in the Triângulo Mineiro region, and launches the telephony service for rural areas.
- 1977 Agropecuária Brasil Central S.A. (currently Algar Agro) is founded and acquires Fujiwara Hisato's oil mill. This company led to the creation of the acronym ABC, which composed the Group's initials for over two decades.
- 1979 CTBC begins to serve 19 other cities and towns within its service area. In the same year, the Group acquires the tourist complex Pousada do Rio Quente (currently Rio Quente Resorts), jointly with Francisco Hiczy.
- 1982 Grupo ABC (ABC Group) is officially established, with the creation of the holding company.
- 1983 ABC Táxi Aéreo (currently Algar Aviation) is approved by Embraer (Brazilian Aeronautics Company) to perform the maintenance services of its airplanes.

- 1984 The first optical communication system in Brazil is introduced in Uberlândia.
- 1985 The first computerized telecom center in inland Brazil goes into operation.
- 1986 ABC Sabe (currently Algar Mídia) becomes the controlling shareholder of the Correio de Uberlândia newspaper.
- 1987 ABC A&P (currently Algar Agro) starts to invest in pig farming.
- 1988 The Group reaches the mark of 64 companies and 13,500 associates. In the same year, CTBC installs the first optical cable in Franca (State of São Paulo). An internationally-recognized independent audit company is hired for the first time, and internal audit is introduced.
- 1989 The Group's first professional CEO is hired. The Group introduces the Network Company management model in the same year.
- 1990 During this decade, the Group discontinues the operations in some segments and restructures its businesses into four major segments: Telecom, Agribusiness, Services and Entertainment.
- 1991 In tribute to its founder, the Group is renamed Algar. Telecommunications engineering company Engeset is created.
- 1992 CTBC launches mobile phone services, even before the service was provided in many Brazilian state capitals.
- 1993 The fixed cellular service for rural areas goes into operation, with the creation of Brazil's largest plant and the launch of card-operated public pay phones. The Algar Group's founder, Mr. Alexandrino Garcia, passes away.
- 1994 CTBC Celular is established to meet the fast-growing demand for mobile phones. Engeset extends its services to other areas, and both CTBC and ABC Sabe (currently Algar Telecom and Algar Mídia respectively) start developing social projects in the field of education.
- 1995 Comtec, in charge of operating Uberlândia's integrated public transportation system, is created jointly with the construction company Andrade Gutierrez. The Advisory Council, which consists of independent members and discusses the Group's business, is created, an important step for creating the Board of Directors in the future.
- 1996 Cable TV operator Image TV is acquired. ABC Sabe (currently Algar Mídia) launches the TV show Correio na TV and NetSabe. In addition, it makes the Correio de Uberlândia's content and the phone directory available on the Internet. The digital mobile phone system is introduced.
- 1997 An optical fiber network was installed along the Brazilian federal highways that cross CTBC's concession area.
- 1998 CTBC launches the pre-paid mobile phone service, a pioneering project in Brazil, which will eventually prevail in Brazil's mobile telephony. In the same year, the Company launches the CTBC Pre-Paid Mobile Phone Kit. The Algar Consortium wins the bid to operate the B Bandwidth (Banda B) of mobile telephony in Area 3, which comprises the states of Rio de Janeiro and Espírito Santo. Universidade Algar (Algar University) is opened. ACS (currently Algar Tecnologia), which provides contact center services, is created.
- 1999 The Board of Directors, which comprises independent members, is created. Service access codes for long-distance phone calls are introduced. CTBC's code number is 12. CTBC launches public pay phones for hearing and speech impaired people and installs the first elevated cell site in Brazil.

- 2000 Space (currently Algar Segurança), which provides security services, is opened up.
- 2001 The Garcia Family Bylaw is introduced.
- 2002 Instituto Algar (Algar Institute) is created to develop and coordinate the Group's social initiatives and (later) its environmental initiatives.
- 2003 CTBC achieves ANATEL's Universal Access Targets and is authorized to expand its fixed-line telephony and data transmission services throughout Brazil.
- 2004 Algar Tecnologia opens its contact center in Campinas (São Paulo State). Algar Telecom acquires an Internet provider in Ribeirão Preto (São Paulo State) and starts offering Internet access services.
- 2005 The construction of the soybean processing plant in Porto Franco (Maranhão State) starts. Algar Telecom acquires the company Iqara, which has an optical fiber network in the city of São Paulo. Algar Telecom renews its concession contracts for Switched Fixed-Line Telephone Services up until 2025.
- 2007 ABC Inco (currently Algar Agro) starts crushing soybeans in the State of Maranhão and exports soybeans in bulk directly to Europe for the first time. CTBC (currently Algar Telecom) obtains a license to provide 3G mobile phone services within its concession area and holds its first issue of debentures. Engeset extends its operations to Rio de Janeiro and opens branches in the states of Sergipe and Alagoas.
- 2008 Centro de Memória Algar (Algar Memory Center) is opened. Rio Quente Resorts opens the Praia do Cerrado Water Park. ABC Inco launches a new line of products named ABC de Minas, consisting of extra virgin olive oil, blended oil, tomato paste and tomato sauce.

- 2009 All the Group's companies start bearing the name Algar.
- 2010 Algar Tecnologia acquires the software company Synos Technologies. Algar Telecom acquires Band H, the last 3G mobile phone frequency band available in Minas Gerais State, extending its operations to complementary regions.
- 2011 Algar Aviation begins to represent Piaggio Aero in Brazil. Algar Telecom begins to expand Band H to 19 cities and town in Minas Gerais State, with packages including fixed-line and cellular phone services, fixed-line and wireless broadband services and satellite pay TV services.
- 2012 Grupo Algar opens its own headquarters in São Paulo City. Algar Telecom holds its second issue of debentures. Algar Agro opens its second soybean oil refining and bottling plant, in Maranhão State. Rio Quentes Resorts opens a new 196-room hotel for guests in its loyalty program only.

**GRI: 2.9**





## CORPORATE GOVERNANCE

Grupo Algar follows the best corporate responsibility practices in its operations even though it is not a publicly-held corporation, with listed stock. In fact, this has made it a benchmark among family-owned businesses. Principles such as ethics, transparency and a commitment to the future, inherited from its founder, Mr. Alexandrino Garcia, have always been part of its DNA. This legacy led to the introduction of a modern well-structured evolutionary model of corporate governance during the restructuring process in 1989, when the Group adopted professional management. At present, this model is extremely reliable and serves as a reference for other companies in Brazil and other countries.

The fact that the family's interests are in line with corporate needs is one of the main pillars of governance at Grupo Algar, which also has tools to ensure safe decision-making, control and manage corporate risks, promote synergy among all its companies, value associates, disseminate the internal culture and seek improvements that lead to an even stronger commitment and greater transparency toward its stakeholders. The Company currently has no formal, structured process to engage or define a stakeholder, but it seeks to understand its stakeholders' needs by means of an ongoing dialogue.

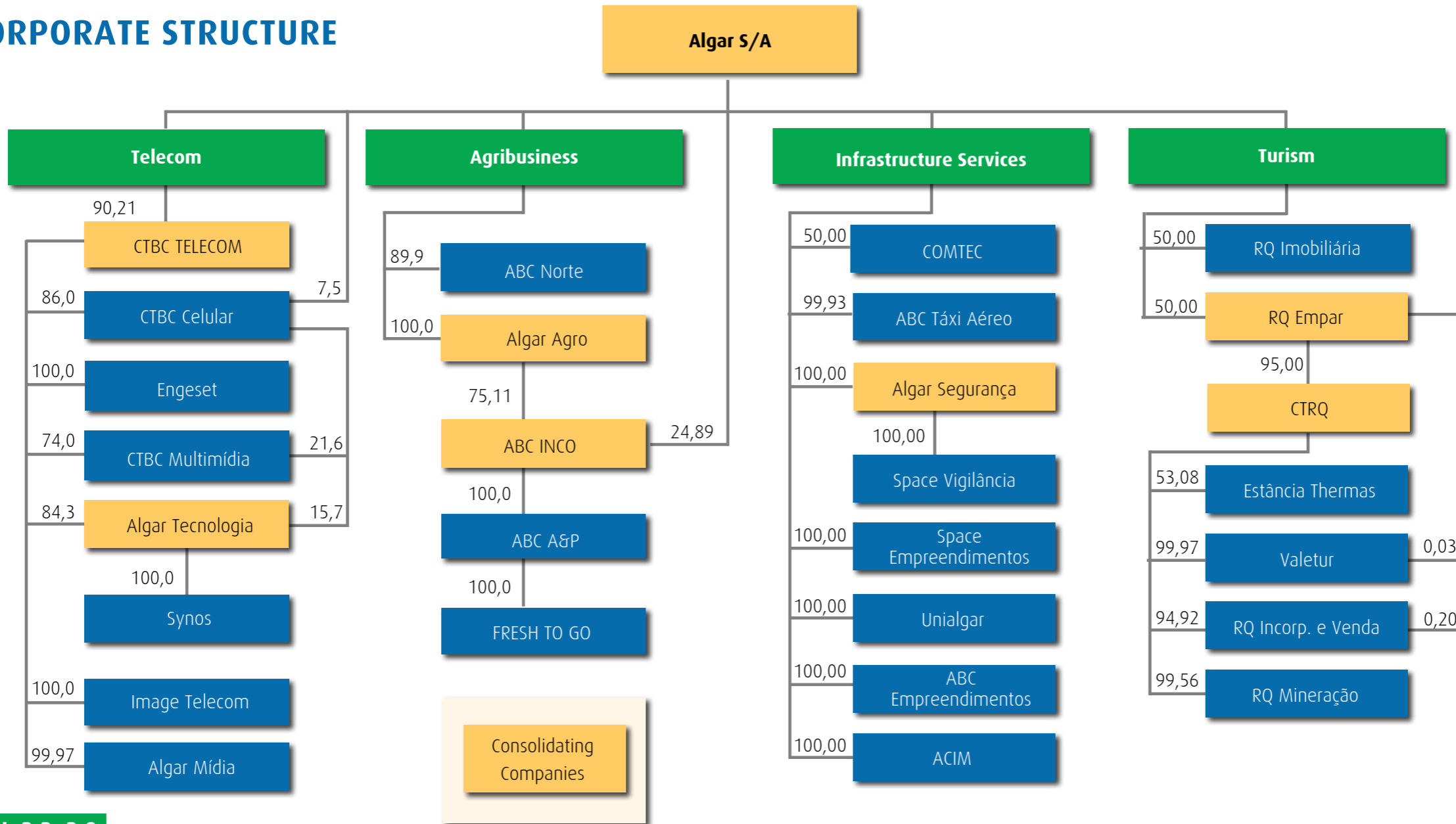
Owing to the efficiency of this evolutionary dynamic model, Grupo Algar has been part of the Companies Circle of Latin American Corporate Governance, a group of 15 Latin American companies that have been leaders in adopting good corporate governance practices, since 2010. These companies meet to promote better governance in Latin America by sharing experiences, under the auspices of the International Finance Corporation (IFC/World Bank), Global Corporate Governance Forum (GCGF) and Organization for Economic Cooperation and Development (OECD).

Regardless of all the recognition that it has earned and the tools that it has developed, Grupo Algar considers corporate governance a living organism, in an ongoing process of evolution and improvement, following the best standards and practices.

**GRI: 4.1; 4.13**



CORPORATE STRUCTURE

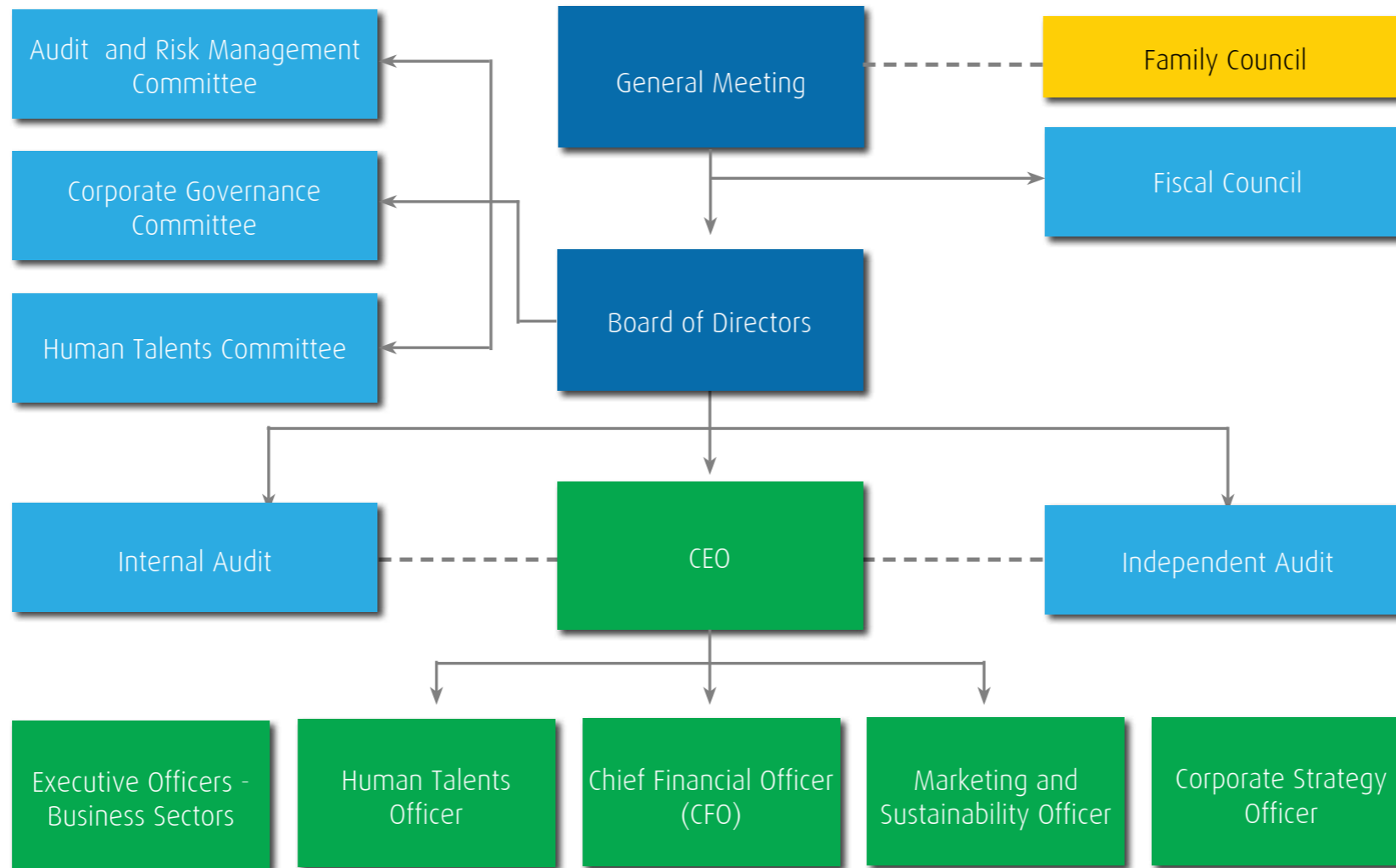


GRI: 2.3, 2.9



### CORPORATE GOVERNANCE STRUCTURE

- Deliberative
- Executive
- - - Functional
- Hierarchical



## FAMILY COUNCIL

Essential to ensure the sustainability of Grupo Algar's businesses, the Family Council was introduced in 2002. It manages the interests shared by shareholders descended from the founder, Mr. Alexandrino Garcia, as well as their spouses and heirs. It consists of nine members, three representatives from each of the family-run holding companies (Elgar, Lagar and Walgar), and is chaired by Ms. Eleusa Maria Garcia Melgaço, who currently also chairs the Brazilian chapter of the Family Business Network (FBN), an international organization that brings together over 5,600 business-owning families from 56 countries to share experiences, develop future generations and disseminate good governance practices.

The Family Council presently represents 45 family members, 32 are direct descendants. It meets every two months—all shareholders may attend these events—to validate and execute the Family Constitution. This document sets the guidelines for the descendants' three fundamental roles (the family as a family, the family as a business owner and the family as staff), its relationship with the Board of Directors and the Company's executives, the dividend policy and succession processes among others. The Family Council also organizes events to integrate the family and improve governance tools. As a result, the Skill-Building Program for Shareholders, Spouses and Heirs was developed. Funded by the family-run holding companies, the program is intended to prepare all family members for the role of shareholders and help them develop their life plans. The program consists of different modules covering from basic skills, such as knowing Algar's culture and businesses, to specialized, customized training programs, including courses in top universities out of Brazil. In 2012, 14 family members from the third and fourth generations took the Family Business: from Generation to Generation course, at the Business School of Harvard University, in the U.S.

Since 2002, the Family Council has been organizing the Family Meeting, a two- to three-day event with all family members, to integrate the shareholders, improve information sharing and discuss other issues. The Family Council also has a Family Portal, which continuously provides information in a comprehensive and organized manner.

This management model of the family members' interests—with formal, clear and established rules—minimizes any conflicts that may arise and prevents relationships from deteriorating and emotional issues from affecting corporate issues, thus creating a healthy working environment valued by the market. As a result, Grupo Algar won a corporate governance award from IBGC (Instituto Brasileiro de Governança Corporativa, Brazilian Institute for Corporate Governance) in 2009 and was the object of a case study in the book *Governança Corporativa em Empresas Familiares* (Corporate Governance in Family-Owned Companies), published by the same organization in 2011.

## BOARD OF DIRECTORS

Introduced in 1999, Grupo Algar’s Board of Director sets the strategic guidelines to ensure the sustainability of the Group’s business, uphold its values and beliefs and ensure a balance between the interest of the family and those of the other stakeholders. It also examines and approves the annual budget and the strategic plans put forward by the Board of Executive Officers, and monitors the long-term performance of the companies.

Algar’s Board of Directors is composed of nine members, most of whom are independent. They are elected by the Annual General Meeting for a one-year term and may be re-elected. In December 2012, the Board of Directors consisted of eight elected members, five of whom were independent—that is, they have no emotional or business ties with Grupo Algar or the family that owns it. Even though its shares are not publicly traded, the Company decided to have a Board of Directors consisting mostly of independent members. It is planning to have the position currently vacant filled in 2013. The new board member will be elected at the next Annual General Meeting (AGM), on April 29, 2013. The new member to be appointed is Mr. Sérgio Alair Barroso, who has been sitting at the Risk Audit and Management Committee since 2012. The new member was appointed under recommendation of the Board of Directors in its latest annual evaluation and took into account his experience as an executive and knowledge of agribusiness among others. In addition, there was no conflict of interest in appointing Mr. Barroso, who will be a valuable addition to a team consisting of professionals with different career paths in the corporate world. The Board usually meets six times a year, according to a pre-established topic-based schedule, and at such other times as may be deemed necessary. There were 5 meetings in 2012, two of which out of the Group’s headquarters. The idea is to have meetings in areas in which the Group is expanding as well.

Board members can use the Governance Portal, a restricted-access, exclusive online channel that contains documents and information that they need in their activities. All Board activities follow the guidelines set out by the policies and procedures guide, prepared in accordance with the Brazilian Corporate Law and the Company’s Bylaws, and based on the recommendations contained in IBCG’s Code of Best Corporate

Governance Practices. A self-assessment of the Board and an individual evaluation of each Board member have been done every year since 2005. It is a three-step process, with interviews, questionnaires and improvement plans.

### Composition of the Board of Directors on 12.31.2012

<b>Luiz Alberto Garcia</b>	Chairman
<b>Alexandrino Garcia Neto</b>	Board member and member of the Corporate Governance Committee
<b>Hélio Marcos Machado Graciosa</b>	Board member and member of the Corporate Governance Committee
<b>Darc Antônio da Luz Costa</b>	Independent member
<b>Eduardo Moreira da Costa</b>	Independent member
<b>Geraldo Sardinha Pinto Filho</b>	Independent member and member of the Audit and Risk Management Committee
<b>Ozires Silva</b>	independent member
<b>Walter Fontana Filho</b>	Independent member and member of the Corporate Governance Committee

## Luiz Alberto Garcia

**(Chairman)**

Shareholder and member of the second generation of the family that owns the Algar Group's shareholding control. Mr. Garcia has a degree in electronic engineering from Escola Federal de Itajubá (Minas Gerais State), and specializations in (i) Global Business Leadership from Georgetown University Washington, DC/USA; Leading the Family Business from IMD, Lausanne (Switzerland); and (iii) Owner/President Management Program from Harvard University (USA). He is a former CEO of the Brazilian National Association of Cellular Phone Service Providers (ACEL), member of ANATEL's Advisory Council, member of the Brazilian Agribusiness Association (ABAG), of TELEBRASIL and SINDITELEBRASIL. He was also a Board member at Fundação Orsa. Besides serving as the chairman of Grupo Algar, he is the chairman of the Board of Trustees of CPqD Foundation, member of FIEMG's Board, member of the Institute for Industrial Development Studies (IEDI), and of the Research Foundation of the Federal University of Uberlândia (FUNDAP).

## Alexandrino Garcia Neto

**(member)**

Mr. Garcia is an agribusiness entrepreneur and shareholder, and belongs to the third generation of Grupo Algar's controlling group.

## Hélio Marcos Machado Graciosa

**(member)**

Mr. Graciosa is telecom engineer and has a master's degree in Electric Engineering from Pontifícia Universidade Católica do Rio de Janeiro (PUC/RJ). He is a former Research & Development officer of Telecomunicações Brasileiras S.A. (TELEBRAS), president of Sociedade de Telecomunicações (SBRT) and chairman of the Board of Directors of TEDESC and TELEBAHIA. He is currently the president of the Telecommunications Research & Development Center (CPqD) in Campinas (São Paulo State), and of CPqD Technologies & Systems Inc., Fort Lauderdale, Florida (USA). He also serves as an officer at TELEBRASIL, chairs PADTEC's Board of Directors, sits in CLEARTECH's and TELEBRASIL's Boards of Directors and is a member of the Board of Trustees of Fundação Forum de Campinas (São Paulo State).

## Darc Antônio da Luiz Costa

**(independent member)**

Mr. Costa has a degree in engineering from PUC (Rio de Janeiro State), a master's degree in production engineering from the same university and a doctor's degree in production engineering from COPPE/UFRJ. He is a former Vice-President of BNDES (Banco Nacional do Desenvolvimento Econômico e Social, or Brazilian National Bank of Economic and Social Development). He is also a member of the Managing Board of CEBRES (Centro Brasileiro de Estudos Estratégicos, or Brazilian Center for Strategic Studies); sits in the Board of Directors of Centro de Estudos Estratégicos da Escola Superior de Guerra [Center for Strategic Studies of the War College], where he was a coordinator and president of the Brazil-Venezuela Trade and Industry Chamber in Rio de Janeiro and president of the Federation of the Chambers of Trade and Industry of South America (FEBRASUR); a member of Academia Brasileira de Ciências Morais e Políticas [Brazilian Academy of Moral and Political Sciences] and a Managing Partner of DLC-Desenvolvimento, Logística e Cenários Simples Ltda.

## Eduardo Moreira da Costa

**(independent member)**

Mr. Costa holds a PhD in electronics from the University of Southampton, U.K. He served as an Innovation Officer at the Studies and Projects Funding Institution (FINEP), a government-run company linked to the Science and Technology Ministry, and an officer and researcher at CPqD. He is currently CEO at ÁgoraLab, an international multi-institutional laboratory for the production and sharing of knowledge about smart cities. He is a part-time professor at the Federal University of Santa Catarina State and PUC (Rio de Janeiro). He sits in SENIOR Sistemas' Board of Directors and is a member of the Order of Scientific and Technological Merit of Brasil.

## Geraldo Sardinha Pinto Filho

**(independent member)**

Mr. Pinto Filho has a degree in Economics from Economic Sciences College of the Federal University of Minas Gerais State and a specialization in Finances from J.L.Kellogg Northwestern University, USA, and from Insead – The Business School for the World, France. He is an officer at Sardinha & Sant'Ana Consultoria Empresarial, in which he is a corporate finance consultant for large corporations focusing on introducing value creation-oriented management models. He is a visiting professor at Sauder School of Business – University of British Columbia (Canada), and in The Business School for the World (INSEAD) (France). In addition, he is an associate professor at Fundação Dom Cabral (Brazil). Mr. Pinto Filho also sits in the Boards of Directors of Grupo Seculus, Grupo Raimundo da Fonte, Hospital Mater Dai and Grupo Kyli.

## Ozires Silva

**(independent member)**

Mr. Silva has BSc in aeronautical engineering from ITA (Technological Institute of Aeronautics) and a graduate degree in aeronautics from the California Institute of Technology, USA. He headed the group that created Empresa Brasileira de Aeronáutica S.A. (EMBRAER), a company that he managed between 1970 and 1986 and between 1991 and 1995, when he conducted the company's privatization process. He was also CEO at Petrobras and Varig S.A. and Brazil's Minister of Infrastructure. He is currently the dean of Centro Universitário Unimonte (Santos, São Paulo State) and a member of several trade and civil servant associations, besides sitting in the Boards of Directors of prominent companies.

## Walter Fontana Filho

**(Outside Directors)**

Mr. Fontana Filho has an undergraduate and a graduate degree in Economics from PUC (São Paulo) and a specialization in Marketing Management from Fundação Getúlio Vargas. He is a former CEO and chairman of the Board of Directors of Sadia. He sits in BRF Brasil Foods' and Repom S/A's Boards of Directors, and in the Advisory Council of O Estado de São Paulo newspaper.

**GRI: 4.3;**



## ADVISORY COMMITTEES TO THE BOARD OF DIRECTORS

These are support bodies that make recommendations based on expert analyses of specific issues to help the Board of Directors make decisions more assertively and more quickly. Created in 2005, the three Advisory Committees consist of professionals not connected with the Board of Directors, as well as internal and external experts. They are appointed by the Board of Directors, to which they respond, on an annual basis. The policies and procedures guide stipulates the roles, basic duties and working rules for the Committees.

### Audit and Risk Management:

This committee ensures that the financial statements are prepared in an appropriate, comprehensive, transparent and trustworthy manner and disseminates the risk management culture at all levels of Grupo Algar. It also assesses and provides guidance for internal and independent audit, internal controls and compliance with the applicable legislation. It also ensures that corporate risks are properly identified and managed. It consists of five members (four of whom are experts) and meets on a quarterly basis.

### Human Talents:

This Committee enforces the Group's policy of valuing and developing its Human Talents, following the best people management practices, in keeping with Grupo Algar's different business segments. This committee tackles issues such as the organizational climate, programs for potential successors, leadership development programs, compensation, dissemination of the Company's values and the Brazilian labor market. It is composed of four members, one of whom is an advisor and one is an external expert, and meets once a year.

### Corporate Governance:

This five-member Committee consists of two independent members and one from each of the three branches of the owning family. It meets on an annual basis. Based on the principles of transparency, fairness, accountability and corporate responsibility, it discusses and makes proposals for the ongoing improvement of the Company's corporate governance practices. It also assesses the effectiveness of these practices, examines the Board's assessments and makes suggestions for improvement.

**GRI: 4.3;**

## EXECUTIVE GOVERNANCE

### Executive Committee

The Executive Committee is the top governing body. It monitors, discusses and shares with the senior executives of Group's companies the current challenges in terms of Strategic Planning and operating units' Strategic Projects, based on directives and goals discussed and agreed upon.

The Executive Committee consists of twelve members—the holding company's Board of Executive Officers and the companies' senior executives—and meets twice a month.

### Board of Executive Officers

The Board of Executive Officers is responsible for strategic management and corporate controls. It safeguards the Group's cultural unity and values, carries out the management policies, manages corporate risks, promotes synergies, and develops leaderships and institutional relations, in line with the Board of Directors' guidelines. It is composed of five members: the CEO and four executive officers from specific areas. It meets once a week or as needed to discuss and make decisions on strategic corporate issues. Composition of the Executive Board on 12.31.2012

**Luiz Alexandre Garcia** Chief Executive Officer (CEO)

**Cícero Domingos Penha** Human Talents Officer

**Eliane Garcia Melgaço** Marketing and Sustainability Officer

**Marcelo Mafra Bicalho** Chief Financial Officer (CFO)

**Mauri Seiji Ono** Corporate Strategy Officer

### Luiz Alexandre Garcia

#### (CEO)

Mr. Garcia is an economist and has a specialization in Marketing, from the American University of Paris (France); MBA from the Catholic University of America, Washington, DC (USA); Leading the Family Business and Program for Executive Development, both from IMD, Lausanne (Switzerland). He has worked for the IFC/World Bank (Washington, DC); Ericsson in Dallas (USA) and São Paulo; and Groupe Bull (France). He served as the president of the Trade and Industry Association of Uberlândia (Aciub) for two terms, and as the president of the Brazilian National Association of Mobile Phone Service Providers (ACEL). Mr. Garcia belongs to the third generation of Grupo Algar's owning family. He has been the Group's CEO since 2006. He also sits in IBGC's Board of Directors and is the President of the Companies Circle of the Latin American Corporate Governance.

## Cícero Domingos Penha

**(Human Talents officer)**

He holds a degree in Law from the Federal University of Uberlândia (State of Minas Gerais), with executive specialization in Strategic People Management from INSEAD (France), and in Human Resources Leadership from IMD (Switzerland). Mr. Penha has over 35 years' experience in Human Talents Management. He has published several articles on people management and is the author of *Atitude É Querer* (Attitude Means Wanting) (Qualitymark Publishing House) and *Empresa Rede-Talento Nota 10* (Network Company-Top Talent) (Cultura Publishing House).

## Eliane Garcia Melgaço

**(Marketing and Sustainability officer)**

Ms. Melgaço has a degree in Business Administration from Pontifícia Universidade Católica de Minas Gerais (PUC/MG), an MBA from the Catholic University, Washington, DC (USA), Leading the Family Business from IMD (Switzerland), Family Business: from Generation to Generation from Harvard Business School (USA) and Advanced Management Program, from FDC/INSEAD (France). She has worked for Banco Nacional, Cartão Unibanco and ATL in relationship and commercial Marketing. Ms. Melgaço belongs to the third generation of Grupo Algar's owning family. She has been Grupo Algar's Marketing and Sustainability officer since 2010.

## Marcelo Mafra Bicalho

**(CFO)**

Mr. Bicalho holds a BSc in Metallurgical Engineering from the Federal University of Minas Gerais State, and graduate degrees in Financial Administration from Fundação João Pinheiro (Minas Gerais State) and Advanced Management Program from FDC/INSEAD. Mr. Bicalho has over 25 years' experience in the fields of controllership and finance. In the last 14 years, he has been CFO at large multinational and national groups, such as SAP, SKY, MetroRed, Proceda, Lucent and Grupo Sharp. He has been Grupo Algar's CFO since 2009.

## Mauri Seiji Ono

**(Corporate Strategy officer)**

Mr. Ono holds a BSc in Electrical Engineering with an emphasis on Electronics from Faculdade de Engenharia Industrial (FEI), a graduate degree in Business Administration from Fundação Armando Álvares Penteado (FAAP) and an MBA in Corporate Management from Fundação Getúlio Vargas de São Paulo (FGV/SP). He has 22 years' professional experience in the telecom and technology industries, mainly in commercial and new business development divisions. He has worked for several Algar companies since 2002, and has been the Group's Corporate Strategy officer since 2010. He also chairs the Brazil-China Corporate Council (CEBC).

## Management Evaluation

The annual 360° evaluation of all the Company's executives was introduced over 20 years ago. It allows assessing the essential Algar skills, as well as the specific skills for each position and those of its current holder, through an assessment done by peers, subordinates and seniors. This evaluation shows each professional's strengths and weaknesses, and leads to an action plan that includes executive education.

## AUDIT

Grupo Algar has had two audit teams since 1988. They hierarchically report to the Board of Directors through the Audit and Risk Management Committee. Concerning functional issues, they report to the Group's holding company so that they can operate independently.

Consisting of 10 people, the Internal Audit Committee assesses the Group's performance and internal controls in an independent manner, thus helping Management achieve the organizational goals and maximize shareholder return.

On a quarterly basis, Grupo Algar hires independent audit services to assess its reporting standards and compliance with accounting rules laid down by the current legislation. KPMG Auditores Independentes has been providing these services for the Group since 2009.

## CODE OF ETHICS

Corporations play a key role in sustainable growth on a global level. As a result, ethical business practices are essential.

Algar's Code of Ethics sets out the ethical principles and conduct rules that serve as guidelines for all associates' internal and external relations regardless of their duties and in keeping with the concept of Sustainability, thus involving economic, social and environmental aspects. The Group also seeks to use all resources in a responsible manner so that they are also available for future generations. The Code of Ethics was officially approved by all relevant parties, including the Associates' Committee, the Executives' Meeting and the Board of Directors and is available on the Company's website.

Grupo Algar believes that being a responsible Company means behaving in an ethical manner in all aspects of its business, thus respecting the environment, setting good examples in terms of stakeholder relations and complying with laws and regulations wherever it is present.

**GRI: 4.8**

## HUMAN TALENTS

Grupo Algar's professionals are called associates, and the department in charge of policies for internal stakeholders is Human Talents. These names are more than simple words. They express the deep respect with which Company treats all the people that make up its soul. In addition, the Company adopts the Network Company management model.

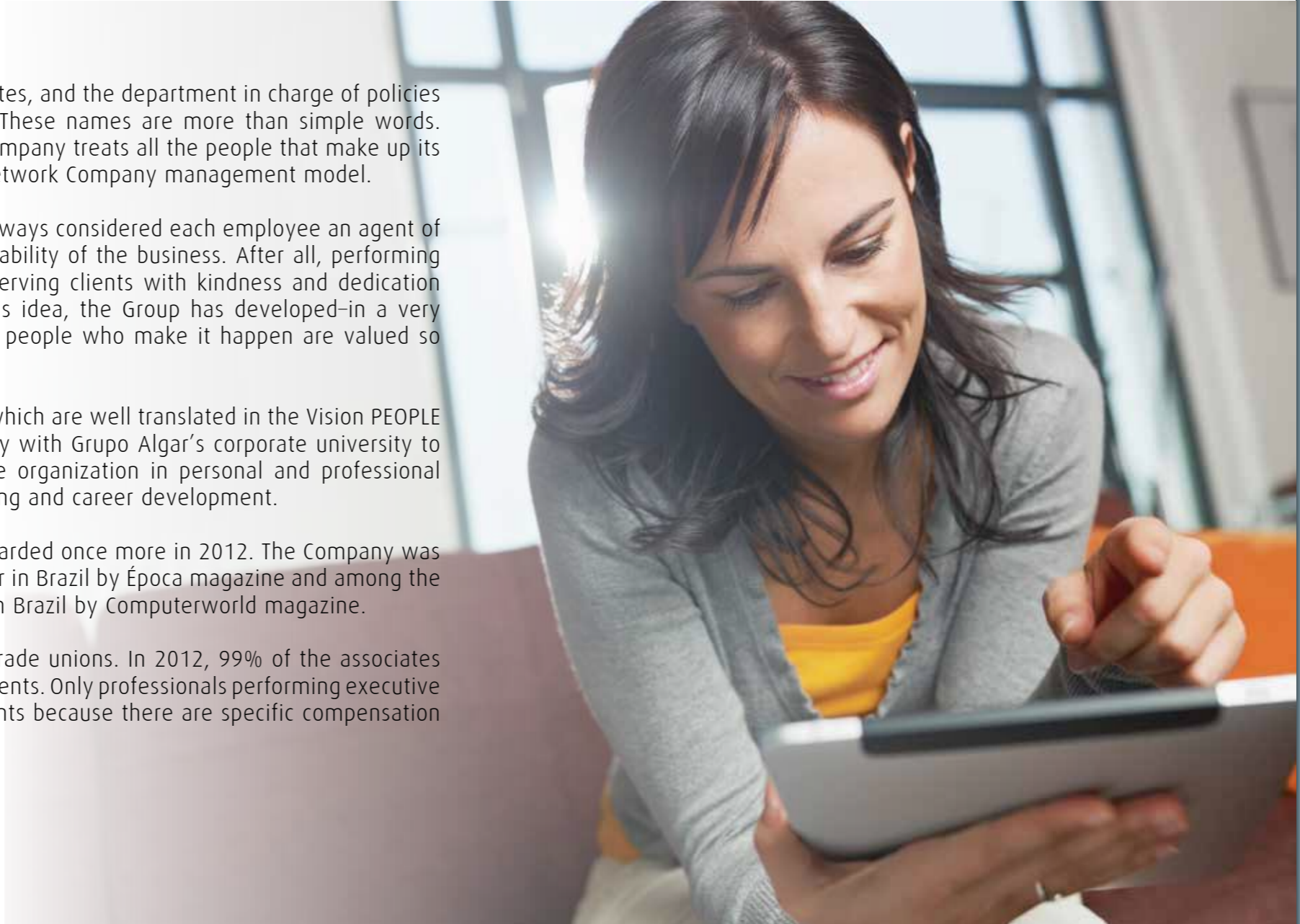
The Group's founder, Mr. Alexandre Garcia, always considered each employee an agent of change that played a key role in the sustainability of the business. After all, performing one's duties as efficiently as possible and serving clients with kindness and dedication are a very personal attributes. Based on this idea, the Group has developed-in a very spontaneous manner-a culture in which the people who make it happen are valued so that their inborn talents are awakened.

To keep motivation and passion for serving, which are well translated in the Vision PEOPLE SERVING PEOPLE, Human Talents works jointly with Grupo Algar's corporate university to develop tools to value each member of the organization in personal and professional aspects, thus promoting life quality, well-being and career development.

Algar Telecom's talent valuing policy was awarded once more in 2012. The Company was ranked among the best companies to work for in Brazil by Época magazine and among the best IT and Telecom companies to work for in Brazil by Computerworld magazine.

The Company has a good relationship with trade unions. In 2012, 99% of the associates were covered by collective bargaining agreements. Only professionals performing executive functions are not covered by these agreements because there are specific compensation policies for them.

GRI: LA4





## ASSOCIATES' PROFILE

Based on the Vision PEOPLE SERVING PEOPLE, Grupo Algar places great value on people who enjoy developing relationships, take pleasure in helping others, work well in teams and have an inborn talent for innovation. These criteria allowed the Company and its subsidiaries to build efficient teams to develop and implement innovative solutions that focus on clients, quality and sustainability.

Grupo Algar closed the year 2012 with 20,714 associates, most of whom (84%) in the Southeast Region, where the Company started up.

Diversity is one of the features of Grupo Algar's talent team and is reflected in the balance between the percentage of professionals from both genders (54% male and 46% female) and different age groups. Considering consolidated data from all companies, young talents between 18 and 25 (mainly in Algar Tecnologia) account for 52.5% of the total although there are a larger number of talents from other age groups as well: 42.7% are between 30 and 50 and 4.9% are over age 50.



Full-time associates						
Own associates (relative to Dec/31)						
	Indefinite or permanent contract			Fixed-term or temporary contract		
	2010	2011	2012	2010	2011	2012
Total	11,014	12,340	12,759	31	22	8

Third-party (relative to Dec/31)						
	Permanent contract			Fixed-term or temporary contract		
	2010	2011	2012	2010	2011	2012
Total			1	24	21	40

	2010	2011	2012
TOTAL Full-time associates	11,069	12,383	12,808

Part-time associates						
Own associates (relative to Dec/31)						
	Indefinite or permanent contract			Fixed-term or temporary contract		
	2010	2011	2012	2010	2011	2012
Total	8,921	8,812	7,955	1	2	3

Third-party (relative to Dec/31)						
	Permanent contract			Fixed-term or temporary contract		
	2010	2011	2012	2010	2011	2012
Total				31	52	93

	2010	2011	2012
TOTAL Part-time associates	8,953	8,866	8,051
TOTAL (Full-time + Part-time associates)	20,022	21,249	20,859

Own associates (relative to Dec/31)						
	Indefinite or permanent contract			Fixed-term or temporary contract		
	2010	2011	2012	2010	2011	2012
<b>Age group</b>						
>50	1,662	1,763	1,009			1
30 to 50	11,065	11,740	8,842	8	7	4
<30	7,208	7,649	10,863	23	17	6
<b>Total</b>	<b>19,935</b>	<b>21,152</b>	<b>2,0714</b>	<b>31</b>	<b>24</b>	<b>11</b>

Third-party (relative to Dec/31)						
	Indefinite or permanent contract			Fixed-term or temporary contract		
	2010	2011	2012	2010	2011	2012
<b>Age group</b>						
>50				1		
30 to 50				2	2	3
<30				7	2	
<b>Total</b>				<b>10</b>	<b>4</b>	<b>3</b>

Own associates (relative to Dec/31)						
	Indefinite or permanent contract			Fixed-term or temporary contract		
	2010	2011	2012	2010	2011	2012
<b>Gender</b>						
Masculine	9,914	1,0994	11,236	19	14	6
Feminine	10,021	10,158	9,478	13	10	5
<b>Total</b>	<b>19,935</b>	<b>21,152</b>	<b>20,714</b>	<b>32</b>	<b>24</b>	<b>11</b>

Third-party (relative to Dec/31)						
	Indefinite or permanent contract			Fixed-term or temporary contract		
	2010	2011	2012	2010	2011	2012
<b>Gender</b>						
Masculine			1			3
Feminine						
<b>Total</b>			<b>1</b>			<b>3</b>

Functional Category	TOTAL
Executive	245
Non executive	20,469
<b>Total</b>	<b>20,714</b>

## Compensation

The Group's compensation system seeks to align and concentrate efforts to improve the Company's performance. It is a combination between fixed and variable pay, in addition to benefits. The fixed portion consists of the base monthly salary, 13th monthly pay, vacation pay and premium pays.

The variable portion, which is rising steadily, is intended to motivate and financially reward the effort of all executive and non-executive associates. Profit Sharing follows two different criteria. Part of it is paid to associates individually in connection with the results that each one achieves beyond his or her day-to-day targets. In addition, the Company distributes up to 12% of its net earnings to all associates on a yearly basis.

For the sake of consistency and balance, the Variable Compensation System determines previously set annual growth, profitability and financial health indicators as deflators.

GRI: 4.2



## Turnover

Own associates (relative to Dec/31/2012)								
	Indefinite or permanent contract		Fixed-term or temporary contract		Indefinite or permanent contract		Fixed-term or temporary contract	
	Left Company	%	Left Company	%	Left Company	%	Left Company	%
<b>Gender</b>								
Masculine	2700	24,56	3	21,43	3226	28,71	2	33,33
Feminine	6819	67,13	8	0,00	1607	16,96	2	40,00
Total	9519	45,00	11	45,83	4833	23,33	4	36,36
<b>Age Group</b>								
>50	164	9,3	1	0	181	17,94		
30 to 50	2320	19,76	2	28,57	2053	23,22		
<30	7035	91,97	8	47,06	2599	23,93	4	66,67
Total	9519	45	11	45,83	4833	23,33	4	36,36



Third-party (relative to Dec/31/2012)								
Gender	Permanent third-party contract		Fixed-term or temporary third-party contract		third-party permanent contract		third-party fixed-term or temporary contract	
	Left Company	%	Left Company	%	Left Company	%	Left Company	%
Masculine			254	12.700				
Feminine			25	833,33				
Total			279	5.580				
Age Group	Left Company	%	Left Company	%	Left Company	%	Left Company	%
>50								
30 to 50			279	13.950				
<30								
Total			279	5.580				
Gender	Permanent third-party contract		Fixed-term or temporary third-party contract		third-party permanent contract		third-party fixed-term or temporary contract	
	Newly hired	%	Newly hired	%	Newly hired	%	Newly hired	%
Masculine					2	200	3	100,00
Feminine					2	0	0	0
Total					4	400	3	100,00
Age Group	Newly hired	%	Newly hired	%	Newly hired	%	Newly hired	%
>50								
30 to 50								
<30					4		3	
Total					4		3	100,00

## RELATIONSHIP WITH INTERNAL STAKEHOLDERS

Grupo Algar considers continuing education the best professional development tool to prepare its talents to face future challenges. This belief gave rise to UniAlgar in 1998. With the mission of “Promoting talent development to make the Algar businesses more competitive,” the corporate university has become a strategic tool for all business segments to turn their teams’ skills into competitive advantages.

UniAlgar is located in Uberlândia (Minas Gerais State), in a green area of 32,600 square meters, and has an excellent physical infrastructure. Its three buildings has 17 training rooms, 5 meeting rooms, an auditorium with a seating capacity of 600, a library with over 4,500 titles, a restaurant, an internet café and a bookshop. All facilities are air-conditioned, and there is parking for up to 200 vehicles.

UniAlgar distinguishes itself from conventional universities in that its curriculum is based on real corporate practices and concepts, focused on Algar companies’ needs. In addition to offering presential training programs, the university uses internet-based learning tools, such as online courses, chatrooms, discussion forums, hot sites and a social network.

UniAlgar focuses mainly on personal and professional development, but also on issues like disseminating the corporate culture, assessing performance, evaluating the organizational climate and managing associates’ health. In other words, it contributes to all the Group’s initiatives geared to human talents, such as creating a pleasant working environment that can effectively help build a successful career. Consequently, it also serves as a knowledge base for all group companies.

UniAlgar also organizes courses, workshops and meetings (such as those of the Associates’ Committee of each Algar company), as well as PRODEX (Executive Development Program), an annual event at which the companies’ executives share their business visions, annual results, and future goals and objectives. Algar 2100, a workshop held at the beginning of the Group’s strategic planning cycle, provides an opportunity to follow up on the companies’ strategies and reflect on and build the future of the Algar businesses.

The corporate university’s projects contribute to the recognition that Grupo Algar’s professionals have on the market and lead to awards. In 2012, UniAlgar was chosen the Brazil’s best corporate university by IQPC, an international business education organization that ranked other corporations present in Brazil.

## Training

UniAlgar has a rich curriculum of presential and online courses, training and development programs offered throughout the year for specific purposes and target publics. These educational programs are reviewed every year so that participants' knowledge, skills and attitudes are in keeping with the specific duties of their positions and with Algar companies' strategic needs.

For example, UniAlgar trained about seventy associates in the Innovatrix™ methodology in 2012 to meet the needs of the Group's Innovation Advisory Committee. It also developed a specific program named Safra de Conhecimento [Knowledge Crop] to train Algar Agro's associates in Maranhão State. The learning materials (three booklets and DVDs) reflect the developers' idea of producing something that could be used anywhere, as well as by associates with no internet access in their daily lives. For Algar Telecom, UniAlgar developed Integrar, a continuing education program with cycles of up to 36 months that prepares talents to improve the Company's results, increases retention, provides an opportunity to share key knowledge and provides indicators for progress in target achievement. Many of the continuing education programs offered to all Algar companies are designed to develop leaderships at different levels of the organization. This is a key policy for Grupo Algar's survivability.

For instance, the Essencial program focuses on improving the skills of current leaders that have entered the labor market or been promoted recently. In turn, AVAN is a refresher program for professionals in leadership positions for over two years. The companies also invest in middle management programs to prepare supervisors. In this regard, the Mídias Lideranças program was launched in late 2011 for Algar Tecnologia's supervisors. In 2012 alone, there were 85 groups with a total of 620 participants from the cities of Uberlândia, Belo Horizonte, Campinas and Brasília.

In addition to developing current leaders, UniAlgar has a series of programs designed to create a pool of talents able to take leadership positions in the future. Named Jovem Empreendedor (Young Entrepreneur), Grupo Algar's trainee program

involved 62 professionals in 2012. In turn, the Talentos em Desenvolvimento (Talents in Development) program focuses on identifying associates that have great potential and may take up leadership positions one day and developing their managerial skills. The program was launched at Algar Telecom in 2010, and was extended to Algar Tecnologia in 2011 and to Engeset last year. By the close of 2012, 131 associates had taken part in it, and 15 of them had been promoted (11 at Algar Telecom and 4 at Algar Tecnologia).

Talent development among executives is based on the Potencial Sucessor (Potential Successor) program, which consists of two cycles. During the D1 cycle, which lasts three years, participants develop their skills through different activities that extend far beyond the classes: individual monitoring, practical experiences, coaching, learning forums, English language skills and pairing-up with another executive, who offers provides guidance and serves as a mentor and advisor. In 2012, 78 executives took part in Potencial Sucessor D1. After the first cycle, the most outstanding professionals become part of a talent pool whereas some remain in the program to fine-tune some of their skills. In the D1 cycle, participants are prepared to take up strategic positions in the companies according to the Group's leadership pipeline and essential leadership skills. In the D2 cycle, participants are prepared to take up senior management positions in the future. It is a more focused development program based on the requirements of the positions for which the participants are appointed, in addition to the Algar skills.

UniAlgar is also in charge of the corporate integration program, which explores Grupo Algar's history, operations, culture, management model principles (Network Company), commercial culture, Human Talents policy and Code of Ethics. In 2012, 294 new hires attended the program, with a total of 2,656 hours of training.

A total of R\$11.042 million was invested in internal and external training programs in 2012. This investment benefited 20,668 professionals—52 officers, 161 coordinators, 28 consultants and 20,427 non-executive associates. The investment-base payroll ratio was 3.34%.

## Health and Well-Being

Grupo Algar's commitment to its professionals' life quality and well-being led to the adoption of a series of practices that go far beyond those required by law. In this regard, the greatest stride made in 2012 was extending PDI (Programa de Desenvolvimento Individualizado da Saúde, or Customized Health Development Program, designed to improve life quality and previously offered to executives only) to all the associates of Algar companies.

Under the program, associates undergo check-ups for clinical, physical, nutritional and emotional conditions; start receiving health advice; and are encouraged to adopt healthy habits against sedentary lifestyles and stress, as well as a healthier diet. In the case of executives, annual bonuses are tied to health targets. In 2012, 282 of the 297 executives evaluated by PDI met their targets.

Also concerning health issues, Grupo Algar's multidisciplinary teams provided 260 psychological consultations, 400 medical consultations, 40 nutritional consultations and performed 60 physical evaluations. UniAlgar also offered the course "Occupational Health and Safety and Ergonomic Issues".

Also in this regard, Grupo Algar has a Corporate Health and Safety Committee. Based in Uberlândia, it meets every two months, and organizes and coordinates different activities.

**GRI: LA6, LA10**

## Career Building

Grupo Algar adopts a fair, merit-based compensation system to stand out in the markets in which it is present and distinguish itself with a highly-skilled committed team. Each Algar company has specific career paths and participates in the performance appraisals formally applied to all associates of the holding company at least once a year. In addition to measuring individual performance, each associate's appraisal serves as a basis for a development plan with specific objectives so that he or she can achieve his or her goals.

In April 2012, Grupo Algar's yearly profit-sharing payments totaled R\$24 million, which corresponds to 12% of Algar companies' net income. This bonus is part of the variable compensation package, which also comprises a bonus based on a professional's individual goals, as well as the targets of his/her area.

Another policy designed to value human capital is seeking people with the qualifications needed to take up vacant positions internally before announcing these vacancies to the market. In 2012, 3,946 associates were promoted at the Algar companies. Many of these promotions were made possible by the development programs described in the Training section.

## Communication Channels

Grupo Algar has different communication channels to interact with its associates. One of them is TV Algar, an exclusive corporate TV show that can be viewed on computers, mobile devices or televisions installed in regional offices. The Algar companies can use this channel to release specific news.

The most important news about Grupo Algar is conveyed through Toda Hora, a series of frames containing short informative texts. It is accessed by computer and shown on the televisions installed in social areas.

Another corporate communication channel is Algar Net, which includes services related to vacation notices, pay slips and staff earnings reports. Conect@ is Algar's e-learning channel, with targeted and customized courses and training programs.

## Human rights

Grupo Algar opposes any and all discrimination and adopts all applicable measures to prevent this type of conduct in its business. In 2012, only Algar Tecnologia, which provides contact center services among others, reported discrimination charges. Two discrimination charges were found to be true and gave rise to disciplinary action. Both were related to incidents of gender discrimination. The Ombudsman's Office investigated the charges and suggested that the leaders that committed these acts be fired. The company followed the suggestions. As a remediation action, workshops about moral damages, and moral and sexual harassment were organized for all leaders as early as the first half of 2013.

The Code of Conduct, which applies to all Grupo Algar's companies, establishes that no partners or suppliers that use slave or child labor be accepted. As a result, all contracts signed by the Algar companies contain provisions stipulating that partners or suppliers must not employ minors, except as apprentices, and maintain unhealthy places of employment that may jeopardize their employees' health or in slave-like conditions. The Group recorded no such incidents in 2012.

**GRI: HR4, HR6, HR7**





Serving

## MESSAGE FROM MANAGEMENT

2012 was a very challenging year for Brazilian companies. In the macroeconomic arena, the lingering crisis in Europe, the slowdown in China and the sluggish recovery in the U.S. all contributed to a drop in exports and, consequently, in the inflow of U.S. dollars in Brazil. In addition, the Government, Corporations and Consumers spent more conservatively in the first half of the year. In Brazil, it is worth noting the cost pressure from talent maintenance and retention, mainly in the service industry. Nevertheless, the Algar companies, always guided by the beliefs inherited from the Group's founder, Mr. Alexandrino Garcia, remained optimistic, determined and certain that they were prepared to achieve their goals.

Based on a corporate governance policy improved year after year, the Company won market share in all the industries in which it is—IT/telecom, agribusiness, services and tourism—in 2012. In addition, its consolidated net revenues shot up significantly by 21.9% year-over-year to R\$3,719.9 million.

In IT/telecom, we overcame each and every operational challenge that we faced during the year, increased our market share and strengthened our brand in all nineteen cities and towns in Minas Gerais State within the Band H area, an area of expansion which we entered in late 2011 and provides good opportunities for growth in coming years. In the authorization area, our subscriber base increased both in the retail and in the corporate sector. Revenues from voice and data solutions for small and medium-sized businesses increased by 7.7% last year. We also opened our new headquarters in São Paulo in 2012, a natural move due to our strategy of expanding geographically and consolidating Algar as a top brand in the telecom industry beyond the borders of the Company's original concession area.

Other great news in the financial front is the success of Algar Telecom's second issue of debentures. (The first occurred in 2007.) Demand was higher than expected, and we raised a total of R\$294 million and had a very diverse group of investors. This success means recognition for our vision of the future and allowed Algar Telecom to close the year with higher liquidity, thus achieving the growth targets in its strategic plan.

In agribusiness, a crop failure led to an all-time high in soy prices, and we had to focus even more heavily on financial management since agribusiness is highly susceptible to macroeconomic developments. As a result, Algar Agro recorded gross revenues of R\$1,634 million.

The start-up of Algar Agro's second refining plant, located in the Porto Franco Unit, in Maranhão State, in June also contributed to the company's results. In 2012, the plant's oil production came to 1.5 million boxes out of a total of 7.5 million. As a result, ABC de Minas soybean oil—the market leader in the Triângulo Mineiro area—achieved an initial market share of 4% in the North and Northeast Regions. Concerning soybean origination, we recorded 1,340 thousand tonnes, and our exports produced US\$367 million in revenue.

In the services segment, Algar Aviation acquired the concession of a hangar at Pampulha airport, in Belo Horizonte, that will be enlarged and refurbished. This new asset reinforces our infrastructure for aircraft maintenance, the company's core business.

At Rio Quente Resorts, we opened the doors of a new 196-room hotel exclusively for the 17,000 guests in our timeshare program, the Rio Quente Vacation Club. This achievement, as well as all others described above, was only possible because the Company is recognized for its top-quality products and services.

**We from all the nine companies making up Grupo Algar bring all our knowledge to the service of society every day.**

**IT'S PEOPLE SERVING PEOPLE**

We from all the nine companies making up Grupo Algar bring all our knowledge to the service of society every day and spare no effort to do more and do better. This is how we grow in a sustainable manner. This premise, reflected in our Vision—“People Serving People”—in a simple, clear manner, is in keeping with Grupo Algar’s diversification strategy.

At the close of 2012, Grupo Algar had 20,714 associates in all five Brazilian regions, and we firmly believe that each one is essential for the Group to fulfill its mission. Therefore, we invest constantly in our people, providing education and well-being for our team. In 2012, about R\$11.0 million was invested in over 68,000 class/hours, offered or coordinated by UniAlgar, our corporate university.

In 2012, we also strengthened our innovation culture, which has been in the Company’s DNA since its inception and has had a well-structured policy for over ten years. Confident that innovation will help us forge Grupo Algar’s future paths, we made further strides in terms innovation by creating Incubadora Algar (Algar Business Incubator), which funds and provides technical support for associates’ projects, and Escola de Negócios (Business School), intended to contribute to Brazil’s great entrepreneurial potential by offering educational multimedia contents for new entrepreneurs free of charge.

These initiatives show that Grupo Algar cherishes sustainability in all its aspects. The Company’s commitment to the future led it to adopt corporate governance practices establishing very clear roles for the family shareholders and for the senior executives. These practices became a benchmark in Brazil and other countries.

Concerning the different aspects of sustainability, we are proud to highlight the efforts of all the Algar companies and Instituto Algar, which celebrated its 10th anniversary in 2012, to manage greenhouse gas emissions in their processes more and more efficiently and engage their associates, who have been helping fight global warming since 2010, more and more. In addition to conducting the Algar Sustentável (Sustainable Algar) program, Instituto Algar manages the Company’s social programs, which focus on developing educators and public school children in the communities in which we are present. Last year, the companies invested

about R\$4.8 million in social programs, benefiting 16 cities and towns in six states. They involved about 350 educators and 6,700 students, as well as 570 volunteers.

In addition to bringing a great sense of fulfillment, Grupo Algar’s achievements clearly show that 2012 was a good year and make us confident that 2013 can be even better. We believe that Brazil has many more opportunities to offer and our companies are prepared to seize them in a sustainable manner, always honoring the Algar brand. We express our deep gratitude to our shareholders, clients, suppliers, communities, governments and mainly each of our associates committed to the Vision “People Serving People” for their trust and cooperation.

Luiz Alexandre Garcia  
CEO of Algar Group

Luiz Alberto Garcia  
Chairman of the Board of Directors

GRI: 1.1; 2.9



## STRATEGY

Geographical and business diversification has always been a distinguishing feature of Grupo Algar, now present throughout Brazil. Based on its Vision PEOPLE SERVING PEOPLE, the Company continuously seeks to put to the service of the community all the knowledge acquired by its different segments in over eight decades, thus ensuring the sustainability of its business.

Diversification is, therefore, a strategic move. The Group is always alert to opportunities and areas with growth potential, to which it believes it can contribute significantly due to its expertise. For example, that is why Algar Agro launched operations in Maranhão State, which is Brazil's main agricultural frontier and offers the country's best shipping port (the Itaqui Port). In addition, it has an excellent growth potential. Likewise, in the telecom segment, the Group is mainly investing to expand its share in the corporate market, especially in the Southeast Region, where 70% of Brazil's telecommunication traffic is concentrated. At present, most investments are allocated to these two drivers of growth: telecom/IT and agribusiness. As for the other companies, Algar is focusing on consolidating their current positions, as well as expanding their operations on a regional level.

## TALKING ABOUT CULTURE

To strengthen its identity, Grupo Algar has a calendar of meetings with associates, Mr. Luiz Alberto Garcia (the Chairman of the Board of Directors) and Mr. Luiz Alexandre Garcia, the Group's CEO. The program consists of two initiatives: visits to regional offices and conventions, held every other year at the companies' offices.

In both situations, the executives strengthen the organization's beliefs and management model by disseminating their culture, listen to suggestions and take questions from associates, regardless of their positions in the corporation. This closeness fosters a sense of belonging and contributes positively to the working environment.

In 2012, Grupo Algar's chairman and CEO attended nine conventions in places like Uberlândia, São Paulo and Porto Franco (Maranhão State).

**GRI: 4.3**

## ALGAR 2100

This annual event has been held for 18 years and is an opportunity to put into practice strategic thinking by analyzing scenarios and trends. Coordinated by the Corporate Strategy Officer and organized by UniAlgar, the event brings together senior management from the holding company and the companies, as well as special guests. The goal is to broaden the Company's vision of the future by creating an environment in which professionals can identify new opportunities and get a better understanding of their role at the organization.

**GRI: 4.3**

## NETWORK COMPANY

Grupo Algar believes that achievements result from each associate's effort and ability to innovate. This belief led to the challenge of introducing participative business management at all levels. As a result, the Group developed its own management model, called Network Company, which Algar Telecom has adopted since 1990.

This model has clear processes announced widely and involving all associates, regardless of their positions. It also has tools to foster commitment and autonomy with responsibility, thus allowing each professional to follow and play an active role in the decisions that guide the company.

In practice, each group company is considered a Results Center and has its own budget and goals. The holding company's Board of Executive Officers manages all of them strategically by aligning them with the goals set jointly with the Board of Directors. However, subsidiaries are free to execute their plans after budgets are approved, which allows them to make decisions more quickly. Each company adopts the same policy internally. Their different divisions are also Results Centers that have to meet their own budgets and goals in an independent and responsible manner.

Applied for over two decades, this management model has proven efficient in motivating associates since it fosters a culture in which all are ready to make suggestions, listen to criticisms and, above all, learn. This participative process strengthens associates' sense of belonging and commitment, and makes them proud of the results achieved by their teams.

## PRINCIPLES OF THE NETWORK COMPANY MODEL

- Autonomy with responsibility**
- Participation in the decision-making process**
- Transparent actions**
- Commitment to results**
- Associate rather than employee**
- Continuous innovation**
- Educational and entrepreneurial leadership**



## BUSINESS CULTURE

Grupo Algar's companies operate in different business segments, but they all share the same unique way of dealing with clients. The Company cherishes close ethical relationships based on principles like respect, appreciation and a real interest in the needs of all its individual and corporate clients.

Grupo Algar's way of doing business, totally in keeping with the Vision "PEOPLE SERVING PEOPLE," gives the Group a competitive advantage and is one of the reasons for its sustainability. To improve it continuously, the Company adopts a unique Commercial Culture, based on seven pillars and intended to encourage sharing and synergy among the sales reps working in the segments of IT/telecom, agribusiness, services and tourism.

Grupo Algar's Business Culture comprises Academia de Vendas (Sales Academy), whose goal is to manage knowledge in the sales department and develop the sales force; Clube de Vendas (Sales Club), which focuses on tapping synergies among the companies; and Comunidade de Negócios (Business Community), a social network for sales people.

In 2012, the Company introduced one more unified sales tool, Clube Corporativo Prime (Prime Corporate Club), to build closer relationships with clients from the B2B market. Under the program, Algar Telecom, Algar Tecnologia, Algar Segurança and Engeset joined forces to get a better understanding of their clients, assess needs and propose the best solutions.

Initially, eighteen clients became part of Clube Corporativo Prime. They either are major group clients or may hire one more service. This client group, which accounts for 10% of Grupo Algar's gross revenue, is served by the Key Account Manager (KAM) consultants, sales professionals who have received special training—developed by UniAlgar—from Academia de Vendas. In 2012, Clube Corporativo Prime helped increase revenues from this client group by about 60%.

## THE PILLARS OF OUR BUSINESS CULTURE

**Appreciation of and respect for clients**

**Associates as sales people**

**Ethical relationships with the market**

**Marketing tools**

**Effective client service processes**

**Boldness with profitability**

**Celebration of achievements**

## INNOVATION

Grupo Algar considers innovation a tool to promote sustainable business growth and the development of Brazil, and this can be seen in its subsidiaries' history. For example, CTBC (currently Algar Telecom) installed Brazil's first optical communication system in Uberlândia in 1984. In 1992, the same company launched mobile phone services even before they were available in several Brazilian state capitals. Six years later, it was the first company in Brazil to offer pre-paid phone services, currently predominant in Brazil's mobile phone system. The other Algar companies also have a history of (major and minor) innovative initiatives, always able to create value. As a result, it is just natural that innovation is currently an integral part of the Company's strategic thinking, and has its own budget and a specific program.

Under the Algar Inovação (Algar Innovation) Program, each company has its own Innovation Committee, responsible for assessing and coordinating the introduction of projects that may lead to improvements, savings or new revenues, and disseminate the culture that encourages associates' commitment to generating ideas. These committees are connected with the holding company's Innovation Advisory Committee, which responds to the CFO and has access to the other officers to discuss and set goals and objectives.

PGP (Programa de Gestão de Processos, or Process Management Program) and PGI (Programa de Gestão de Ideias, or Idea Management Program), geared to improvement projects in all departments, have been promoting innovation for over a decade. Once approved, associates' ideas are developed, and contributors are rewarded financially. In addition, the best initiatives are presented in the Algar Innovation Exhibition.

The 12th edition of the event—the first not held in Uberlândia—took place at Algar Tecnologia's headquarters, in Campinas, in July 2012 and was attended by over 1,500 associates, clients, suppliers and guests. During the event, Grupo Algar

presented twelve innovation projects, and clients were also able to display their innovative products and services. There were informative talks by innovation experts and debates with Company executives as well.

The belief that innovation is a growth strategy for Grupo Algar's business led to several advances in 2012. Jointly with UniAlgar, the Innovation Advisory Committee trained about seventy associates in the Innovatrix™ methodology, a practical method for corporate innovation that focuses on creating new revenue sources and building innovation knowledge through the execution of prototypes. In parallel, it opened a business incubator and a business school.



In keeping with the policy of valuing internal talents, the Algar business incubator offers financial and technical support for innovative ideas given by the Company's associates. These ideas, which must be in the prototype stage and be able to generate new business, are proposed through a portal and submitted first to the Innovation Committee of the company to which the associate belongs.

Once approved, the idea is submitted for consideration to the holding company's Innovation Corporate Committee, where it will be fine-tuned and the submitted to the CEO. The whole selection process is based on the Business Model Generation-Canvas (BMG), a practical method designed to assess the feasibility of the proposals, based on their potentials, risks, financial and qualitative results and technical and managerial capacities. These criteria allow the Algar business incubator to choose the best projects and the most capable entrepreneurs. After being approved at all stages, projects are incorporated into the Company's portfolio. They may also give rise to a new company, of which Algar becomes a partner.

In 2012, Grupo Algar's companies developed 56 innovative projects and 95 ideas, which produced R\$19.7 million in revenue. A total of R\$4.5 million was invested in these projects. Financial gains since 2001, when innovation started being measured, amount to R\$291.6 million vs. a total investment of R\$51.1 million in 810 projects and 558 ideas.

At Algar Segurança, the Gestão Online (Online Management) project automated all the processes related to punch-in times, security rounds and reports by using smartphones. This will lead to cost reduction and a productivity gain, thus making it easier for Human Talents to manage associates working in security. At Algar Telecom, the Recarga Web (Online Top-up Service) solution, developed and customized according to each plan offered by the company, allows clients to buy credits on the company's internet portal.

The promotion of Open Innovation jointly with Brazilian and international organizations is also part of Grupo Algar's innovation policy. Since 2010, the Company has had a Technical Cooperation Agreement with Fapemig (Fundação

de Amparo à Pesquisa do Estado de Minas Gerais, or Foundation for Research Support of the State of Minas Gerais), in the total amount of R\$15.0 million under which 50% of the investments in eligible projects are subsidized. There are also formal agreements with UFU (Universidade Federal de Uberlândia, Uberlândia Federal University), Unipac (Faculdade Presidente Antônio Carlos, or President Antônio Carlos College) and Georgetown University (USA).

Algar is also a member of ANPEI (Associação Nacional de Pesquisa e Desenvolvimento das Empresas Inovadoras, Brazilian National Association for Research and Development of Innovative Companies) and of Fundação Dom Cabral's (Dom Cabral Foundation) Reference Center for National Innovation. In addition, it has an agreement with AIESEC, an organization recognized by Unesco that brings together college students for the whole world, to offer exchange programs to students and recent graduates dedicated to innovation.

Concerning innovation, the Group's challenges in coming years will be strengthening the business incubator, expanding Open Innovation with Brazilian and international organizations, using tax incentives more efficiently to promote innovation through Law 11196 and establishing partnerships with clients and suppliers for joint innovation projects. In 2013, Grupo Algar will invest (CAPEX and OPEX) over R\$20 million in innovation.

## RISK MANAGEMENT

Since it was introduced in 2009, Grupo Algar's Risk Management model has been based on the Enterprise Risk Management (ERM) methodology, adopted by the Committee of Sponsoring Organizations (COSO), a global organization that sets out and disseminates the best risk management, internal controls and fraud detection practices.

The risk identification process adopted by Grupo Algar started with a series of interviews with top executives. These interviews allowed identifying the events that may impact the short-, medium- and long-term strategic goals of each business, leading to regulatory, market, environmental risks among others.

Each risk was assigned an impact rating and a probability according to a pre-set scale. The Group's exposure level to them was determined by following these steps:

- ▶ Identifying risk factors with the help of the executives and designing the gross risk matrix (inherent risk)
- ▶ Mapping controls and indicators and designing the residual risk matrix (exposure considering the controls currently in place)
- ▶ Mapping action plans and designing the target risk matrix (exposure desired after action plans are in place)

Each risk is under the responsibility of an "owner", an executive with extensive knowledge of the issue who is in charge of suggesting and developing the optimal set of actions in response to the risk and coordinating these actions with other executives. On a quarterly basis, the company's CEO provides information about these actions and exposure to the Risk Audit and Management Committee.

Since they are some of the main components of the corporate risk management model, the matrices must be updated regularly to ensure that they reflect the risk of the company's operations and threats to their values and stakeholders

accurately. Based on a periodical review of the strategies, significant changes in processes and the business environment, the map is revised so that it always reflects the best set of uncertainties.

The Board of Directors established in March 2011 a Corporate Policy for Risk Management, with roles and duties for all Grupo Algar's management levels, to provide support for this process and improve its corporate governance practices.

The Risk Audit and Management Committee, connected with the Board of Directors, is responsible for identifying, assessing, mitigating and monitoring exposure to strategic risks according to the limits approved by the Board of Directors. A new member with extensive experience in risk management joined the committee in 2012 to expand the knowledge pool.

Throughout 2012, the Group focused its attention on consolidating and improving its risk management practices within the risk management process, as planned. Both Algar Telecom and Algar Agro created Risk Management divisions with dedicated professionals. Algar Agro launched projects to assess market risks (commodity prices and exchange) and develop a specific Market Risk Management Policy for agribusiness. Engeset, a subsidiary of Algar Telecom, mapped a total of 13 strategic risks, continuing the introduction of the Risk Management process.

In 2013, the Committee is planning to: (i) create a corporate matrix with the risks of all businesses, considering the specific features and share of each segment; (ii) establish a corporate risk assessment methodology; (iii) assess the effectiveness of the controls of all mapped risks; (iv) review the companies' strategic risk matrix; (v) execute the mitigation plans previously developed and (vi) continue mapping the strategic risks of the other subsidiaries. In addition, the Corporate Risk Management Policy, approved in 2011, is scheduled to be updated for the first time, in compliance with the duties assigned for the risk management division, to improve the process.



Company	Total strategic risks
Algar Telecom	11
Algar Tecnologia	14
Engeset	13
Algar Agro	13





## INTANGIBLE ASSETS

Intangible assets are those that cannot be measured in numbers and, therefore, are not shown in the Company's financial statements. These assets are major distinct features that strengthen the businesses and significantly help the Company create value. Grupo Algar's intangible assets mainly comprise:

### Brand power

It is an enterprising, solid family-owned Company which is proud to be Brazilian and whose companies play a prominent role in their industries.

### Corporate Governance

The practices adopted by Grupo Algar, as described in the respective section, increase the company's business sustainability, with a balance of its stakeholders' interests, in line with a multigenerational vision. In addition, the Company has become a benchmark for family businesses in Brazil and internationally.

### Human and intellectual capital

Our belief in the ability to change and in the engagement of the people who bring the Company to life, expressed in the Vision "PEOPLE SERVING PEOPLE," has led to a well-structured policy of valuing talents mainly advanced by a corporate university. UniAlgar is present throughout each associate's human and intellectual development and manages all knowledge acquired, disseminating it to all Algar companies.

### Working environment

A company's sustainability also depends on its Human Talents' satisfaction. Grupo Algar constantly seeks to create a healthy working environment to which all its associates are proud to belong. The effectiveness of its initiatives, as well as the development of new strategies to improve the working environment in all the Group's units, is assessed by a quantitative and a qualitative Organizational Climate Survey conducted every year and every two years respectively. In 2012, Grupo Algar's consolidated satisfaction rate stood at 74%.



## PERFORMANCE

### Economic Environment

The first half of 2012 was marked by the uncertainty brought about by the world economy as a result of the European crisis. Concerns about a breakup of the bloc affected the world's economic performance throughout the year and remains one of the main risk factors in 2013. The sluggish rebound in the U.S. and the slowdown in China also contributed to the deterioration of the economic projections.

The Brazilian economy, as well as all other emerging economies, was affected by this situation. The monetary authority and the Government took anticyclical measures to check the downturn in industrial activity. Although an upward trend started in the second half of the year, the 2012 growth rate was disappointing. The Brazilian GDP grew by 0.9% in 2012, far below the 3% expansion projected in the previous year. An even greater reason for concern was the perceived drop in investments, essential to promote growth and mitigate the infrastructure bottlenecks. The main stimulus measures taken by the government included a temporary tax break for certain industries and a steady reduction in the basic interest rate, which fell from 11.5% at the close of 2011 to 7.25% at the close of 2012.

Nevertheless, it was not a lost year. The labor market remains one of the pillars of the Brazilian economy and helps maintain household spending. According to IBGE (Instituto Brasileiro de Geografia e Estatística, or Brazilian Institute of Geography and Statistics), the unemployment rate stood at 4.6% at the close of 2012—the lowest in the historical series—, with an average rate of 5.5% in the year. The average income of the working population rose by 4.1% vs. 2011, when it rose by 2.7%.

It is in times of uncertainty like these that Algar's business diversification strategy

proves wise. The Group operates in different industries, many of which complement one another, which helps it maintain a solid, safe presence nationwide. However, the telecom and agribusiness segments stand out, accounting for 48.71% and 43.9% of net revenues respectively.

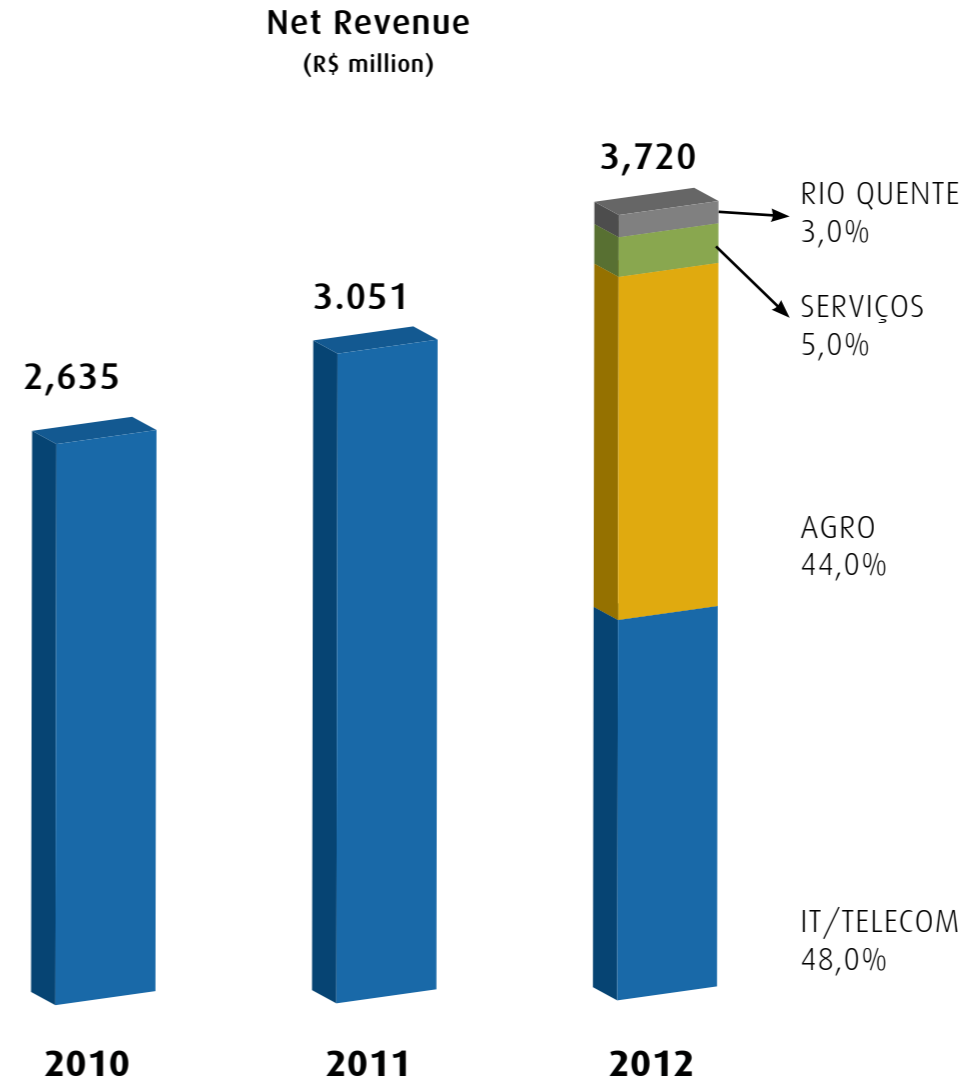
The telecom industry was once more benefited by the booming demand for mobile phone services (in 3G lines with access to mobile broadband) and for pay TV services, which increased by 27%, the sharpest growth in the industry. In turn, Algar Telecom was able to seize the opportunity and increased its market share in its concession and authorization areas.

Concerning agribusiness, there was a drought in South America in early 2012, which had a direct impact on prices. Grain prices reached all-time highs; as a result, revenues increased by 15.8% even though exports flattened out year-over-year. With favorable climatic conditions in early 2013, the outlook remains positive for the industry.

## Economic and Financial Performance

### Net Operating Revenues

Grupo Algar's consolidated net revenues amounted to R\$3,719.9 million at the close of 2012, up 21.9% vs. the amount recorded at the close of 2011, when they came to R\$3,051.1 million. The operational performance of all the Company's different businesses contributed to this result. The agribusiness segment, which accounted for 43.9% of net revenues, recorded a 44.3% revenue increase due to higher soybean prices in the international market. Revenues from the IT/telecom segment increased by 7.7% and accounted for R\$129 million of total net revenues. This rise resulted from the increases in BPO and IT operations, as well as in broadband and data services, in the concession area.

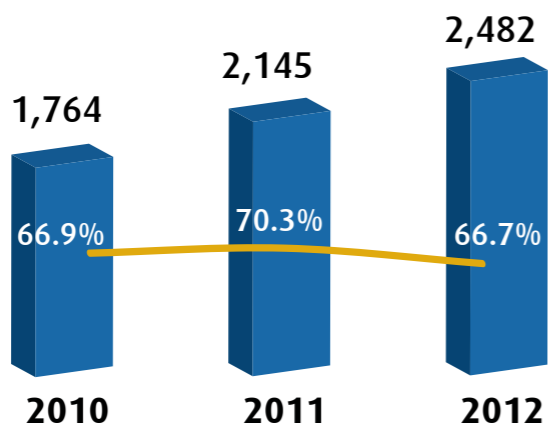


### Cost of Goods Sold and Services Provided

In 2012, Grupo Algar reported R\$2,481.9 operating costs, up 15.7% from the R\$2,145.4 million recorded in 2011. The cost-to-net-revenue ratio stood at 70.3% in 2011 against 66.7% in 2012, which shows that Algar has succeeded in using resources more efficiently.

The greatest increase was in raw material and input costs, which came to R\$1,221.8 million in 2012 vs. R\$881.8 million in 2011, a 37.5%.

**Cost of Goods Sold and Services Provided (R\$ million)**



### Gross Profit and Gross Margin

After the costs described above, the Group recorded gross profit of R\$1,238.0 million, up 36.7% against the R\$905.7 million reported in 2011. Gross margin stood at 33.3% at the close of 2012, up 3.6 p.p. from the 29.7% recorded in 2011. Gross margin increased because net revenues rose proportionally more than costs.

### Operating Expenses

(R\$ million)	2012	2011	2012 x 2011
Selling Expenses	373.7	345.6	8.1%
General & Administrative (G&A) Expenses	244.9	197.6	23.9%
Total Operating Expenses	618.6	543.1	13.9%

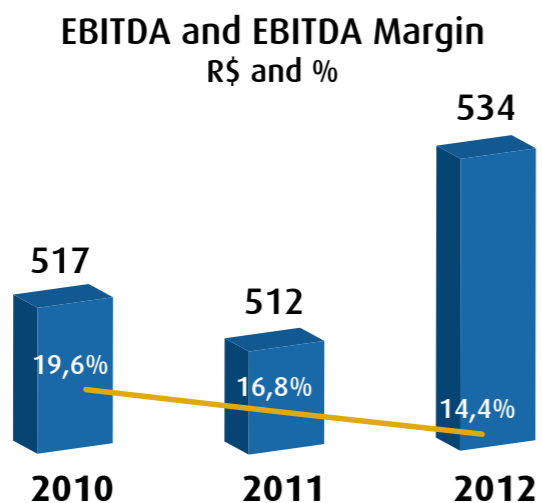
Operating expenses totaled R\$618.6 million in 2012, rising by 13.9% in relation to 2011, when they came to R\$543.1 million. Selling expenses rose by 8.1%, from R\$345.6 million in 2011 to R\$373.7 million in 2012, less than the increase in net revenues.

General and administrative expenses climbed by 23.9%, from R\$197.6 million in 2011 to R\$244.9 million in 2012. These higher expenses are connected with the expansion in operations, mainly in the IT/telecom and agribusiness segments. Personnel expenses shot up by 20.1%, explained largely by new hirings for Projeto Minas (Minas Project) and client services in the IT/telecom segment.

## EBITDA and EBITDA Margin

In 2012, operating cash generation as measured by EBITDA came to R\$534.x million, 4.3% higher than the R\$512.x reported in 2011. On the same basis for comparison, EBITDA margin fell by 2.4 p.p. to 14.4% at the close of 2012.

All the Company's business segments contributed to EBITDA. However, IT/telecom outperformed all others and increased by 10.2% in relation to 2011, followed by Tourism at 8.3%. This expansion was made possible by Algar Telecom's performance in the corporate market, its main business focus, mainly in connection with broadband, data, BPO and IT products. On the other hand, the agribusiness segment recorded a 35.2% drop in the same period, explained by higher costs in variable inputs (components of industrial costs), freight costs in domestic sales and fobbing costs in exports (port tariffs). They were also negatively impacted by overhead expenses due to the organizational restructuring.



## Financial Result

(R\$ million)	2012	2011	2012 x 2011
Financial Income	500.2	358.6	39.5%
Financial Expenses	-874.9	-488.2	79.2%
Net Financial Income (Expense)	-374.7	-129.5	189.3%

The Group reported a net financial loss of R\$374.7 million vs. a R\$129.5 million loss in 2011. The fact that the agribusiness segment had a financial loss of R\$282 million largely explains the Group's higher loss in 2012. That change was almost entirely due to: i) the agribusiness segment's increased need for working capital in connection with the margin at the Chicago Mercantile Exchange, which at a certain point exceeded US\$200 million whereas soybean futures reached higher prices and ii) the mark-to-market of financial instruments and inventories, which led to R\$120 million losses in derivatives.

\* Market value of financial instruments and inventories, net:

- Mark-to-market of inventories: a gain of R\$102 million in 2012 vs. R\$54 million in 2011.

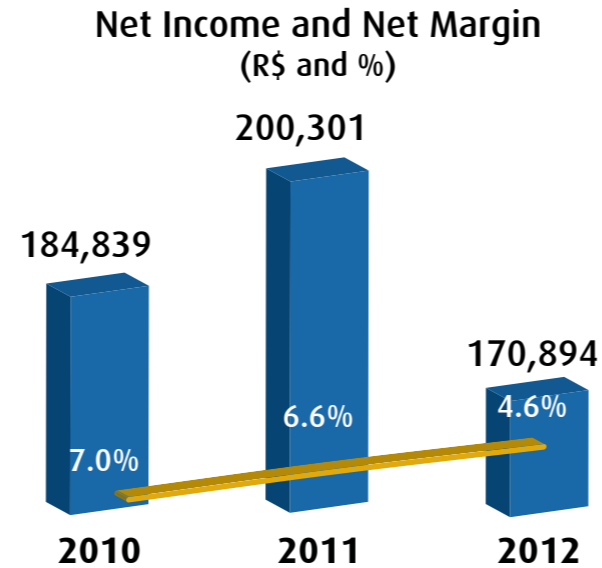
- Hedging operations: a R\$215 million loss in 2012 vs. a R\$117 million loss in 2011.

In 2012, Agro recorded an increase in contracts and higher average soybean prices: R\$72.00 in 2012 and R\$47.71 in 2011.



## Net Income

The bottom line of Grupo Algar's 2012 income statement totaled R\$170.9 million, a 14.7% drop over the R\$200.3 million recorded in 2011. The margin over net operating revenues was 4.6% in 2012, down 2.0 p.p. year-over-year. Higher revenues and profitability partly offset the major impact of the financial loss on net income.



## Investments (CAPEX)

In 2012, Grupo Algar invested R\$440 million in its businesses vs. R\$489 million in 2011.

Nearly 70% of this amount was invested in expanding operations in Algar Telecom's authorization area through Projeto Minas.

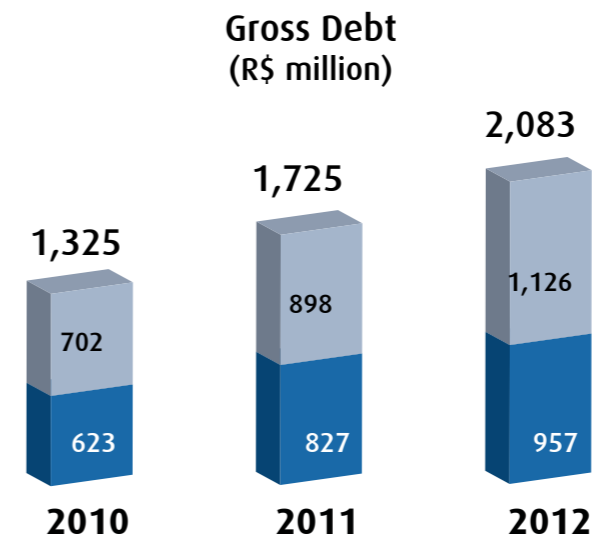
## Debt

(R\$ million)

Loans, supplier financing and debentures	Dec/11			Dec/12			Variation of the total	
	Short term	Long term	total	Short term	Long term	total		
Holding	827	898	1,726	957	1,126	2,083	358	21%
TELECOM	185	605	790	106	815	921	131	17%
AGRO	627	215	842	824	229	1053	211	25%
RIO QUENTE (50%)	5	27	32	6	26	32	0	1%
SERVIÇOS	6	22	28	14	32	46	18	62%
Algar	3	30	32	7	24	31	-1	-4%

On December 31, 2012, the Company had a consolidated gross debt of R\$2,083 million, a 20.7% rise year-over-year. Cash and cash equivalents amounted to R\$597 million, and net debt to R\$1,486 million.

The short-term debt totaled R\$957 million, up 15.7% from the R\$827 million reported at the close of 2011. Long-term debt increased 25.4%, from R\$898 million in 2011 to R\$1,126 million in 2012. The short-term debt ratio in 2010 versus 2012 rose 0.2 p.p. whereas the change the long-term ratio fell in the same proportion.



## Value Added

In 2012, Grupo Algar's operations generated a net value added of R\$2,030.1 million (vs. R\$1,666.1 million in 2011), which corresponds to 54.6% of net revenues. It was distributed as follows:

Direct economic value generated			
	2010	2011	2012
a) Net revenue from sales	2,600,000,000.00	3,100,000,000.00	3,719,898.00
Economic value distributed			
b) Operating costs	1,800,000,000.00	2,100,000,000.00	2,481,850.00
c) Salaries and employee benefits (1)	505,000,000.00	624,000,000.00	753,529.00
d) Payments for capital purveyors	185,000,000.00	200,000,000.00	449,478.00
e) Payments to government	611,000,000.00	646,000,000.00	712,105.00
e) Investment in the community			
Economic value retained			
	5,701,000,000.00	6,670,000,000.00	8,116,860.00

(1) Includes total wages, social charges and employee benefits.

### Significant financial assistance received from government

Grupo Algar receives tax incentives from the three spheres of government: local (ISS and IPTU – Culture Incentive Law of Uberlândia), state (State Law of Incentive to Culture) and federal (Fund for Children and Adolescents (FIA), Rouanet Law – Culture Incentive Law).

Value in R\$				
DESCRIPTION	2010	2011	2012	Comments
Municipal Law of Incentive to Culture	151,000.00	70,000.00	109,004.00	ISS/IPTU
State Law of Incentive to Culture (MG and SP)	2,219,542.00	2,417,574.00	2,812,771.00	ICMS
Federal Law of Incentive to Culture	804,330.00	801,270.00	833,633.98	Rouanet Law
Federal Law of Incentive to Sports	201,167.00	207,848.00	208,375.00	Sports Law
Fund for Children and Youth	202,834.00	207,732.00	178,280.00	

Examples: Tax incentives / credits, subsidies, Subventions for investment, research and development and other relevant types of concessions, Awards, Royalty holidays (incentives that delay the payment of royalties); financial assistance from Export Credit Agencies (ECAs); Financial incentives; Other financial benefits received or receivable from any government for any operation.

In 2012, tax incentives amounted to R\$4,142,259.38, allocated to the following projects/institutions:

### 1. Municipal Law of Incentive to Culture – Uberlândia

- ▶ A Pessoa Com Deficiência Visual Sob Um Novo Olhar (A New Look on Visually-Impaired People): 23,000.00
- ▶ ABBA de Lá e ABA de Cá: 20,000.00
- ▶ “O Mágico de Oz” (The Wizard of Oz) Tour: 26,002.00
- ▶ Dançarte para Meninos (Dance Art for Boys): 12,002.00
- ▶ “Um Violino com Amor” (A Violin with Love) in Nicolau Sulzbeck’s performances: 28,000.00

### 2. Minas Gerais State Law of Incentive to Culture

- ▶ Circulação Escutatória Emcantar: 380,825.50
- ▶ Emcantar Singing, Drama and Percussion Workshops: 275,000.00
- ▶ Minas Gerais State Philharmonic Orchestra–State- and Nationwide Tours 175.000,00
- ▶ Uberlândia Youth Orchestra: 150,000,00
- ▶ 3rd Winter Festival of Serra da Canastra: 150,000.00
- ▶ 7th Festival of Arts and Culture: 119,250.00
- ▶ 8th Nathan Schwartzman String Festival: 148,044.08
- ▶ Natal no Campus 2012 (2012 Christmas on Campus): 30,000.00
- ▶ Rasgacêro e os Artêros Geraes: 150,000.00
- ▶ Recortes da Memória - Histórias de Vida (Memory Cut-Outs–Life Stories): 268,750.00
- ▶ Reconhecimento Rondon Pacheco: 247,610.00
- ▶ Triângulo das Geraes III: 285,000.00
- ▶ Uberlândia de Ontem e Sempre (Uberlândia Now and Forever): 312,500.00
- ▶ Franca Basquete.com Project: 120,791.00

### 3. Federal Law of Incentive to Culture (Rouanet Law)

- ▶ Emcantar: Ideias Incontidas – 3rd year: 241,655.00
- ▶ Emcantar: Escutatória Tour: 327,125.00
- ▶ Cerrado Choir: 264,853.98

### 4. Federal Law of Incentive to Sports (Sports Law)

- ▶ Instituto Sports (Sports Institute): 180,000.00
- ▶ Minas Tênis Clube (Minas Tennis Club): 28,375,00

### 5. Fund for Children and Youth (FIA)

- ▶ Uberaba City Commission for the Rights of Children and Youth: 13,430.00
- ▶ Itajubá City Commission for the Rights of Children and Youth: 15,500.00
- ▶ Itumbiara City Commission for the Rights of Children and Youth: 15,000.00
- ▶ Patos de Minas City Commission for the Rights of Children and Youth: 13,430.00
- ▶ Pará de Minas City Commission for the Rights of Children and Youth: 13,430.00
- ▶ Franca City Commission for the Rights of Children and Youth: 13,430.00
- ▶ Ituiutaba City Commission for the Rights of Children and Youth: 16,000.00
- ▶ Uberlândia City Commission for the Rights of Children and Youth: 16,000.00
- ▶ Santa Luzia Municipal Assistance Fund: 13,430.00
- ▶ Municipal Fund for Children and Adolescents / Jogo Limpo II: 8,100.00
- ▶ Municipal Fund for Children and Adolescents / ApriMorar: 8,100.00
- ▶ AACD São Paulo: 13,430.00
- ▶ AACD Uberlândia: 16.100,00
- ▶ AACD Porto Alegre: 2,900.00



In 2012, Grupo Algar also received R\$1,321,239.69 from tax incentives to technological innovation, earmarked to Algar Telecom's and Algar Tecnologia's R&D projects. These amounts were R\$1,064,103 and R\$777,408 respectively in 2011 and 2010.

In 2011, the Brazilian Federal Government launched the Brasil Maior (Greater Brazil) Plan, designed to strengthen the Brazilian manufacturing industry against competition from imported goods. The purpose is to promote the sustainable growth of the Brazilian economy despite the deepening international crisis and market downturns. The Plan comprises tax and credit measures, trade financing, incentives to the IT and communications industries.

The IT, call center and hotel businesses of Grupo Algar received incentives, such as lower payroll taxes, with the replacement of dues paid by employers (20% of INSS) by a tax-like contribution of 2.0% of gross revenues. This incentive led to a R\$20,579,522.55 drop in Grupo Algar's tax expenses.

**GRI: EC4**

# Algar

## AWARDS AND RECOGNITION

### Algar Agro

#### AMIS Award

AMIS (Associação Mineira de Supermercados. or Minas Gerais State Association of Supermarkets)

#### Gente Nossa Fornecedor (Our People Supplier) Award

Oil category, awarded by Amis - Minas Gerais State Association of Supermarkets;

#### Correio de Uberlândia's Top-of-Mind Award

The local newspaper Correio de Uberlândia awards the brands most recalled by local consumers.

### Algar Segurança

#### Correio de Uberlândia's Top-of-Mind Award

Algar's security company stood out among the brands most recalled by consumers in the city of Uberlândia

#### Prêmio Visão Agro Paulista 2012 (2012 Visão Agro Award – São Paulo State)

One of the highlights in Security and Access Control

#### Prêmio Visão Agro Nacional 2012 (2012 Visão Agro Award – Brazil)

One of the highlights in Security and Access Control

#### Prêmio Melhores do Ano (Best of the Year Award)- TOP 100 Aitmap 2012

Was ranked high among the top companies in the year by Associação de Imprensa e Cultura do Triângulo Mineiro e Alto Paranaíba (Press and Culture Association of Triângulo Mineiro and Alto Paranaíba)

### Algar Tecnologia

#### Brazil's Most Admired Companies–Carta Capital Magazine

Was ranked high among Brazil's most admired companies; 4th in the contact center category

#### Melhores e Maiores do Brasil 2012 (Brazil's 2012 Best and Biggest) – Exame Magazine

One of the highlights among Brazil's 1,000 largest companies. The company climbed 31 positions (to 873rd) in relation to the previous year.

#### Prêmio Consumidor Moderno 2012 (2012 Modern Consumer Award)

Was elected the contact center of the year in the 13th edition of Prêmio de Excelência em Serviços ao Cliente (Client Service Excellence Award), given by the Consumidor Moderno (Modern Consumer) Magazine.

#### TOP 10 Full Outsourcing – Série Estudos Yearbook

10th position in the Full Outsourcing ranking, with the best improvement among all players, in the main ranking of the industry.

#### Top 200 2012 – Informática Hoje (IT Today) Yearbook

Was ranked 43rd among the top IT companies, climbing 55 positions in relation to the previous year.

#### IDC (International Data Corporation) Ranking

A 2011 study ranked Algar Tecnologia among the top-growing IT companies.

#### INSADI Award in Process Excellence

The DTH Lean case, the first major project in which Algar Tecnologia used the Lean Seis Sigma methodology, won first prize in the Process Excellence category.

### Prêmio Nacional de Telesserviços 2012 (2012 Brazilian National Tele-Services Award)

The TOP Performance case won first prize in the Best Job Training Initiative category of the award, given by Associação Brasileira de Telesserviços (Brazilian National Tele-services Association), which undertakes initiatives so that its members are motivated and united around a common purpose, and can, therefore, help their clients achieve their goals more assertively.

### SAP Hosting Partner

Received the international certification SAP Hosting Partner, recommended by SAP Global, which recognizes superior performance, scalability and availability of the IT environment.

### SCC (Support Center Certification) Seal

Two service desk operations of the company received the certification, given by HDI Help Desk Institute.

### Selo Amigos da Cultura (Friends of Culture Seal)

Uberlândia Municipal Government

### Prêmio Empresário Amigo do Esporte (Entrepreneur Friend of Sports Award)

A tribute from the Ministry of Sports for the entrepreneurs who mostly contributed to sports projects through the Sports Incentive Law

## Algar Telecom

### Brazil's 20 Most Innovative Companies-Época Magazine

Was ranked Brazil's 10th most innovative company (1st among telecom companies)

### The 100 Most Innovative Companies in the Use of IT - IT Mídia and InformationWeek Brasil

The Portal de Vendas (Sales Portal) case won first prize in the Technology, Media and Telecommunications category.

### XII ABT Award – Associação Brasileira de Telesserviços (Brazilian Association of Tele-services)

Gold trophy in the Innovation category with the case “URA de Desbloqueio” and silver trophy in the Internet and Social Media category with the case “SAC 2.0 CTB”.

### Prêmio Tele.Síntese de Inovação (Tele.Síntese Innovation Award)

2nd runner-up in the yearbook with the case “Repórter 3G” (3G Reporter)

### 2012 Aberje Award – Associação Brasileira de Comunicação Empresarial (Brazilian Association of Corporate Communication)

First national prize in the Communication with Consumers category with the case “CTBC Responde” (CTBC Replies) and 1st regional prize in the Communication with Society category with the case “Iniciativa Verde” (Green Initiative)

### Best Companies to Work in Brazil – Época Magazine

Was ranked 37th among the 130 Best Companies to Work in Brazil by the Great Places to Work Institute

### Melhores Empresas para Trabalhar em TI e Telecom 2012 (Best IT and Telecom Companies to Work – 2012) – ComputerWorld

Was ranked 25th among the 100 Best IT and Telecom Companies to Work in Brazil by the Great Places to Work Institute

### Prêmio Consumidor Moderno de Excelência em Serviços ao Cliente 2012 (2012 Modern Consumer Award for Excellent Client Services)

Winner in the Regional Fixed-Line Phone Services category and in the Regional Mobile Phone Services category

### 2012 Sustainability Ranking – Imprensa Magazine

Was one of Brazil's highlights in the “The Most Sustainable Companies According to the Media” ranking

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Uberlândia Municipal Government

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A tribute from the Ministry of Sports for the entrepreneurs who mostly contributed to sports projects through the Sports Incentive Law

## Engeset

### Top 200 2012 – Informática Hoje (IT Today) Yearbook

Engeset was ranked 13th among Brazil's 50 largest system integration companies.

### Melhores Empresas para Trabalhar em TI e Telecom 2012 (Best IT and Telecom Companies to Work – 2012) – ComputerWorld

Was ranked 97th among the 100 Best IT and Telecom Companies to Work in Brazil by the Great Places to Work Institute

### 2012 Telecom Yearbook

Ranked 56th among the 100 largest IT companies

### ISO 9001 – Bureau Veritas Certification

Earned ISO 9001 (Quality Management) recertification in October 2012

### ISO 14001 – Bureau Veritas Certification

Earned ISO 14001 (Environmental Management) recertification in October 2012

## Rio Quente Resorts

### Best Companies to Work in Brazil 2012 – Época Magazine

Was ranked 43rd among the 100 best companies selected by the Great Places to Work Institute, jointly with Época Magazine

### Best Companies to Work in the Center-West Region 2012 – Época Magazine

5th among the best companies selected by the Great Places to Work Institute, jointly with Época Magazine

### 2012 Você S/A Guide – The Best Companies for you to Work

Was one of the best companies to work in the Services industry.

### O Melhor de Viagem e Turismo (The Best of Viagem e Turismo (Travel and Tourism) Magazine) – Reader's Choice

Abril Publishing House's Viagem e Turismo Magazine-top-of-mind country resort in the 2012/2013 edition of the award.

### Caio Award – Eventos (Events) Magazine

Won the Gold Award (1st price) in the Enterprises–Urban or Country Resort (Center-West and North Regions)

### ISO 14,001 Seal

This certification shows that the company adopts environmentally responsible practices in its activities.

### 2012 Excellence Certificate – Trip Advisor

The travel website granted the certification to Hot Park, based on the excellent evaluations received from its users.

**GRI: 2.10**

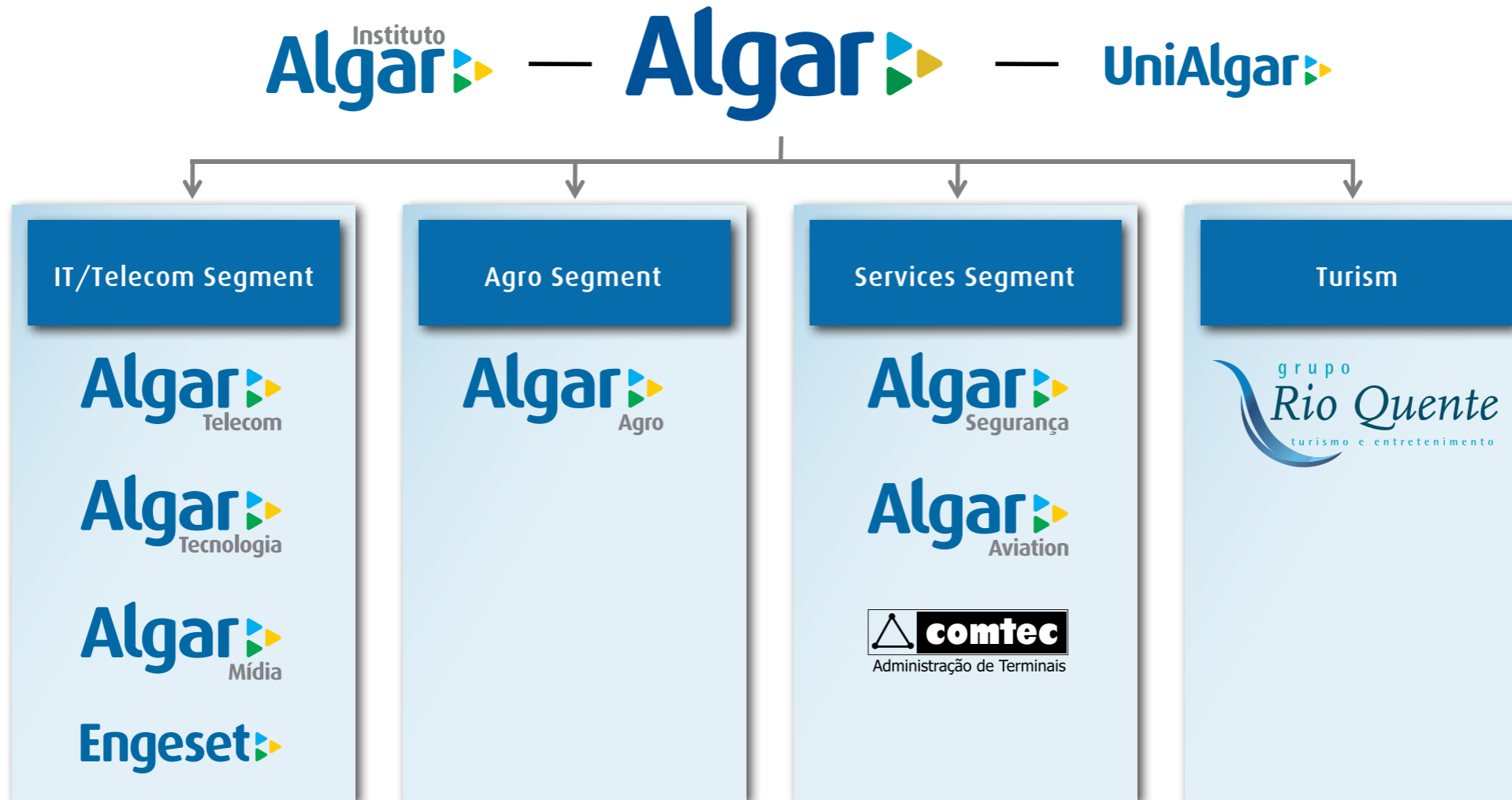




## OPERATIONAL MODEL

### BUSINESS SEGMENTS

The Algar companies are structured in four distinct business segments: IT/telecom, agribusiness, services and tourism. In 2012, nearly 2 million clients, among individuals and corporations from all over Brazil, used the products or services provided by the Group's nine subsidiaries.



## IT/Telecom Segment

### Algar Telecom

This publicly-held corporation went into business in 1954 and currently has about 896,000 clients. It distinguishes itself for its efficient services and use of innovative technologies. Its challenge for coming years is to grow in a sustainable manner, safeguarding its values and service quality, both in the corporate and in the retail market.

In the concession area, Algar Telecom is present in 87 cities and towns in the states of Minas Gerais, São Paulo, Goiás and Mato Grosso do Sul. Its service portfolio in these cities and towns comprises fixed-line and mobile phone services, broadband internet access (3G and ADSL), data communication, pay TV (DTH and cable) and code 12 operator for long-distance and international calls for the residential and corporate markets.

The effort to expand the network also covers the 19 cities and towns in Minas Gerais State (area codes 34, 35 and 37) that make up the Band H area, a frequency range for 3G telecom services that the company acquired at an auction two years ago.

Algar Telecom also has an authorization to provide voice, data and TV services throughout Brazil. In this segment, the company is expanding geographically to areas with the greatest sales potential around the company's backbone and is mainly targeting the corporate market, mainly medium-sized and large companies. The main goal, however, is to grow in the corporate market by providing voice and data services in an area that includes some of the main cities in Brazil's Southeast, Center-West and South Regions, such as São Paulo, Campinas, Ribeirão Preto, Goiânia, Belo Horizonte, Juiz de Fora, Rio de Janeiro and Curitiba. In this regard, it opened headquarters in São Paulo and Belo Horizonte in 2012 and developed marketing initiatives to strengthen brand exposure in mainstream media.

To pursue its strategy, Algar Telecom invests heavily in education and training programs and infrastructure. In 2012, 32 VoIP locations were opened, including a company-owned network in all state capitals in the Northeast Region. This shows the company's commitment to Brazil's growth and effort to serve clients throughout the country.

Algar Telecom's excellent results in 2012 show the assertiveness of its strategies, but there are two other achievements that give it an edge: the excellent response to last year's issue of debentures, with a demand 63% higher than expected, and its constantly evolving sustainable practices, which allowed the company to improve its Annual Sustainability Report to Application Level B (GRI 3.0) in 2012.



## Algar Tecnologia

Algar Tecnologia has provided the corporate market with technology solutions for business processes through Business Process Outsourcing (BPO) since 1998. At the close of 2012, it had over 9,000 associates and a diversified client base with over 200 companies from the health care, financial, education, manufacturing, utilities, media and entertainment industries, in addition to the government. Algar Telecom, its partner and also its main client, accounted for about 30% of the total client base.

Algar Tecnologia's service portfolio is divided into four specialty areas:

**Information technology (IT) infrastructure** – Services designed to increase productivity and offer the most cost-effective IT solutions considering clients' business performance. To that end, the company has three data centers strategically located—two in Uberlândia (Minas Gerais State) and one in Campinas (São Paulo State)—and connected through an optical fiber network. They provide services in Brazil and other countries.

**Services Management** – The Company provides support for and manages IT and telecom services. Experienced professionals specializing in the main technologies and practices in the market make clients' operations more secure and ensure that IT functions are available for all users in the organization.

**Business application** – With know-how and a team of professionals certified by the main market players, Algar Tecnologia offers business applications with comprehensive solutions. Services are based on company-owned software factories or strategic partnerships with major software manufacturers in the market and include the development and support of solutions adapted to clients' business profile. The company's methodology is based on the best software engineering, project management and maturity model practices.

**Client relations** – Algar Tecnologia offers quality solutions that allow companies to take care of some of their main assets: their clients. Its team uses advanced support technologies and the best market practices to improve client relations by means of contact centers and the internet. The company currently has about 9,000 associates in client service operations, credit risk management, telemarketing sales, business back office and client experience management.

At the close of 2012, Algar Tecnologia had Brazil's first contact center with 100% of the client relations management level formed in the 1st Six Sigma level in Yellow Belt. This means that all service supervisors are prepared to apply the DMAIC (Define Measure Analyze Improve Control) method and the basic Lean Six Sigma tools, thus allowing full support for ongoing improvement projects, which produces results quickly and makes clients' operations more profitable.

Relationships are also an important growth factor, and Algar Tecnologia has a close relationship with its clients to get a better understanding of their needs and be able to develop customized solutions jointly to make critical processes more efficient and effective, thus creating value for their clients. The current growth strategy focuses on strengthening brand image by participating more actively in the industry's events and publications, building relationships with media outlets, using new social media tools and improving its relationship with its client base.

Internal service quality programs were developed to support growth. A good example is Top Performance, designed to increase productivity and improve service quality at the contact center. The results of this program reshaped Algar Tecnologia's management, and the program was replicated for the other products and all support divisions.

## Engeset

Engeset has expertise in comprehensive IT and telecom infrastructure solutions, which comprise consulting services, project development and network development and maintenance. The company has installed over 20,000 km of optical fiber networks and is currently in charge of maintenance on 23,000 km since it was founded in 1991.

Although it plays a strategic role in Algar Telecom's development, Engeset has an expanding addressable market. Currently, its diverse client base is served by highly-skill professionals in 23 business units throughout Brazil, including the cities of São Paulo, Rio de Janeiro, Belo Horizonte, Salvador, Campinas, Recife, Fortaleza, Brasília, Macaé, Goiânia, Curitiba, Porto Alegre, Uberlândia, Uberaba and Franca.

## Algar Mídia

In the market for over four decades, Algar Mídia is a transmedia company that offers solutions for interaction between its clients—mainly small and medium-sized companies—and the public by means of different information platforms in three segments:

### Update media

Includes Correio de Uberlândia, a newspaper founded in 1938 with average distribution of 12,000 copies and a measured readership of about 50,000 people/day and its derivatives: an online version with an average of 30,000 unique visits a day, and the magazines accompanying the copies throughout the year.

### Consultation media

The company's core business, this segment comprises the phone directory Sabe, with an annual distribution of 1,250 million, the guides Sei, Viver and Netsabe (a search engine with the contents of the directory and guides). The products reach about 250 cities and towns located in the states of Minas Gerais, São Paulo and Goiás.

### Exposure media

This is the company's most recent business. It started up in 2011 to meet new demands for digital solutions and has great has a great growth potential in coming years. Available in the same cities of the consultation media segment, digital out-of-home consists of offline tools (voice) and online tools (information screens) installed in busy areas, such as supermarkets, bus terminals, gyms, clinics and hospitals. At the close of 2012, Rede Alooh had 640 digital screens and, including offline services, reached about 4.5 million people/day.

In a difficult year, mainly for print media, Algar Mídia introduced significant changes, focusing on the growth of digital media. In addition to technological upgrades, such as launching new versions of the search engine Netsabe and of the Correio de Uberlândia website, the company invested in changes in its sales force, which was unified. As a result, a single service, provided for 95% of the clients by Algar Mídia consultants skilled in print and digital media, was implemented. In 2013, the company's challenge is to continue to serve as a major connection between small and medium-sized companies and their target audience, thus contributing to business growth.



## Agribusiness

### Algar Agro

This company has been in the soybean market since 1978. It produces, processes and markets soybeans in the domestic and in the international market. Its cash cow is the ABC soybean oil, which it produces itself and is the market leader in Minas Gerais State, and RaçaFort soybean meal. The food product mix for the retail market also includes olive oil, blended oil, tomato paste and tomato sauce, all under the brand ABC de Minas. In a smaller scale, it is also present in crop farming (soybeans and corn) and livestock farming (meat and dairy) through ABC Agricultura e Pecuária S.A.

In 2012, Algar Agro's main achievement was opening the company's second refining plant, in Porto Franco, Maranhão State. Just like that in Uberlândia, the new refining plant is one of Brazil's most advanced industrial facilities for crushing soybeans and refining and bottling soybean oil. Both plants put together produced 7.5 million boxes of ABC de Minas soybean oil. In the Triângulo Mineiro area, the product was the market leader once more in 2012, with a 26% share. In the North and Northeast Regions, the company achieved an initial market share of 4%.

As for soybean origination, the crop failure led to higher soybean prices and required an even greater effort in financial management. Nevertheless, the company was able to maintain the excellent volume recorded in the last few years: 1.3 million tonnes of soy originated in the three areas in which it is present: the states of Minas Gerais, Mato Grosso and Goiás and MAPITOPA, an area that covers the states of Maranhão, Piauí, Tocantins and Pará. International operations, very sensitive to the macroeconomic developments, recorded total revenues of US\$367 million from soybeans and soybean meal.

## Services

### Algar Aviation

In the executive aviation market since 1976, the company sells aircraft (it is the exclusive representative in Brazil of the single-engine airplane TBM 850, manufactured by French Daher-Socatae, and of the two-engined airplane P180 Avanti II, manufactured by Italian Piaggio Aero), maintenance and freight (passenger and light cargo transportation, like valuables and laboratory supplies), in addition to airport and hangar services.

The good market prospects for Brazil's executive aviation market, with the entry of new aircraft in the last few years and the large number of runways that are not yet served by commercial routes—led the company to undergo restructuring process in 2012, to strengthen its position in the aircraft maintenance market even more. In this regard, Algar Aviation acquired a new hangar at Pampulha airport, in Belo Horizonte, which will be enlarged and refurbished, and invested R\$500,000 in training its professionals.

The aircraft maintenance segment, the company's core business, grew by 14% in 2012 year-over-year, with net revenues of R\$27 million. The contract to refurbish the Brazilian Air Force's Bandeirante aircraft greatly contributed to this result. In addition to the Bandeirante, Algar Aviation is able to service the main executive aircraft models (turbo props and jets), such as King Air, Xingu, TBM, Citation and Learjet, and is an Embraer Authorized Service Center to perform maintenance services on the Phenom 100 and Phenom 300 aircraft.

Another achievement of Algar Aviation in 2012, which is in line with its efforts to contribute to Brazil's development by bridging the gap between people and businesses, was the sale of three aircraft: two TBM 850 and one Piaggio P180 Avanti.

The strategy for the coming years is to expand the businesses, open a service base in the Northeast, the fastest-growing Brazilian region, and seek approval to service larger aircraft in view of the active executive aviation market in Brazil.

### Comtec

Comtec (Companhia de Administração de Terminais Urbanos e Centros Comerciais, Urban Terminal and Commercial Center Administration Company), which belongs to Grupo Algar and Andrade Gutierrez, administers the terminals that make up Uberlândia's Integrated Urban Public Transportation System. In 2012, the concession contract for the terminals administered by Comtec was extended by the city for another 15 years, to 2017.

The five bus terminals administered by Comtec (Central, Industrial, Planalto, Santa Luzia and Umarama) are used by almost 5 million passengers per month. The terminals allow transferring from one line to another and provide a comfort safe environment for shopping at Pratic Shopping. In addition, they have post office, drugstores, ATMs and lottery outlets.

The increasing purchasing power of working and lower-middle classes contributed to a 15% growth in business in 2012.

### Algar Segurança

Algar Segurança has been in business for 14 years. It combines cutting-edge technology and skilled professionals to offer customized security solutions to companies from different industries, as well as residences, in an innovative and sustainable manner. Its service portfolio includes property security, electronic security and document management.

The company's operating area is growing continuously. In 2012, the company was present in six states: Minas Gerais, Goiás, São Paulo, Paraná, Mato Grosso and Mato Grosso do Sul. Strategically located, Algar Segurança's operational bases serve a diversified client base that comprises agribusiness companies, logistics companies, educational institutions, manufacturing plants, condominiums and shopping malls.

In 2012, the company invested about R\$4 million in expansion projects.





## Tourism

### Rio Quente Resorts

The largest hot spring resort in South America belongs to Grupo Algar and Grupo Gebepar, from Goiânia. It is located in the heart of the Cerrado region and was opened in 1964. The enterprise operates in four leisure segments: hotel services, entertainment, tourism and vacation ownership. Its infrastructure comprises the water park and seven hotels. The Rio Quente Vacation Club, with 196 rooms, started up in 2012 and is for the exclusive use of over 17,000 guests in the Group's timeshare program. The others are mixed-use hotels that offer more services to boost results.

In 2012, the Rio Quente Resorts group hosted about 1.3 million guests and visitors and provided over 660 direct jobs. The hotels' day-to-day activities all follow the concepts of sustainability embraced by Grupo Algar. Rio Quente Resorts also has in place programs for the rational use of natural resources, water quality monitoring, solid waste management, wildfire prevention and environmental awareness-raising initiatives involving associates, visitors, clients, suppliers and the community. As a result of its ongoing concern about the preservation of the Cerrado ecosystems,

the resort received the international environmental responsibility certification ISO 14,001 for the 11th year.

Also in 2012, it started building a modern 5,000-sq meter Food Production and Distribution Center, divided into pre-preparation, kitchen, baking and packing facilities among others. It will employ about 100 associates who will be preparing up to 15,000 meals a day. The center's distinct features will be its new techniques for cooling, cooking and storing food. They will allow planning the preparation of meals seven days in advance while maintaining their quality and flavor. The construction is scheduled to be finished in June 2013 and has investments of R\$15.0 million.

**GRI: 2.2; 2.7; 2.9**





## SOCIETY AND THE ENVIRONMENT

Grupo Algar believes that inspiring people to adopt sustainable practices can change the future of our planet. As a result, it is a signatory to the Global Compact, an initiative developed by the United Nations Organization (UNO) to encourage the business community to adopt values related to human rights, labor relations, the environment and the fight against corruption. In addition, it adopts a series of practices based on the three pillars of sustainability: economic, environmental and social.

To ensure its economic sustainability, Grupo Algar follows an efficient management model and a solid corporate governance policy. This allows the holding company and its Subsidiaries to make wise decisions that will determine the Company's future. The social pillar focuses on promoting the development of the communities in which Grupo Algar is present by means of educational projects. Finally, the environmental sustainability initiatives are meant to promote conscientious management, with practices intended to engage the whole relationship network in the mission of preserving the ecosystem.



## INSTITUTO ALGAR

Grupo Algar believes that its operations and ongoing expansion have to promote the social development of the communities in which it is present. Constantly seeking to undertake initiatives that can change people's lives permanently, the Company believes that education is the most effective means to become engaged in improving human potential.

Instituto Algar, which celebrated its 10th anniversary in 2012, is in charge of all the Group's educational initiatives. It is an OSCIP (Organização da Sociedade Civil de Interesse Público, or Public Interest Civil Organization) and receives donations from all the Group's companies so that it can undertake social initiatives that contribute to the human development of school children and educators through all-round education. In 2012, the direct investments in social initiatives totaled R\$3 million. These funds allowed the Institute to continue its three programs, which were extended to four more cities last year. As a result, Instituto Algar currently reaches 16 cities in five states: São Paulo, Minas Gerais, Paraná, Goiás and Maranhão. All the cities to which the programs were extended are in the area in which Algar Telecom is expanding, which shows that Grupo Algar's business growth and social sustainability initiatives go hand-in-hand.

Responsible for bringing Algar companies closer to the community, Instituto Algar coordinates the Companies' volunteering initiatives. Associates are encouraged to take part in the Institute's on-site or distance learning programs during their working hours, as well as in specific campaigns conducted throughout the year. In 2012, 570 associates were involved in volunteering activities. The Institute also built closer relationships with city and state departments of education, primary public schools, educators, school children and sustainability organizations.

Instituto Algar also manages part of the funds coming from Grupo Algar's tax incentives. That amount exceeded R\$1.8 million in 2012. A total of R\$178,300 from Income Tax due was distributed to nine City Councils for the Rights of Children and Youth and four organizations through the Children and Adolescents' Fund. The

beneficiaries were the funds of Ituiutaba, Patos de Minas, Santa Luzia, Uberaba, Uberlândia, Pará de Minas and Itajubá (Minas Gerais State), as well as Curitiba (Paraná State), Itumbiara (Goiás State), São Paulo and Franca (São Paulo State).

Ten other cultural projects, including theater plays, workshops and projects for children, such as Dançarte para Meninos (Dance Art for Boys), in Uberlândia, and the Uberlândia Youth Orchestra, which received funds from local incentive laws (R\$109,000), state incentive laws (R\$955,800) and federal incentive laws (R\$569,000).





## Educational Programs

Instituto Algar has benefited over 250,000 students, 10,000 educators and 1,200 schools. Each group of stakeholders becomes engaged at different points of the process. The Institute comes into contact directly with secretaries and supervisors of education twice a year. It submits project proposals for the year at the first annual meeting and renders accounts at the close of the year. However, the Institute keeps contact with these officials by phone and e-mail throughout the year.

However, it maintains a closer contact with educators since education involves on-site and online learning activities, for example, meetings, conference calls, seminars and forums. In turn, Instituto Algar makes contact with students indirectly through questionnaires twice a year (at the beginning and at the end of the program) so that the impact on the learning process can be assessed.

In 2012, Instituto Algar's programs were conducted jointly with a total of 117 public schools from 16 cities and towns in five states (São Paulo, Minas Gerais, Paraná, Goiás and Maranhão) and involved 350 educators and 6,700 students.

### Algar Educa:

Focusing on education for teachers and officials from schools and public education bodies, the Algar Educa (Algar Educates) Program aims to discuss and disseminate the idea of All-Round Education for Human Development. Its phases comprise the preparation of an action plan so that the discussions give rise to actual initiatives and reach the whole school community easily.

The program includes on-site and distance learning activities. The on-site activities involve two training meetings (a total of 32 hours/year), two conference calls (a total of 4 hours/year), one closing lecture (4 hours) and one educational forum (6 hours). The two latter are held in November. In addition, two optional distance learning modules are offered, totaling an additional 40 hours/year. The training program also comprises guided assignments throughout the process.

In 2012, Algar Educa involved 282 educators from 96 schools located in 14 cities and towns in four States: Goiás, Maranhão, Minas Gerais and São Paulo. The program benefited 3,450 students and involved 570 volunteers. Encouraging associates to become involved in the community is part of the Institute's initiatives.

### Algar Lê:

Geared to school principals, educators and teachers from Uberlândia's public schools, the Algar Lê – Correio Educação (Algar Reads) Program offers workshops to develop educators' skills in making use of the newspaper in classroom activities from the 1st to the 9th grade. The main purpose is to improve the students' reading and writing skills, thus turning them into readers and writers of contents, as well as teaching them to value the print newspaper as a cultural vehicle that plays a key role in the local history and identity. In 2012, 45 educators from 15 undertook the initiative with 2,400 students.

Also in 2012, Instituto Algar organized a spelling bee competition involving 13 public schools in Uberlândia to improve contestants' reading and writing skills. At the final, 2 students and 2 teachers from the winning school won a trip to São Paulo City to visit the Museum of the Portuguese Language.

### Algar Transforma:

Algar Transforma (Algar Transforms) is developed jointly with Emcantar and benefited by federal and Minas Gerais State laws of incentive to culture. It is a complementary education program for children and teenagers (7 to 14 years old) and promotes social inclusion through digital culture, environment, integrated arts and literature workshops. The activities take place at Grupo Algar's Sports Club, in Uberlândia, and involved 245 students from 6 schools in 2012.

## PROGRAMA ALGAR SUSTENTÁVEL (SUSTAINABLE ALGAR PROGRAM)

All Grupo Algar's companies, depending on the specific features of each one's business, seek to mitigate the environmental impacts of their activities and promote environmentally sustainable practices. In terms of sustainability, all Algar companies share the challenge of reducing Greenhouse Gas (GHG) emissions.

Instituto Algar also plays an active role in the Algar Sustentável program, which furthers the culture of sustainability. In 2012, the main focus was developing action plans for Grupo Algar's companies. The companies introduced 20 specific projects that have been monitored and shared through monthly meetings with the Sustainability Committees.

Additionally, there were three meetings about specific topics (solid waste management, fleet management and energy efficiency) to strengthen the culture of sustainability and discuss strategies to lower GHG emissions despite the Group's business growth.





## Total Direct and Indirect Greenhouse Gas Emissions by Weight

### Direct Energy Consumption

Amount of primary direct energy consumed by the organization:

Non renewable (GJ)	
	2012
Diesel fuel	97,489.00
Fuel Oil GMP	396,148.00
Liquefied Petroleum Gas - LPG	38,566.00
Gasoline A	39,219.00
Aviation fuel	20,650.00
<b>TOTAL</b>	<b>592,072.00</b>

Renewable (GJ)	
	2012
Biodiesel B100	4,790.00
Ethanol	29,981.00
Firewood	116,705.00
Sugarcane bagasse	260,691.00
Wood chips	680,282.00
<b>TOTAL</b>	<b>1,092,449.00</b>

**GRI: EN3**

## Indirect Energy Consumption

Non renewable			
	2010	2011	2012
electricity	349,989.00	366,765.00	465,632.94
heating			
steam			
nuclear energy			
Other forms of imported energy			
Total	349,989.00	366,765.00	465,632.94

In line with its action plan for GHG emissions, Algar Agro increased the use of renewable energy at the Uberlândia plant and replaced the boiler in the plant in Maranhão State to allow burning biomass in large scale. The company's CO<sub>2</sub> emissions are expected to drop by 80% as a result. The higher the amount of energy from biomass fuel, the lower the Company's GHG emissions. The reason is that biomass absorbed CO<sub>2</sub> from the atmosphere during photosynthesis, so the CO<sub>2</sub> released when it is burned does not contribute to the greenhouse effect.

Algar Telecom released 48.7% more CO<sub>2</sub> in 2012 in relation to 2010, mainly because a new regional office was opened in Divinópolis. Had it not been for this new unit, Algar Telecom's and its associates' effort would have led to a 7.0% decrease in CO<sub>2</sub> emissions. This effort includes the Carona Legal (Cool Ride) Program, which encourages carpooling among commuting associates. In addition to reducing the number of vehicles in the streets, this practice leads to lower fuel consumption and, consequently, savings and an environmental benefit.

At Algar Tecnologia, the use of electric energy accounts for a large part of the Company's total emissions due to the specific characteristics of its facilities.

Therefore, the company has installed presence detectors and organized training programs to encourage associates to turn off electrical equipment not in use. The shorter the time the lights are on, the lower the company's total consumption and the lower the costs and environmental impacts. The Company is also firmly committed to reducing waste.

At Engeset, which has a nursery for native plant species from the Cerrado region in its headquarters, the Rota Certa (Right Route) program has been created to optimize the routes traveled by technicians in facilities and maintenance visits, leading to considerably lower total mileage at the end of the year. In addition to allowing lower fuel consumption, the measure helped reduce emissions of GHG and other pollutants and increase the useful life of the fleet.

Rio Quente Resorts uses solar panels to heat water at the hotels, thus preventing the burning of natural gas to generate power. Another environmental practice adopted by the hotel complex is Bird Land. Although the project does not help reduce emissions of GHG and other pollutants directly, the company prides itself on it because it is South America's largest bird sanctuary. Bird rescued by IBAMA

(Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis, or Brazilian Institute of Environment and Renewable Natural Resources) recovered or still under ongoing treatment due to mutilation, injury, malnourishment or serious illness, are given a second chance to live in freedom there.

At Algar Segurança, one of the measures to reduce GHG emissions is the use of electric bicycles in security rounds. Electric bicycles are much more silent and attract much less attention than regular motorcycles, and need no fuel.

In turn, Algar Aviation preferably purchases more efficient aircraft, which, consequently, consume less fuel. The Company also has an agreement with specialized companies to dispose of oil, fuel containers and other solid wastes.

Algar Mídia's energy use dropped because the company purchased more efficient air conditioning systems whose air ducts are submitted to regular maintenance. In addition, the areas to be air-conditioned were reduced through the installation of more switches.

In addition to savings, the lower demand for electricity reduced the emissions required to generate it.

UniAlgar adopts selective waste collection, a practice that reduces emissions from the decay of waste disposed of in landfills and leads to greater benefits due to material recycling. In turn, the holding company is in a building in which the walls and part of the roof are made of glass, which increases energy efficiency.

#### GRI: EN4

In 2012, Algar undertook initiatives that led to a drop of 12,521.42 GJ in energy use. These include:

#### Resort Rio Quente

- Renewable energy generation (159,840kWh in 2012) by harnessing biogas from an anaerobic digester used for sewage treatment. Part of this energy was used to run the anaerobic digester itself, but the excess was used for other purposes.
- Replacement of the Hotel Pousada's chiller by a new air-conditioning system, which led to savings of 1,002,934.3 kWh/year.
- Replacement by LED bulbs of the internal and external light bulbs, which account for about 35% of Grupo Rio Quente's energy consumption. In 2012, these new bulbs allowed saving 12.5 kWh.
- Installation of solar panels for heating water used in showers, which led to savings of 86kWh in 2012.

Result: savings of 4,186.34 GJ

#### Algar Segurança:

Energy efficiency program

Result: savings of 267.10 GJ



**Telecom:**

a) Several energy efficiency initiatives:

- Chillers – savings of 550,322kWh
- Equipment replacement – savings of 377,439 kWh
- Lead Lag – savings of 682,871kWh
- Higher internal temperature – savings of 310,300 kWh
- CDMA- savings of 85,446 kWh
- Switch replacement – savings of 1,969 kWh
- Gains in Ibiraci – savings of 2,283 kWh
- Gains at the Franca office – savings of 3,356 kWh
- Unix Server – savings of 25,132 kWh
- Araguari Headend – savings of 14,805 kWh
- Eco-Commuting – savings of 20,827 kWh
- Source Replacement – savings of 148,024 kWh
- Air-conditioning system replacement – savings of 18,331kWh

Result: savings of 8,067.98 GJ

**GRI: EN5**

**Water Withdrawal by Source**

Total water withdrawal by source	
	2012
Surface water, including wetlands, rivers, lakes and oceans	0.00
groundwater	17,804,593.00
Rainwater	0.00
Effluents from another organization	0.00
Municipal water supply or other supply companies	18,878,3.01
<b>TOTAL:</b>	<b>17,993,376.01</b>

**GRI: EN8**

## Direct and Indirect Greenhouse Gas Emissions

Total direct and indirect greenhouse gas emissions by weight			
substance	2010	2011	2012
<b>Direct Emissions</b>			
Generation of electricity, heat or steam	26,517.6	20,059.4	37,900.00
Other combustion processes			399.72
Physicochemical improvement	0.6	0.9	520.49
Transport of materials, products or waste	5,616.8	7,047.1	8,759.00
The opening of vents			
Leakage emissions	238.6	383.9	513.00
<b>Indirect Emissions</b>			
Indirect energy consumption	4,989.0	2,947.8	7380.07

GRI: EN3, EN4, EN16

Other relevant Indirect emissions of greenhouse effect gases	
substance	2012
Indirect Emissions.	
Burning of LPG in industrial stove (Nutrin)	6.10
Land and air transportation	19,287.34
Paper consumption (printing + office) and solid waste treatment	681.00

Business trips and employee transportation included

**GRI: EN17**

Algar, by means of Algar Agro, replaced fossil fuel (BPF-1A oil) by biomass as boiler fuel to reduce GHG emissions in 2012. Four energy saving projects were developed at the Rio Quente Resort and 13 more at Algar Segurança (see EN5 indicator). Therefore, it was possible to achieve a reduction of 478.90 tCO<sub>2</sub>e, 79.75 tCO<sub>2</sub>e at Rio Quente, 5.45 tCO<sub>2</sub>e at Algar Segurança and 153.70 at Algar Telecom.

**GRI: EN18**

In 2012, Algar’s activities generated 0.4528 in HCFC-22 and 0.0033 in HCFC-124, gases for air-conditioning systems that can cause damage the ozone layer.

**GRI: EN19**

**Total Weight of Waste**

type	Weight	disposal method
<b>2012</b>		
Composting (tons)	6.46	Ecoponto
Reuse (tons)	12.10	Rio Quente - sending lubricating oil for refining in Proluminas, burning coconut in boiler and giving wood to the community.
Recycling (tons)	8.86	Various materials sent to Ecoblending and fluorescent lamps for decontamination Apliquim Brasil Recicle.
Landfill + incineration (tonnes)	3891.06	
Reutilization-organic waste (tons)	185.00	
<b>Total</b>	<b>4,103.48</b>	

**GRI: EN22**

## Initiatives to mitigate the impact caused by operational activities

### Rio Quente Resort:

- ▶ Anaerobic digester for sewage treatment to protect the ecosystem of the Água Quente Brook. The biogas generated can be used to produce electric power for the system and the hotels.
- ▶ Water Reuse System for the laundry room
- ▶ Reuse Water System: collection of water discharged from the swimming pools at Parque das Fontes, simple treatment and installation of a new pump house responsible for pumping water to the existing reservoirs, which supply water for the Rio Quente Resort.

### Algar Segurança:

- ▶ Ecoronda (Eco Security Rounds) Project, with the replacement of a motorcycle by an electric bicycle, thus reducing pollution and fossil fuel consumption.

### Telecom:

- ▶ Natureza em Conta (Nature into Account): This project is designed to save tonnes of paper and is geared to CTBC's individual fixed-line or mobile phone clients. Those who choose to receive their bills in electronic format are given an extra 50 minutes per month. Clients paying their bills by direct debit receive another 50-minute bonus.
- ▶ Recycling Potentially Hazardous Materials The Company also has collection points for phone cards, batteries, battery chargers and mobile phones. After sorting them out and returning recyclable materials to manufacturers, the recycling project disposes of potentially hazardous components appropriately.

**GRI: EN26**

## OUTLOOK

Grupo Algar remains optimistic about the performance of the Brazilian economy in 2013 and the Group's ability to seize all the opportunities that the country has to offer. The Algar companies have good operational and financial structure, as well as highly-skilled teams committed to the future.

In 2013, the Group as a whole is planning to invest about R\$420 million. Most of this amount will be allocated to the two main drivers of growth, which are still IT/telecom and agribusiness owing to their good performance in the last few years and the booming demand. A projected R\$350 million and R\$76 million will be invested in each of these segments respectively in the period.

Algar Telecom will invest mainly in improving its infrastructure, which is essential for the business to expand in the authorization area and in other areas and to increase the corporate client base. In 2013, the company will continue expanding its operations in cities and towns along the existing backbone in order to reach at least ten new cities and strengthen the brand to increase penetration in the geographic areas in which it is already present. Grupo Algar is planning to open new headquarters in Belo Horizonte in 2013, which will help it achieve this goal in the coming years. The new investments, coupled with ANATEL's regulatory measures, will also allow Algar Telecom to compete more aggressively in the mobile phone market.

Algar Agro's goals for 2013 are to increase soybean origination by 9% to 1.463 million tonnes and achieve a total production of 10,900 million boxes of soybean oil—6,500 million at the Uberlândia refinery to supply the Triângulo Mineiro area, in which it is the market leader, and the remainder at the Porto Franco refinery, in Maranhão State, to increase the product's share in the Northern and Northeastern markets.

Algar Agro will invest mainly in maintaining and upgrading its physical assets, which involves upgrading the Uberlândia plant and converting the energy mix of the Porto Franco refinery. In this regard, this effort reaffirms the company's commitment to having more and more sustainable operations, in addition to aiming at financial gains. However, about 66% of the investments will be allocated to new warehouses to prepare the Company for Brazil's soybean boom. Brazil's soybean crop is expected to increase by about 25% year-over-year, to 82 million tonnes.

Concerning the investments allocated to the Company's other businesses, it is worth noting the Food Production and Distribution Center of Rio Quente Resorts, scheduled to be opened in June 2013, and the upgrading of a hangar in Belo Horizonte, Minas Gerais State, acquired last year.

Strengthening the Algar companies' culture of innovation, which made great progress in 2012, is still an essential tool for the Group's sustainable growth. Grupo Algar will be investing R\$20 million in this effort in 2013. Furthermore, the Group will continue improving its risk controls and other corporate governance tools, undertaking the social initiatives organized by Instituto Algar and expanding the processes that effectively help reduce GHG emissions.



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## CORPORATE INFORMATION

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**GRI: 2.2; 2.4**

Algar Tecnologia - <http://algar.com.br/Empresas/Algar-Tecnologia>

Algar Telecom - <http://algar.com.br/Empresas/Algar-Telecom>

Algar Mídia - <http://algar.com.br/Empresas/Algar-Midia>

Engeset - <http://algar.com.br/Empresas/Engeset>

Algar Agro - <http://algar.com.br/Empresas/Algar-Agro>

Algar Aviation - <http://algar.com.br/Empresas/Algar-Aviation>

Algar Segurança - <http://algar.com.br/Empresas/Algar-Seguranca>

Comtec - <http://algar.com.br/Empresas/Comtec>

Rio Quente Resorts - <http://algar.com.br/Empresas/Rio-Quente-Resorts>



## CREDITS

### Internal coordination

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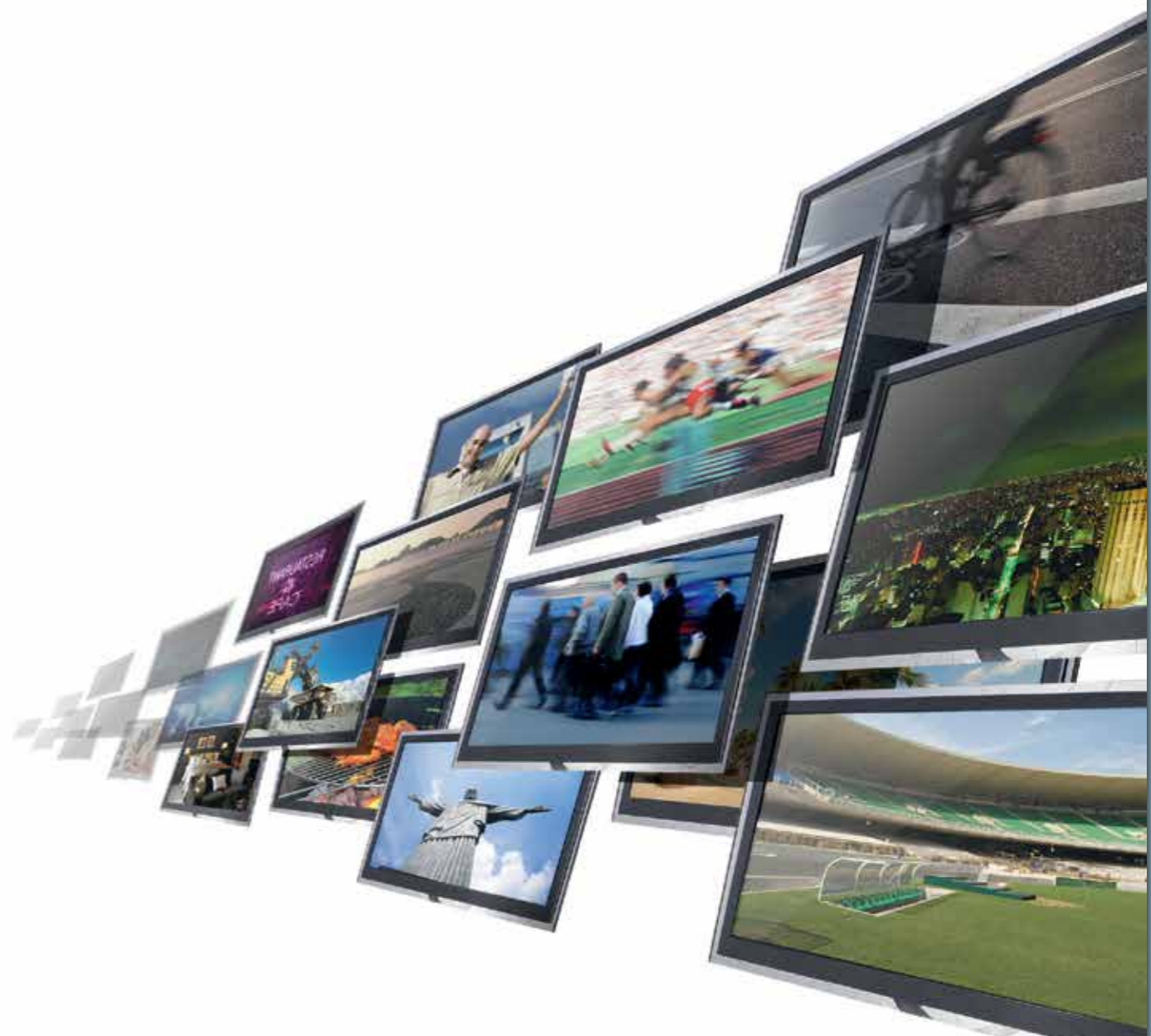
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### Graphic Project

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### Sustainability consulting

Visão Sustentável





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