

***Mills Estruturas e Serviços  
de Engenharia S.A.***

*Convenience Translation into English from the  
Original Previously Issued in Portuguese)*

*Financial Statements for the Year Ended  
December 31, 2013 and  
Independent Auditor's Report*

Deloitte Touche Tohmatsu Auditores Independentes

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of  
Mills Estruturas e Serviços de Engenharia S.A.  
Rio de Janeiro - RJ

We have audited the accompanying financial statements of Mills Estruturas e Serviços de Engenharia S.A. ("Company"), which comprise the balance sheet as at December 31, 2013, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil and in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board - IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit, conducted in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mills Estruturas e Serviços de Engenharia S.A. as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil and in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board - IASB.

## **Emphasis of Matter**

### *Restatement of values corresponding to the year ended December 31, 2012*

As mentioned in Note 2.3, due to the adoption of the technical pronouncement CPC 31 - Non-current Assets Held For Sale and Discontinued Operations, the comparative values of the income statement, related to the year ended December 31, 2012, have been reclassified and are being restated as required by CPC 23 - Accounting Policies, changes in Accounting Estimates and Errors and CPC 26 (R1) - Presentation of Financial Statements. Our conclusion does not contain changes related to this subject.

## **Other Matters**

### *Statements of Value Added*

We have also audited the statements of value added (“DVA”), for the year ended December 31, 2013, prepared under the responsibility of the Company’s management, the presentation of which is required by the Brazilian Corporate Law for publicly-traded companies, and as supplemental information for IFRS that does not require a presentation of DVA. This statement was subject to the same auditing procedures described above and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Rio de Janeiro, March 11, 2014

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Antônio Carlos Brandão de Sousa  
Engagement Partner

## **OPINION OF THE FISCAL COUNCIL**

The Fiscal Council of Mills Estruturas e Serviços de Engenharia S.A. (the “Company”), in the exercise of its legal and statutory functions, in the meeting held on March 10, 2014, examined (i) the Management Report and the Company’s Financial Statements relating to the fiscal year of 2013, as well as the opinion of the Company’s independent auditors, Deloitte Touche Tomatsu Auditores Independentes, presented with no qualification and unanimously resolved in favor of the items previously mentioned, with no qualification.

Rio de Janeiro March 10, 2014.

Members of the Fiscal Council:  
Rubens Branco da Silva  
Eduardo Botelho Kiralyhegy  
Maurício Rocha Alves de Carvalho

## **BOARD OF EXECUTIVE OFFICERS’ STATEMENT ON MILLS’ FINANCIAL STATEMENTS**

Pursuant to section VI of article 25 of CVM Instruction 480, of December 7, 2009, the Board declares that has reviewed, discussed and agreed with the company's financial statements for the year of 2013.

Rio de Janeiro March 10, 2014.

## **BOARD OF EXECUTIVE OFFICERS’ STATEMENT ABOUT THE OPINION OF THE INDEPENDENT AUDITOR**

Pursuant to section VI of article 25 of CVM Instruction 480, of December 7, 2009, the Board declares that has reviewed, discussed and agreed with the Independent Auditors ' report on the company's financial statements for the financial year 2013.

Rio de Janeiro March 10, 2014.

## 2014 CAPITAL BUDGET

<b>1</b>	<b><i>Sources of funding</i></b>	<b>R\$273,068,457.75</b>
	Profit reserve from the 2010 fiscal year	R\$118,273,166.08
	Cash generation and funding	R\$154,795,291.67
<b>2</b>	<b><i>Use of funds</i></b>	<b>R\$273,068,457.75</b>
	Investments in expansion (acquisition of equipment)	R\$231,118,302.80
	Investments in facilities and information technology to aid in expansion	R\$41,950,154.95

## Message from the CEO

We ended 2013 with many reasons to celebrate.

We continue on our growth path with record revenues across all of our business units, demonstrating the penetration potential of our products and solutions, which aim at productivity and safety gains in civil construction, industry and commerce.

The sale of the Industrial Services business unit will allow us to focus on the other businesses in which we believe our competences are capable of generating better results for our shareholders and clients.

We have defined a new positioning and brand architecture which reinforces our identity and unity – we are now a single company, Mills. Now Mills is Heavy Construction, Real Estate (former Jahu) and Rental.

In the infrastructure market, we participated in the construction of five hydroelectric power plants, four railroads, two refineries, nine airports and urban mobility projects in major Brazilian cities. We expanded the use of Alumills, an aluminum shoring system with great productivity gains for our clients and consolidated the SM Mills Modular System in the market – a new type of formwork and shoring equipment for concrete structures with complex geometries and repeated sections, such as tunnels.

In the real estate market, we strengthened the use of the mast climbing platform, access equipment which can enhance safety and productivity for work on buildings and shopping facades. We also opened a new branch in 2013, ending the year with 17 branches.

As for the Rental business unit, we were again nominated for the best access company in the world at the IAPA Awards – considered the Oscar for this market, which we had already won in 2012, in recognition of our work spreading the concept of using aerial work platforms in Brazil. We opened nine new branches in 2013 and expect to open at least five more in 2014.

In conclusion, we will continue the growth strategy for our businesses, offering solutions that promote productivity and safety gains for our clients, through trained and experienced teams, besides international partnerships, making the most advanced technology available to our clients and focusing on the Brazilian market's needs.

I thank everyone who contributed another year to build an increasingly integrated, responsive and reliable Mills.

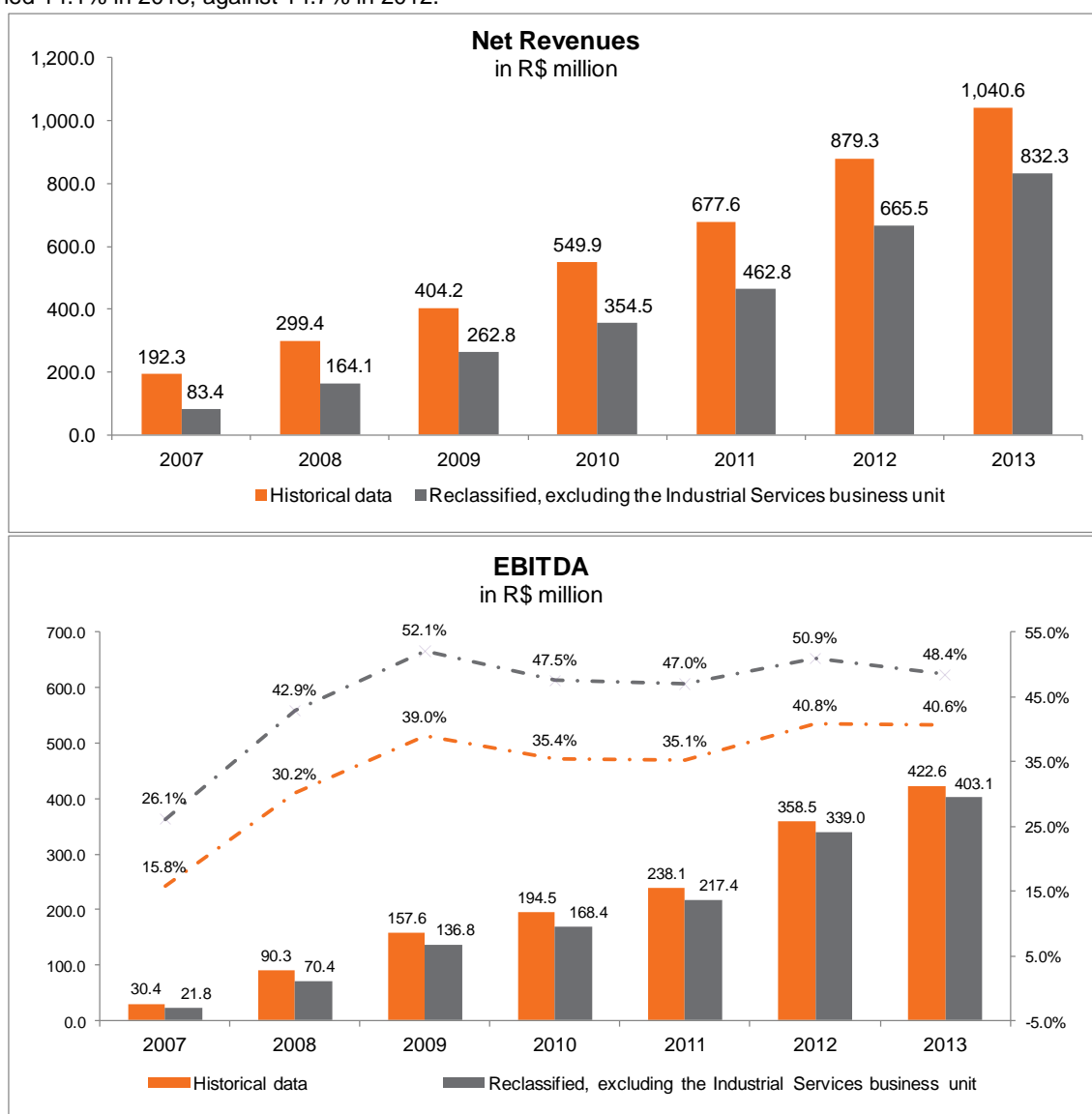
Ramon Vazquez, Mills CEO

## Financial performance<sup>1</sup>

Mills Estruturas e Serviços de Engenharia S.A. (Mills) presented record net revenues, EBITDA and net earnings in 2013, maintaining its strong growth trend.

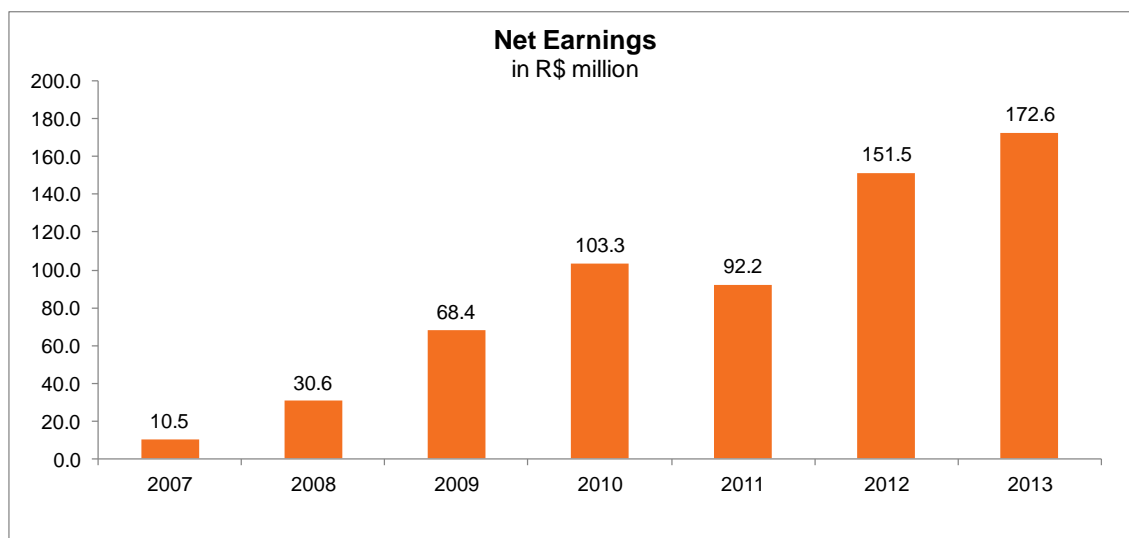
Net revenues reached R\$ 832.2 million in 2013<sup>2</sup>, 25.1% higher than the amount registered for 2012<sup>2</sup>, with the branches opened in the last four years accounting for 47.3% of this amount. Cash generation, as measured by EBITDA, reached R\$ 403.1 million, with 18.9% growth over 2012<sup>2</sup>, and net earnings totaled R\$ 172.6 million, with 13.9% growth over the last year.

The EBITDA margin was 48.4%<sup>2</sup>, against 50.9% in the previous year<sup>2</sup>, while the return on invested capital (ROIC) reached 14.1% in 2013, against 14.7% in 2012.



<sup>1</sup> The financial and operational information presented in this release, except when otherwise indicated, is in accordance with accounting policies adopted in Brazil, which are in accordance with international accounting standards (International Financial Reporting Standards - IFRS). In years prior to 2010, Mills prepared its financial statements in accordance with the accounting policies adopted in Brazil (BRGAAP).

<sup>2</sup> Reclassified, excluding the Industrial Services business unit, for comparison.



## Sale of the Industrial Services business unit

In 2013 we sold the Industrial Services business unit for R\$ 102 million, with net earnings of R\$ 8.3 million. This disposal is in line with Mills' strategy to focus on businesses in which its competencies are able to add higher value for its shareholders and clients.

## Debt Indicators

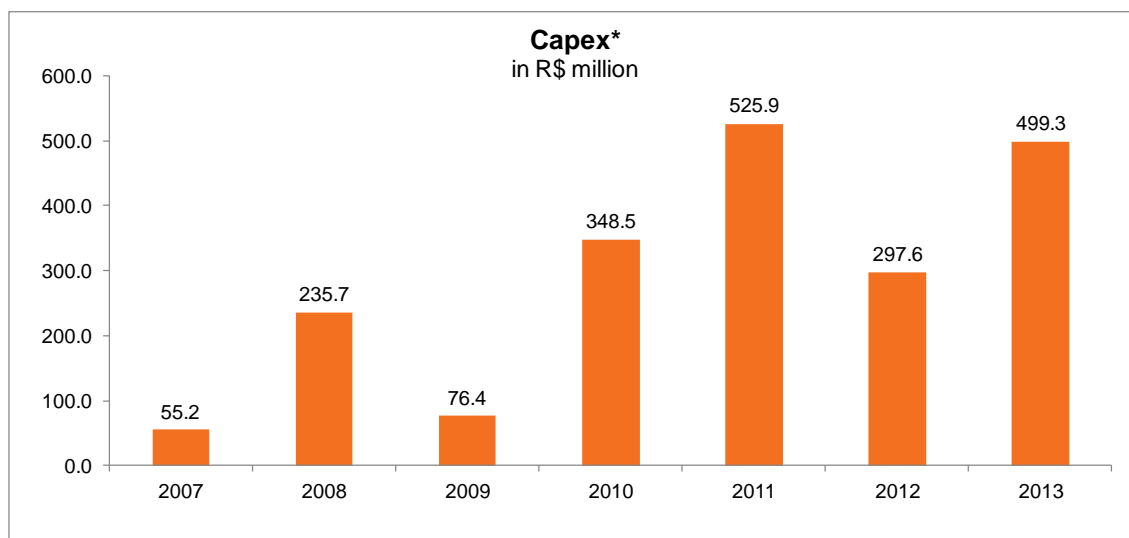
Mills' total debt was R\$ 632.6 million, with an average maturity of 2.1 years, and net debt was R\$ 606.8 million, in December 31, 2013. Our debt is 20% short-term and 80% long-term. In terms of currency, 100% of Mills' debt is in Brazilian reais.

We ended the year with leverage, as measured by the net debt/LTM EBITDA<sup>2</sup> ratio, of 1.5x, while interest coverage, as measured by LTM EBITDA<sup>2</sup>/LTM interest payments, was 8.3x.

We believe that, as our investments mature, the Company's operating cash flow will increase and, as a result, our leverage will return to a level close to our target of 1.0x at the end of 2014.

## Capex

Mills invested R\$ 499.3 million in organic growth in 2013, of which R\$ 463.6 million in rental equipment. The 2014 budget involves capital expenditures of R\$ 231 million in rental equipment, which could expand as 2014 progresses, in accordance with market opportunities, mainly those related to auctions in the infrastructure sector.



\* In 2008, it includes R\$ 60.1 million related to the Jahu acquisition and in 2011, it includes R\$ 90.0 million related to the acquisition of a 25% stake in Rohr and R\$ 5.5 million related to the acquisition of a 100% stake in GP Sul. In 2013, it does not include the amount invested in the Industrial Services business unit.

## New brand architecture

In order to further enhance the Mills brand and reinforce our business strategy, we launched in January a new brand architecture. Now Mills is Heavy Construction, Real Estate (former Jahu) and Rental.

## Performance of the business units

### Heavy Construction

The net revenue of Heavy Construction totaled R\$ 217.0 million in 2013, a new annual record, with a year-over-year (yoy) expansion of 24.6%. EBITDA totaled R\$ 108.1 million, 28.2% higher than in 2012. ROIC was 19.2% this year, against 17.2% the year before.

### Real Estate

Net revenue for Real Estate totaled R\$ 258.0 million in 2013, a new annual record, 8.4% higher than 2012. EBITDA amounted to R\$ 93.8 million, 17.3% lower than in the previous year. ROIC was 8.1%, versus 15.7% in 2012.

### Rental

The net revenue of Rental amounted to R\$ 357.3 million in 2013, a new annual record, 41.0% above 2012. EBITDA reached R\$ 201.2 million, 42.5% higher than in 2012. ROIC was 18.2%, same figure registered in 2012.

### Industrial Services

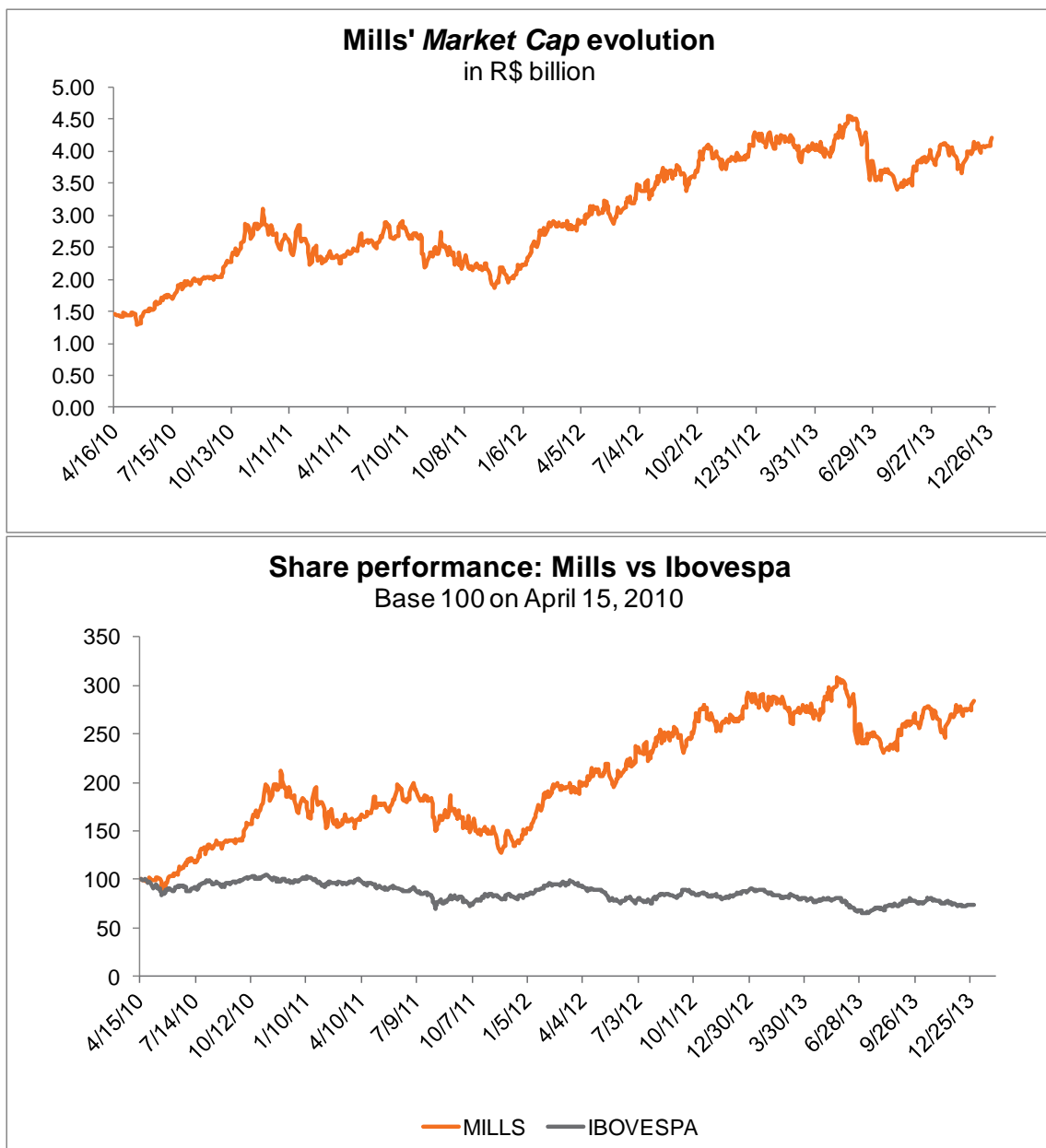
The net revenue of Industrial Services totaled R\$ 208.3 million between January and November of 2013, with EBITDA margin of 13.2% and a ROIC of 17.5%, excluding costs for legal and financial advice related to the sale of this business unit.

## Generating value for our shareholders

The closing price of Mills' shares (MILS3) on the BM&FBovespa exchange in 2013 was R\$ 33.00, a decrease of 2.9% over the closing price in 2012, while the IBOVESPA index dropped 15.5% in the same period. By the end of 2013, Mills' market value (market cap) was R\$ 4.2 billion.

Since our IPO, on April 15, 2010, until the end of 2013, MILS3 grew 187.0%, against a 27.0% depreciation of the IBOVESPA index. Mills' total shareholder return (TSR) since the IPO date was equal to 30.5% per year.

We will pay our shareholders gross remuneration of R\$ 43.0 million as interest on equity, equivalent to R\$ 0.33 per share, related to the fiscal year of 2013, subject to approval at Mills' Shareholders Meeting.



## Human Resources

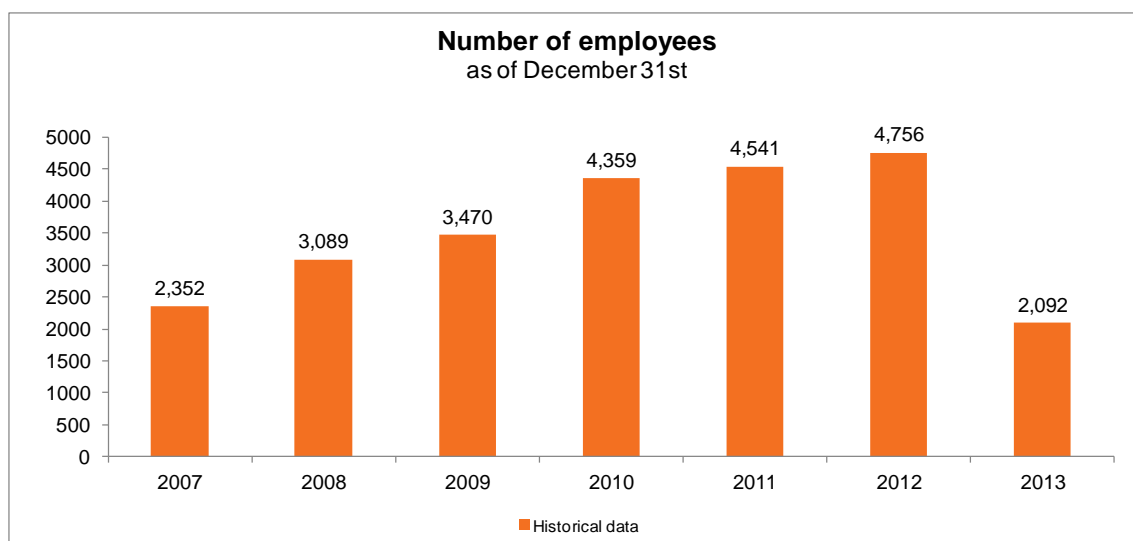
Due to the sales of the Industrial Services business unit, we reduced the number of employees from 4,756 at the end of 2012 to 2,092 by the end of 2013.

The turnover rate of our employees was 4.65% in 2013, compared to 4.58% in 2012. The turnover rate of professionals who deal with assembly and disassembly of structures and equipment is significantly higher than our average, due to the fluctuation in demand. Excluding professionals from assembly and disassembly of equipment, which were mostly employees from the business unit sold in 2013, the turnover rate in 2013 was 3.18% versus 2.45% in 2012.

In order to take part in the results and align the incentives with value creation for our shareholders, we offer our employees a profit-sharing program, based on economic value added (EVA), which is the adjusted net income less the remuneration for invested capital by our shareholders. Annually, 20-30% of the EVA is distributed to our administrators and employees. In 2013 we distributed R\$ 20.1 million, relating to the 2012 results, and in 2014 we will distribute R\$ 18.7 million, relating to the 2013 result.

Additionally, we offer a stock option plan for administrators and key people in the Company, in order to encourage our employees to successfully conduct the Company's business and stimulate an entrepreneurial and result-driven culture, aligning the administrators' interests with that of the shareholders.

Our internship program is aimed to attract, develop and retain talents that want to grow and acquire the expertise to contribute to the Company's growth in the coming years. By the end of 2013, 174 interns participated in the program, of which 78% were allocated to engineering and technical areas. In 2013, 73 interns were hired as permanent employees and 76 interns were hired as permanent employees in 2012.



## Ownership structure

In early 2013, Mills' total and voting capital consisted of 126,399,430 common shares, with the Nacht family and Snow Petrel S.L. (Snow Petrel), its major shareholders, holding together 35.7% of the voting and total capital. The free float was equal to 61.3%.

In view of the exercise of the stock option by a part of the beneficiaries of Mills' existing stock option plans, there was an issuance of 986,566 new common shares during 2013.

Thus Mills' total and voting capital by the end of 2013 consisted of 127,385,996 common shares. The free float was 61.7%.

## Independent Auditor

According to CVM Instruction 381/2003, the contracted services with our external auditors, Deloitte Touche Tohmatsu Auditores Independentes (Deloitte), for the fiscal year 2013, other than the financial statement audit usually prepared by them, presented disbursements in the amount of R\$ 76.9 thousand, equivalent to 16.9% of the financial statement auditing expenses in the same period, regarding the revision of the sales transaction of the Industrial Services business unit.

The hiring of external auditors requires prior approval from our Board of Directors and follows the restriction rules established by legislation, as long as they do not endanger the independence and objectivity of our auditors. We believe that there are no conflicts of interest between the services provided and our independent auditors due to the nature of such services.

According to Deloitte, the work carried out did not affect their independence because the service of revising the sales transaction of the Industrial Services business unit is also characterized as external audit services.

## Business perspective

Despite the level of activity in the heavy construction sector being lower than normal at the end of 2013, there was a significant improvement in the expected level of activity, according to research conducted by the National Confederation of Industry (CNI – Confederação Nacional da Indústria), which reached 59.6 points<sup>3</sup> in February 2014. BNDES (Banco Nacional de Desenvolvimento Econômico e Social) disbursements for infrastructure totaled R\$ 62.2 billion in 2013, 18% above 2012.

Investments in Brazil should reach R\$ 4.0 trillion in the period from 2014-2017, an increase of 26% compared to the 2009-2012 period, of which R\$ 510 billion related to infrastructure, according to BNDES. Brazil has the worst level of infrastructure quality among the BRICs, according to a World Economic Forum report, and has invested only 2% of its GDP in this sector in the last twenty years, compared to 5% of GDP in the 1970s.

In 2012 the government launched a package of logistics concessions comprising investments of R\$ 187 billion. Concessions with successful auctions in late 2013 already account for investments of R\$ 62 billion, surpassing the amount transferred to the private sector over the past 10 years. A new package of highway concessions, totaling investments of R\$ 17.5 billion, was announced in early 2014.

In the energy sector, projects for plants that require investments of R\$ 12.8 billion and total installed capacity of 3,500 MW were auctioned in late 2013, with a term of four years for execution. The São Manoel plant, in Pará state, was the highlight of the projects auctioned, with 700 MW and investments of R\$ 2.3 billion.

The large housing deficit and increasing purchasing power of the population aligned with the greater availability of housing credit, which was 33.7% higher than in 2012, according to Brazilian Central Bank (Bacen), are contributing to the real estate market growth.

Real estate companies are optimistic, as indicated by the activity level index that reached 57.3 points<sup>3</sup> in February 2014, according to a CNI study. In 2013 total launches announced by listed real estate companies<sup>4</sup> presented a yoy increase of 17.6%, following declines over the past two years, which reinforces this optimism.

The shortage of labor and its high cost remain among the main challenges for the sector, according to the same survey. The answer to this shortage is industrialization of construction processes, allowing for the expansion of our business above the growth in the real estate market. Through the use of our equipment and solutions, the time and number of workers needed in a construction can be reduced.

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<sup>3</sup> Values above 50 indicate a prospect of growth of activity in the sector for the next six months.

<sup>4</sup> Cyrela, Direcional, Even, Eztec, Gafisa, Helbor, MRV, PDG, Rodobens, Technisa and Trisul.

However, this industrialization process is slow because it requires a cultural change. In 2011, in a research carried out by CNI on the construction sector, 94% of all participants said they were going through construction problems due to the shortage of basic labor, such as carpenters, but only 7% of them mentioned that they planned to industrialize construction sites to deal with the problem.

The market for motorized Access equipment continues to grow strongly. The Brazilian fleet for aerial work platforms and telescopic handlers registered growth of 40%, ending 2013 with 29,500 machines, against 20,847 in the end of 2012, according to our estimates. We believe this market will continue growing at high rates in the coming years, given the current underutilization of this type of equipment in Brazil, where its use was recently stimulated by a ruling for construction sites in 2007 (NR-18) and reinforced by a 2012 ruling specific for working at height (NR-35), making aerial work platforms obligatory for lifting people, thereby increasing safety and productivity in the workplace.

This report may include declarations about Mills' expectations regarding future events or results. All declarations based upon future expectations, rather than historical facts, are subject to various risks and uncertainties. Mills cannot guarantee that such declarations will prove to be correct. These risks and uncertainties include factors related to the following: the Brazilian economy, capital markets, infrastructure, real estate and oil & gas sectors, among others, and governmental rules that are subject to change without previous notice. To obtain further information on factors that may give rise to results different from those forecasted by Mills, please consult the reports filed with the Brazilian Comissão de Valores Mobiliários (CVM).

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

BALANCE SHEET

FOR THE YEAR ENDED DECEMBER 31, 2013

(In thousands of Brazilian reais - R\$)

	<u>Note</u>	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents	6	25,798	44,200
Marketable securities	7	-	159,606
Trade receivables	8	177,359	194,778
Inventories	9	36,288	26,938
Recoverable taxes	10	38,673	35,021
Advances to suppliers		529	6,682
Derivative financial instruments	33	7,516	-
Other receivables - sale of investee	11	26,785	-
Other assets		<u>6,516</u>	<u>6,452</u>
		<u>319,464</u>	<u>473,677</u>
NON-CURRENT ASSETS			
Trade receivables	8	1,414	2,549
Recoverable taxes	10	42,764	30,717
Judicial deposits	21	10,053	11,853
Other receivables - sale of investee	11	<u>47,290</u>	<u>-</u>
		<u>101,521</u>	<u>45,119</u>
Investments	12	87,392	87,392
Property, plant and equipment	13	1,224,476	1,003,347
Intangible assets	14	<u>68,392</u>	<u>54,526</u>
		<u>1,380,260</u>	<u>1,145,265</u>
TOTAL ASSETS		<u>1,801,245</u>	<u>1,664,061</u>

(continues)

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MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

BALANCE SHEET

FOR THE YEAR ENDED DECEMBER 31, 2013

(In thousands of Brazilian reais - R\$)

	<u>Note</u>	<u>2013</u>	<u>2012</u>
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Trade payables	15	37,904	47,784
Borrowings and financing	16	12,764	41,796
Debentures	17	112,532	12,994
Payroll and related taxes		19,186	27,585
Tax debt refinancing program (REFIS)	22	960	907
Taxes payable	23	7,084	18,597
Profit sharing payable	19	18,697	20,142
Dividends and interest on capital payable	25	40,990	36,170
Derivative financial instruments	33	-	800
Other liabilities		<u>4,866</u>	<u>7,752</u>
		<u>254,983</u>	<u>214,527</u>
NON-CURRENT LIABILITIES			
Borrowings and financing	16	58,749	30,203
Derivative financial instruments	33	267	-
Debentures	17	448,238	537,459
Tax debt refinancing program (REFIS)	22	9,444	9,823
Deferred taxes	20	2,478	2,381
Provision for tax, civil and labor claims	21	10,573	9,919
Other liabilities		<u>-</u>	<u>423</u>
		<u>529,749</u>	<u>590,208</u>
TOTAL LIABILITIES		<u>784,732</u>	<u>804,735</u>
EQUITY			
Issued capital	24	553,232	537,625
Capital reserves	24	10,231	233
Earnings reserves	24	447,862	321,768
Valuation adjustments to equity	24	<u>5,188</u>	<u>(300)</u>
Total equity		<u>1,016,513</u>	<u>859,326</u>
TOTAL LIABILITIES AND EQUITY		<u>1,801,245</u>	<u>1,664,061</u>

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2013

(In thousands of Brazilian reais - R\$, unless otherwise stated)

	<u>Note</u>	<u>2013</u>	<u>2012</u> (Restated)
Net revenue from sales and services	27	832,262	665,474
Cost of sales and services	28	<u>(334,934)</u>	<u>(238,187)</u>
<b>GROSS PROFIT</b>		497,328	427,287
Other operating income	29	8,296	-
General and administrative expenses	28	<u>(225,419)</u>	<u>(185,449)</u>
<b>PROFIT BEFORE FINANCE INCOME (COSTS)</b>		<u>280,205</u>	<u>241,838</u>
Finance income	31	13,156	10,597
Finance costs	31	<u>(59,972)</u>	<u>(44,913)</u>
<b>FINANCE COSTS, NET</b>		(46,816)	(34,316)
<b>PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION</b>		<u>233,389</u>	<u>207,522</u>
Current income tax and social contribution		(68,396)	(49,901)
Deferred income tax and social contribution		<u>2,681</u>	<u>(8,379)</u>
Income tax and social contribution	20	(65,715)	(58,280)
<b>PROFIT FROM CONTINUING OPERATIONS</b>		<u>167,674</u>	<u>149,242</u>
<b>PROFIT FROM DISCONTINUED OPERATIONS</b>	30	<u>4,918</u>	<u>2,274</u>
<b>PROFIT FOR THE YEAR</b>		<u>172,592</u>	<u>151,516</u>
Basic earnings per share - R\$	26(a)	<u>1.36</u>	<u>1.20</u>
Diluted earnings per share - R\$	26(b)	<u>1.35</u>	<u>1.19</u>
<b>EARNINGS PER SHARE FROM CONTINUING OPERATIONS</b>			
Basic earnings per share - R\$	26(a)	<u>1.32</u>	<u>1.18</u>
Diluted earnings per share - R\$	26(b)	<u>1.31</u>	<u>1.18</u>

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

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MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(In thousands of Brazilian reais - R\$, unless otherwise stated)

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	<u>Note</u>	<u>2013</u>	<u>2012</u>
PROFIT FOR THE YEAR		172,592	151,516
OTHER COMPONENTS OF COMPREHENSIVE INCOME			
ITEMS THAT WILL NOT BE SUBSEQUENTLY RECLASSIFIED TO PROFIT FOR THE YEAR			
Cash flow hedge net of deferred taxes	33	<u>5,488</u>	<u>(2,402)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>178,080</u>	<u>149,114</u>

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

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MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(In thousands of Brazilian reais - R\$)

	Subscribed capital	Capital reserve	Earnings reserves			Earnings retention	Valuation adjustments to equity	Retained earnings	Total
			Legal	Expansion	Special				
AT JANUARY 1, 2012	<u>527,587</u>	<u>(5,581)</u>	<u>13,192</u>	<u>61,243</u>	<u>2,329</u>	<u>135,268</u>	<u>2,102</u>	-	<u>736,140</u>
Capital contribution - share issue	10,038	-	-	-	-	-	-	-	10,038
Purchase/cancelation of treasury shares	-	(23)	-	-	-	-	-	-	(23)
Stock option premium	-	5,837	-	-	-	-	-	-	5,837
Realization of special reserve - tax amortization of Itapoã merged goodwill	-	-	-	-	(1,521)	-	-	1,521	-
Comprehensive income for the year - cash flow hedge	-	-	-	-	-	-	(2,402)	-	(2,402)
Profit for the year	-	-	-	-	-	-	-	151,516	151,516
Allocation of profit for the year	-	-	-	-	-	-	-	-	-
Recognition of bylaws reserves on profit for the year	-	-	7,576	-	-	103,681	-	(111,257)	-
Proposed interest on capital (R\$ 0.331 per share)	-	-	-	-	-	-	-	(41,780)	(41,780)
AT DECEMBER 31, 2012	<u>537,625</u>	<u>233</u>	<u>20,768</u>	<u>61,243</u>	<u>808</u>	<u>238,949</u>	<u>(300)</u>	-	<u>859,326</u>

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(In thousands of Brazilian reais - R\$)

	Subscribed capital	Capital reserve	Earnings reserves			Earnings retention	Valuation adjustments to equity	Retained earnings	Total
			Legal	Expansion	Special				
AT JANUARY 1, 2013	<u>537,625</u>	<u>233</u>	<u>20,768</u>	<u>61,243</u>	<u>808</u>	<u>238,949</u>	<u>(300)</u>	<u>-</u>	<u>859,326</u>
Capital contribution - share issue	15,607	-	-	-	-	-	-	-	15,607
Stock option premium	-	9,998	-	-	-	-	-	-	9,998
Realization of special reserve - tax amortization of Itapoã merged goodwill	-	-	-	-	(808)	-	-	808	-
Comprehensive income for the year - cash flow hedge	-	-	-	-	-	-	5,488	-	5,488
Profit for the year	-	-	-	-	-	-	-	172,592	172,592
Recognition of bylaws reserves on profit for the year	-	-	8,630	-	-	118,272	-	(126,902)	-
Mandatory minimum dividends (R\$0.0273 per share)	-	-	-	-	-	-	-	(3,484)	(3,484)
Proposed interest on capital (R\$ 0.3376 per share)	-	-	-	-	-	-	-	(43,014)	(43,014)
AT DECEMBER 31, 2013	<u>553,232</u>	<u>10,231</u>	<u>29,398</u>	<u>61,243</u>	<u>-</u>	<u>357,221</u>	<u>5,188</u>	<u>-</u>	<u>1,016,513</u>

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

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(In thousands of Brazilian reais - R\$)

	<u>Note</u>	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
PROFIT FROM CONTINUING AND DISCONTINUED OPERATIONS BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		240,591	210,685
Adjustments:			
Depreciation and amortization	13	136,888	108,619
Provision for tax, civil and labor claims	21	1,367	(3,993)
Accrued expenses on stock options	19	9,998	5,837
Profit sharing payable	19	18,697	20,142
Gain on sale of property, plant and equipment		(46,658)	(25,978)
Capital gain on divesture	29	(8,296)	-
Interest, indexation and exchange differences on borrowings, contingencies and judicial deposits		56,392	46,890
Allowance for doubtful debts	8	17,158	16,057
Other		1,273	(142)
Changes in assets and liabilities:			
Trade receivables		(44,500)	(71,634)
Inventories		(9,350)	(15,747)
Recoverable taxes		27,681	13,474
Judicial deposits		1,800	(942)
Other assets		5,587	4,172
Trade payables		(1,351)	(6,070)
Payroll and related taxes		6,325	2,618
Taxes payable		(11,379)	7,864
Other liabilities		<u>(3,635)</u>	<u>3,128</u>
Lawsuits settled		(718)	(2,585)
Interest paid		(48,792)	(47,054)
Income tax and social contribution paid		(65,500)	(55,109)
Profit sharing paid		<u>(20,142)</u>	<u>(7,917)</u>
NET CASH GENERATED BY OPERATING ACTIVITIES		263,436	202,315
Cash flows from investing activities:			
Marketable securities - principal		159,606	(159,606)
Advance on sale of assets from discontinued operations		25,207	-
Purchases of property, plant and equipment and intangible assets		(514,432)	(279,621)
Proceeds from sale of property, plant and equipment and intangible assets		<u>71,490</u>	<u>46,140</u>
NET CASH USED IN INVESTING ACTIVITIES		<u>(258,129)</u>	<u>(393,087)</u>

(continues)

(Convenience Translation into English from the Original Previously Issued in Portuguese)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(In thousands of Brazilian reais - R\$)

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	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions	15,607	10,038
Purchase of treasury shares	-	(23)
Dividends and interest on capital paid	(41,811)	(21,892)
Repayment of borrowings	(38,540)	(95,196)
Borrowings raised	<u>41,035</u>	<u>306,866</u>
NET CASH GENERATED BY FINANCING ACTIVITIES	<u>(23,709)</u>	<u>199,793</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, NET	<u>(18,402)</u>	<u>9,021</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (Note 6)	<u>44,200</u>	<u>35,179</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note 6)	<u>25,798</u>	<u>44,200</u>

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

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MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENTS OF VALUE ADDED  
FOR THE YEAR ENDED DECEMBER 31, 2013  
(In thousands of Brazilian reais - R\$)

	<u>2013</u>	<u>2012</u>
Revenues:		
Sales of merchandise, products and services	1,320,150	1,031,790
Cancelations and discounts	(168,969)	(63,198)
Other revenues	13,725	2,935
Allowance for doubtful debts	<u>(17,158)</u>	<u>(16,057)</u>
Inputs purchased from third parties	1,147,748	955,470
Cost of sales and services	(47,555)	(22,178)
Materials, energy, outside services and other	(200,662)	(158,161)
Write-off of assets	<u>(30,884)</u>	<u>(23,802)</u>
Gross value added	868,647	751,329
Depreciation, amortization and depletion	(136,888)	(108,619)
Wealth created by the Company	<u>731,759</u>	<u>642,710</u>
Wealth received in transfer		
Finance income	14,223	12,050
Wealth for distribution	<u>745,982</u>	<u>654,760</u>
Distribution of wealth		
Personnel and payroll taxes	249,690	235,368
Salaries and wages	188,941	179,445
Benefits	46,564	42,575
Severance Pay Fund (FGTS)	14,185	13,348
Taxes and contributions	230,827	197,232
Federal	212,690	181,621
State	8,466	4,788
Municipal	9,671	10,823
Lenders and lessors	92,873	70,644
Interest and exchange differences	67,427	51,143
Leases	25,446	19,501
Shareholders	172,592	151,516
Interest on capital	43,014	41,780
Mandatory minimum dividends	3,484	-
Retained earnings	<u>126,094</u>	<u>109,736</u>
Wealth distributed	<u>745,982</u>	<u>654,760</u>

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

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

NOTES TO THE  
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013  
(In thousands of Brazilian reais - R\$, unless otherwise stated)

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1. GENERAL INFORMATION

Mills Estruturas e Serviços de Engenharia S.A. ("Mills" or "Company") is a publicly-traded corporation with registered offices at Avenida das Américas, nº 500 Bloco 14 Loja108 Sala 207 e 208 – Barra da Tijuca, in the City of Rio de Janeiro, Brazil. The Company basically operates in the construction and industrial maintenance markets, engaging in the following principal activities:

- (a) Rental and sale, including import and export, of steel and aluminum tubular structures, and steel and aluminum props and access equipment for construction works, as well as reusable concrete formworks, along with the supply of related engineering projects, supervisory and optional assembly services.
- (b) Rental, assembly, and disassembling of access tubular scaffolding in industrial areas.
- (c) Performance of industrial painting, sand-blasting, heat insulation, boilermaker and refractory services, as well as other services inherent in such activities.
- (d) Sale, rental and distribution of scissor lifts and telescopic handlers, as well as parts and components, and technical assistance and maintenance services for such equipment.
- (e) Holding of interests in other companies, as partner or shareholder.

The Company's operations are segmented according to the new organization and management model approved by Management, containing the following business units: Heavy Construction (former Construction), Real Estate (former Jahu), and Rental. Each business unit is described in Note 32.

The accounting information contained in these financial statements was approved by the Company's Board of Directors and authorized for issue on March 10, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are described below. These policies have been consistently applied in all years presented, unless otherwise indicated.

## 2.1. Basis of presentation

### a) Statement of compliance

The Company's financial statements have been prepared and are presented in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil. The accounting practices adopted in Brazil comprise those included in the Brazilian Corporate Law, standards of the Brazilian Securities Commission (CVM), and the pronouncements, guidance and interpretations issued by the Accounting Pronouncements Committee (CPC).

### b) Basis of measurement

The Company's financial statements have been prepared on the historical cost basis, except for the following material items recognized in the balance sheets:

- Derivative financial instruments measured at fair value (Notes 4 and 33);
- Financial instruments measured at fair value through profit or loss (Notes 4 and 33);

### c) Functional and presentation currency

These financial statements are presented in Brazilian reais (R\$), which is the Company's functional currency. All financial information is presented in thousands of reais, unless otherwise indicated.

### d) Segment information

Segment information is presented consistently with the internal report provided to the Company's chief operating decision maker. The chief operating decision maker, responsible for allocating resources and assessing the performance of the operating segments is the Company's Executive Committee, which is also responsible for implementing the Company's strategic decisions made by the Board of Directors.

### e) Statements of value added

The purpose of this statement is to evidence the wealth created by the Company and its distribution during a certain period and is presented by the Company as required by the Brazilian corporate law, and as supplemental information to the information required by the IFRSs.

The statement of value added has been prepared based on information obtained from the accounting records used as a basis for the preparation of the financial statements and following the requirements of CPC 09 - Demonstração do Valor Adicionado (Statement of Value Added). The first part of this statement presents the wealth created by the Company, represented by revenues (gross sales revenue, including taxes levied on sales, other revenues and the effects of the allowance for doubtful debts), inputs purchased from third parties (cost of sales and purchases of materials, energy and outside services, including taxes levied on purchases, the effects of impairment and recovery of assets, and depreciation and amortization) and the wealth received from third parties (dividends received, finance income and other income). The second part of the statement of value added presents the distribution of wealth among personnel, taxes and contributions, lenders and lessors, and shareholders.

## 2.2. Significant accounting policies

### (i) Cash and cash equivalents

Cash and cash equivalents are held to meet short-term cash commitments and other purposes. Cash and cash equivalents include bank deposits and highly liquid short-term investments with original maturity of three months or less, readily convertible into a known amount of cash and subject to an insignificant risk of change in value.

### (ii) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

### (iii) Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. When an equity instrument is not quoted in an active market and its fair value cannot be reliably measured, it is measured at cost and tested for impairment.

The classification depends on the purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Income is recognized on an effective interest basis for financial instruments other than financial assets at fair value through profit or loss.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts or the entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading. Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling it in the near term; or (ii) on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short term profit-taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

(b) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified into any other category. They are included in non-current assets, unless management intends to dispose of the investment within 12 months from the end of the reporting period. Changes in the fair value of securities classified as available-for-sale are recognized in equity. The yield on these securities is recognized in the income statement as finance income.

(d) Loans and receivables

This category includes those receivables that are non-derivative financial assets with fixed or determinable payment, not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months from the end of the reporting period, which are classified as non-current assets. The Company's receivables comprise trade and other receivables, judicial deposits and cash and cash equivalents, except short-term investments. Loans and receivables are carried at amortized cost using the effective interest method.

#### Financial assets measured at cost

Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

#### (e) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When a financial asset classified as available-for-sale is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of equity securities classified as available-for-sale, impairment losses previously recognized in profit or loss are not reversed through profit or loss.

Any increase in fair value subsequent to an impairment loss is recognized in 'Other comprehensive income' and accumulated in line item 'Investments revaluation reserve'. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(iv) Financial liabilities

Financial liabilities are classified as either "Financial liabilities at fair value through profit or loss" or "Other financial liabilities".

(a) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when held for trading. Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

A financial liability is classified as held for trading if: (i) it has been acquired principally for the purpose of repurchasing it in the near term; or (ii) on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

(b) Other financial liabilities

Other financial liabilities (including borrowings and financing and debentures) are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(v) Derivative financial instruments

(a) Hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any changes in the fair value are recognized in profit or loss, except when the derivative is designated as a cash flow hedge.

(b) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss, together with any changes in the fair value of the hedged items that are attributable to the hedged risk. Changes in the fair value of the hedging instrument and in the hedged item attributable to the hedged risk are recognized in the line of the income statement related to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

(c) Cash flow hedge

At its inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

However, when the hedged forecast transaction results in the recognition of a non-financial asset (for example, property, plant and equipment), the gain or loss related to the effective portion previously accumulated in equity is transferred from equity and included in the initial measurement of the cost of the property, plant and equipment item. The deferred amounts are ultimately recognized in profit or loss through depreciation of the property, plant and equipment items.

The fair value of a hedge derivative is classified as non-current asset or liability when the remaining maturity of the hedged item exceeds 12 months, and as current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The fair value of derivative instruments is disclosed in Note 33.

(vi) Trade receivables

Trade receivables are recognized on an accrual basis when services are rendered or goods are sold to customers. All trade receivables are originated by the services rendered or goods sold by the Company's business units.

Trade receivables are carried at fair value at the time of sale, adjusted by a provision for impairment (allowance for doubtful debts). The allowance for doubtful debts is recognized when there is objective evidence that the Company will not receive the total amount according to the original terms of the receivables.

An allowance for doubtful debts shall be recognized for:

1. Any Company receivables sent for court collection. The allowance for this type of receivables is 100%.
2. Past-due Company receivables that are not collateralized shall be accrued according to the following criterion: non-priority customers, 50% for more than 60 to 120 days past due and 100% above 120 days past due; and preferred customers, 100% above 180 days past due.

The past-due period start date for allowance purposes is the extended due date of each receivable, pursuant to the criteria described in the paragraph 'Due date extension'.

If an acknowledgment of debt agreement is entered into providing for collaterals (preferably a bank guarantee or a guarantee insurance) no allowance for doubtful debts is recognized.

An uncollateralized acknowledgment of debt agreement shall result in the set up of an allowance for doubtful debts, usually pursuant to the criterion above (only for past-due amounts, not including current amounts). The recognized allowance for doubtful debts is fully reversed after the second installment of the acknowledgment of debt agreement is timely paid. If the customer goes into default again, the entire debt is recognized in the allowance for doubtful debts.

If the event of debt restructuring, the allowance for doubtful debts is recognized pursuant to the rule above, unless the acknowledgment of debt is replaced by a collateral (mortgage or bank guarantee).

(vii) Inventories

Inventories are stated at the lower of cost and net realizable value. Costs are determined under the average cost method. The net realizable value is the estimated selling price for inventories in the ordinary course of business, less all completion costs and costs to sell.

(viii) Current and deferred income tax and social contribution

Income tax and social contribution expenses for the period comprise current and deferred taxes. Taxes on income are recognized in the income statement, except when they relate to items that are recognized directly in equity or in other comprehensive income, in which case, the tax is also recognized in equity or in other comprehensive income.

The current income tax and social contribution expense is calculated based on tax rates prevailing in Brazil at the end of the reporting period, which are 15% for income tax, plus a 10% surtax on taxable profit exceeding R\$240, and 9% on taxable profit for social contribution. Management periodically reviews positions taken in respect of tax matters that are subject to interpretation and recognizes a provision when the payment of income tax and social contribution according to the tax bases is expected.

Deferred income tax and social contribution are calculated on temporary differences between the tax bases used to calculate taxes and the carrying amounts of assets and liabilities in the financial statements. The tax rates currently defined are 25% for income tax and 9% for social contribution.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized, based on projections of future results prepared on the basis of internal assumptions and future economic scenarios that are, therefore, subject to changes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

For purposes of calculating income tax and social contribution, the Company adopted the Transition Tax Regime (RTT), as prescribed by Law 11,941/09, that is, in the determination of the taxable profit it considered the accounting criteria of Law 6,404/76, before the changes introduced by Law 11,638/07.

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in 'Other comprehensive income' or directly in equity, in which case, current and deferred taxes are also recognized in 'Other comprehensive income' or directly in equity, respectively. Where current and deferred taxes arise from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(ix) Judicial deposits

Judicial deposits are presented in non-current assets, at amounts adjusted for inflation (Note 21).

(x) Property, plant and equipment: own use and operational rental and use

A majority of the Company's revenues come from property, plant and equipment for operational rental and use, either solely through rental, or rental combined with assembly and disassembly.

Property, plant and equipment for own use consists mainly of facilities to store equipment, office, improvements, furniture and equipment necessary for the operation of these facilities.

Property, plant and equipment are measured at historical cost, less accumulated depreciation. Historical cost includes costs directly attributable to the acquisition of items and may also include transfers from equity of any gains/losses on cash flow hedges qualifying as referring to the purchase of property, plant and equipment in foreign currency.

Subsequent costs are added to the residual value of property, plant and equipment or recognized as a specific item, as appropriate, only if the future economic benefits associated to these items are probable and the amounts can be reliably measured. The residual value of the replaced item is derecognized. Other repair and maintenance costs are immediately recognized when incurred.

Depreciation is calculated under the straight-line method, at the rates shown in Note 13, which take into consideration the estimated economic useful lives of assets. Land is not depreciated.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Gains and losses on the disposals are determined as the difference between the sales proceeds and the carrying amount of the, asset and are allocated to operating income (expenses).

The residual values and estimated useful lives of assets are reviewed at yearend and the effect of any changes in estimates is accounted for prospectively.

(xi) Intangible assets

Software licenses

Carried at acquisition cost, less accumulated amortization and accumulated impairment losses, when applicable.

Costs associated to the development and maintenance of such software licenses are expensed as incurred.

Software licenses have finite useful lives and are amortized over five years (Note 14). The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(xii) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Goodwill is allocated to cash-generating units (CGUs) for impairment testing purposes. Goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination and is identified according to the operating segment.

(xiii) Impairment of assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets, are tested to identify evidences of impairment on an annual basis or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. When applicable, the recoverable amount is calculated to determine if there is an impairment loss. When an impairment loss is identified, it is recognized in the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the net selling price and the value in use of an asset. For impairment testing purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units, or CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for the analysis of a possible reversal of the impairment at the reporting date.

(xiv) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. They are classified as current liabilities if payment is due within one year or less. Otherwise, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. In practice, they are usually recognized at the amount of the corresponding invoice.

(xv) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The provisions for tax, civil and labor claims are recognized at the amount of probable losses, according to the nature of each provision (Note 21). Based on the opinion of its legal counsel, management believes that the recognized provisions are sufficient to cover any losses on ongoing lawsuits. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an expense in the income statement.

A provision for onerous contracts is recognized where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The provision is measured at present value at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(xvi) Profit sharing

The profit sharing is recognized over the year and paid in the following year. The amount of the 2013 profit sharing to be distributed in 2014 was established at 25% of the Economic Value Added (see Note 19).

(xvii) Stock option plans

The Company offers stock option plans to certain employees and executives. The fair value of the options granted is recognized as an expense during the period over which the right is vested, that is, period during which specific vesting conditions should be met. At the end of the reporting period, the Company reviews its estimates of the number of options whose rights must be vested based on the conditions.

It recognizes the impact of the revision of the initial estimates, if any, in the income statement, as a balancing item to the capital reserve in equity.

The amounts received, net of any directly attributable transaction costs, are credited to capital when options are exercised.

(xviii) Borrowings and financing

Borrowings are recognized initially at fair value, and are subsequently carried at amortized cost. The calculation methodology for each borrowing follows specific conditions of each contract, using the effective interest method.

The fees and taxes paid for contracting borrowings are recognized as transaction costs of the borrowings and are also recognized in line item finance costs at the effective interest rate.

Management controls monthly the balances of each debt through managerial controls in which it updates the financial indicators (interest rates) as agreed in each agreement.

Borrowings and financing are classified as current liabilities, except for the installments that can be unconditionally settled 12 months after the end of the reporting period.

(xix) Leases

The Company leases certain property, plant and equipment items. Leases of property, plant and equipment items where the Company retains substantially all the risks and rewards incidental to ownership of such assets are classified as finance leases.

On initial recognition the leased asset is measured at the lower of the fair value of the leased asset and the present value of the minimum lease payments. After initial recognition, the asset is recorded pursuant to the accounting policy applicable to the asset.

The balance of the Lease finance account presented in current and non-current liabilities refers to the remaining installments payable of the lease finance agreements.

(xx) Translation into foreign currency

Transactions in foreign currency are translated into Brazilian reais using the exchange rates prevailing on the transaction dates. The balances of assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period. Foreign exchange gains and losses arising from the settlement of these transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognized in the income statement.

Foreign exchange gains and losses arising from the settlement of these transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges.

(xxi) Issued capital

The Company's capital comprises common shares without par value.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

(xxii) Share buyback (treasury shares)

Repurchased shares are classified as treasury shares and are presented as a deduction from equity until the shares are canceled or reissued. When treasury shares are subsequently sold or reissued, the value received is recognized as an increase in equity, and the resulting surplus or deficit is transferred to/from retained earnings.

(xxiii) Distribution of dividends and interest on capital

The distribution of dividends and interest on capital to Company shareholders is recognized as a liability in the financial statements for the year based on the Company's bylaws. Any amount above the mandatory minimum is accrued on the date it is approved by the shareholders at a Shareholders' Meeting.

The tax benefit of interest on capital is recognized in the income statement.

(xxiv) Revenue recognition

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract at the end of the reporting period.

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. Therefore, the Company adopts as revenue recognition policy the date on which goods are delivered to the buyer.

The rental income is prorated and recognized on a straight-line basis over the term of the equipment rental agreements.

The Company separates the identifiable components of a single contract or a group of contracts to reflect the essence of the contract or group of contracts, recognizing the revenue of each of the elements proportionally to its fair value. Thus, the Company's revenue is divided into rental, technical assistance, sales and indemnities/expense recoveries. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate through maturity, when it is determined whether such income will accrue to the Company.

Dividend income from investments is recognized when the shareholder's right to receive such dividends has been established (provided that it is probable that future economic benefits will flow to the Company and the amount of income can be measured reliably).

Income, expenses and assets are recognized net of taxes on sales.

(xxv) Earnings per share

Basic earnings per share are calculated based on the Company's profit for the period and the weighted average of common shares outstanding in the respective period. Diluted earnings per share are calculated based on the mentioned average of outstanding shares, adjusted by instruments potentially convertible into shares, with a diluting effect, in the periods presented, pursuant to CPC 41 and IAS 33.

(xxvi) Business combination

In the financial statements, acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company and the liabilities incurred by the Company to the former owners of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits (equivalent to CPC 32 and CPC 33), respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment (equivalent to CPC 10) at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (equivalent to CPC 31) are measured in accordance with that Standard.

Goodwill is measured as the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the consideration is lower than the fair value of the net assets acquired, the excess is recognized immediately in profit or loss as a bargain purchase gain. After the initial recognition, goodwill is carried at cost, less accumulated impairment losses. For impairment testing purpose, goodwill arising on an acquisition of a business is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of other assets or liabilities of the acquiree being attributable to this unit.

## 2.3. Restatement of the income statement for the year ended December 31, 2012

In accordance with CPC 31, the Company is restating the income statement for the year ended December 31, 2012 to separately classify the profit (loss) from discontinued operations. This restatement is associated to the sale of the Industrial Services business unit on November 30, 2013 (see Note 30).

	Original balance	Reclassifications	<u>2012</u> Restated balance
Net revenue from sales and services	879,274	213,800	665,474
Cost of sales and services	<u>(410,929)</u>	<u>(172,742)</u>	<u>(238,187)</u>
GROSS PROFIT	468,345	41,058	427,287
General and administrative expenses	<u>(218,461)</u>	<u>(33,012)</u>	<u>(185,449)</u>
OPERATING PROFIT	249,884	8,046	241,838
Finance income	12,050	1,453	10,597
Finance costs	<u>(51,249)</u>	<u>(6,336)</u>	<u>(44,913)</u>
FINANCE COSTS, NET	(39,199)	(4,883)	(34,316)
PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	<u>210,685</u>	<u>3,163</u>	<u>207,522</u>
Income tax and social contribution	(59,169)	(889)	(58,280)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	151,516	2,274	149,242
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS	<u>-</u>	<u>2,274</u>	<u>2,274</u>
PROFIT FOR THE YEAR	<u>151,516</u>	<u>-</u>	<u>151,516</u>

## 2.4. And adopting new standards, amendments and interpretations and pronouncements issued by CPC and IAS standards issued but not yet effective

In the current year, the Company has applied the following new and revised standards issued by the IASB and CPC, which came into force mandatory for accounting periods beginning on January 1, 2013:

- Amendments to IFRS 7 - Disclosures - Offsetting Financial Assets and Financial Liabilities

The Company adopted the amendment to IFRS 7 for the first time this year. Amendments to IFRS 7 requires entities to disclose information about rights to compensation and related agreements (as reported on collateral requirements) for financial instruments under an agreement to executable compensation or similar agreement.

The changes have been applied retrospectively. As the Company is not included in any compensation agreement, the implementation of the changes had no significant impact on the amounts or disclosures in the financial statements.

- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Company applied the amendments to IAS 1 for the first time this year. The amendments introduce a new terminology, whose use is not mandatory, for the statement of comprehensive

income and statement of income. The amendments to IAS 1 retain the option to present the results and other comprehensive income in a single statement or in two separate but consecutive statements. For the presentation of the income statement and statement of comprehensive income is being adopted the option that meets both the requirements of IFRSs and the accounting practices adopted in Brazil, which consists of the presentation of these financial statements in two separate pieces, one after the other. Additionally, the amendments to IAS 1 require that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to the income statement, and (b) items that may be reclassified subsequently to the income statement when observing the specific conditions. Income tax on items of other comprehensive income must be allocated on the same basis - the changes do not change the option to present items of other comprehensive income before tax or net of tax. The changes have been applied retrospectively and thus the presentation of items of other comprehensive income has been adjusted to reflect these changes. Unlike the previously mentioned changes in presentation, the application of the amendments to IAS 1 does not result in any impact on the result, comprehensive income and total comprehensive income.

- Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements cycle of IFRSs from 2009 to 2011 issued in May 2012)

The Annual Improvements to IFRSs 2009 - 2011 generated several amendments to IFRSs. The amendments relevant to the Company are the amendments to IAS 1 on presentation when the balance sheet is required at the beginning of the earliest period presented compared (third column of the balance sheet) and related notes. The amendments specify that must be submitted a third column of the balance sheet when: (a) an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in the financial statements, and (b) the application or retrospective restatement reclassification has a material effect on the information in the third column of the balance sheet. The amendments specify that are not related notes required to accompany the third column of the balance sheet.

The reclassifications presented in Note 2.3 impact just opening the income statement for the year 2012, depending on the requirements of CPC 31 - Non-current Assets Held for Sale and Discontinued Operations, showing no impact to the balances at December 31, 2012 or January 1, 2012. For this reason it was not included a third column of the balance sheet.

- IFRS 13 Fair Value Measurement

The Company applied IFRS 13 (equivalent to CPC 46) for the first time this year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is extensive. The requirements for measuring fair value in IFRS 13 applies to items of financial instruments and non-financial instruments items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except share-based payment transactions in actions that are inserted within the scope of IFRS 2 (equivalent to CPC 10 (R1)), lease transactions that are entered in the scope of IAS 17 (equivalent to CPC 06 (R1)) and measurements that have some similarities to fair value but are not fair value (for example, the net realizable value for measurement of inventories or value in use for the purposes of assessing impairment).

Standards and new and revised interpretations issued and not yet adopted

Several standards and amendments to standards and interpretations issued by IASB have not yet entered into force for the period ended December 31, 2013, these being:

(i) IFRS 9 – Financials Instruments<sup>2</sup>

Financial Instruments, establishes the principles of disclosure of assets and liabilities that will present relevant and useful for assessing values, timing and uncertainty of future cash flows of information.

The Company's management expects that IFRS 9 to be adopted in the financial statements will not have a material effect on the balances reported in relation to financial assets and liabilities of the Company. However, the detailed review of potential impacts has not been completed.

(ii) Amendments to IFRS 10, IFRS 12 and IAS 27 entities investment<sup>1</sup>

The amendments to IFRS 10 define an investment entity and require the reporting entity and which meets the definition of an investment entity not consolidated subsidiaries, but instead, measure its subsidiaries at fair value through profit or loss in their consolidated and separate financial statements. To be characterized as investment entity, a reporting entity must: (a) obtain funds from one or more investors in order to provide them with professional investment management services, (b) commit to their investors that their corporate purpose is to invest resources only for returns on capital appreciation and investment income, or both and (c) measure and evaluate the performance of substantially all of its investments based on fair value. Such changes do not cause effects on the financial statements.

(iii) Amendments to IAS 32<sup>1</sup>

Clarify the requirements related to the compensation of financial assets and liabilities. Specifically, these amendments clarify the meaning of "currently has the legal right to offset" and "simultaneous realization and settlement".

Management does not believe that the adoption of the amendments to IAS 32 will have a material impact on the consolidated financial statements since the Company has no assets or financial liabilities that qualify for compensation.

Amendments to IFRSs mentioned above have not yet been issued by the CPC. However, due to the commitment of the CPC and CVM to keep the set of standards issued based on the updates and changes made by the IASB, it is expected that such changes and modifications are issued by the CPC and approved by CVM until the date of its mandatory.

(1) Effective for annual periods beginning on or after January 1, 2015.

(2) Effective for annual periods beginning on or after January 1, 2014.

While it awaits the approval of the international standards by the CPC, the Company is analyzing the impacts of these new standards on its financial statements.

### 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY ESTIMATES AND ASSUMPTIONS

In the preparation of the Company's financial statements, management is required to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, as well as the disclosure of contingent liabilities at the end of the reporting

period. However, the uncertainty related to these assumptions and estimates might lead to results that would require a significant adjustment to the carrying amount of the affected asset or liability in future periods.

The main assumptions related to sources of uncertainty in future estimates and other important sources of uncertainty in estimates at the end of the reporting period, involving significant risk of causing a significant adjustment to the carrying amount of assets and liabilities within the next fiscal year, are discussed below:

### 3.1. Impairment of non-financial assets

An asset is impaired when its carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use. The value in use calculation is based on the discounted cash flow model. Cash flows derive from the budget for the next five years and do not include reorganization activities with which the Company has not yet committed or significant future investments that will improve the asset base of the cash-generating unit subject to testing. The recoverable amount is sensitive to the discount rate used in the discounted cash flow method, as well as to expected future cash receipts and the growth rate used for extrapolation purposes.

### 3.2 Share-based payment transactions

The Company measures the cost of share-based payment transactions with employees based on the fair value of the equity instruments on their grant date. The estimate of the fair value of share-based payments requires the determination of the most appropriate valuation model for the granting of equity instruments, which depends on the terms and conditions of the granting. This also requires the determination of the most appropriate valuation model, including the expected life of the option, volatility and dividend yield and related assumptions. The assumptions and models used to estimate the fair value of share-based payments are disclosed in Note 19.

### 3.3. Taxes

There are uncertainties regarding the interpretation of complex tax regulations, as well as the amount and timing of future taxable profits. Differences between actual results and the assumptions adopted, or future changes in these assumptions, may require future adjustments in tax income and expenses already recorded. The Company recognizes provisions, based on applicable estimates, for the potential consequences of audits by tax authorities. The amount of these provisions is based on various factors, such as experience in previous tax audits and diverging interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise in a wide variety of matters, depending on prevailing conditions in the Company's respective domicile. Deferred tax assets are recognized for all temporary differences to the extent that it is probable that sufficient taxable profits will be available to allow their utilization.

Significant judgment by management is required to determine the amount of deferred tax assets that can be recognized, based on the probable term and level of future taxable profits, together with strategies for future tax planning.

### 3.4. Fair value of financial instruments

When the fair value of financial assets and liabilities, such as stock options, securities and hedge instruments stated in the balance sheet cannot be obtained from active markets, it is determined by using valuation techniques, including the discounted cash flow method. Data for these methods are based on market inputs, when possible; however, when this is not feasible, a certain level of judgment is required to establish the fair value. Judgment includes considerations on the data used, such as liquidity risk, credit risk and volatility. Changes in assumptions on these factors could affect the reported fair value of the financial instruments. Note 4 provides detailed information on the main assumptions used in the determination of the fair value of financial instruments, as well as a sensitivity analysis of these assumptions.

### 3.5. Provision for tax, civil and labor claims

The Company recognizes a provision for tax, civil and labor claims. The assessment of the likelihood of loss includes examining available evidence, the hierarchy of laws, available court precedents, the latest court decisions and their relevance in the legal system, as well as an assessment by outside legal counsel. The provision is reviewed and adjusted to take into account changes in circumstances, such as the applicable expiration dates, conclusions of tax audits or additional exposures identified based on new matters or court decisions.

### 3.6. Useful lives of property, plant and equipment items

As described in note 13, the Company reviews the estimated useful life of property, plant and equipment annually at the end of each reporting period. During the year the Company assessed the useful life of the assets and concluded that the period of ten years adopted in prior years reasonably represents the average useful life of the Company's assets and should be maintained for its equipment in 2013.

### 3.7. Revenue recognition

Service revenue is recognized in profit or loss based on the stage of completion of the services at the end of the reporting period.

## 4. FINANCIAL RISK MANAGEMENT

### 4.1. Financial risk factors

The Company's operations are exposed to various financial risks: market risk (including currency risk, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The risk management program concentrates on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to protect certain risk exposures, and has a policy of not entering into any derivative transactions for speculative purposes.

Risk management is conducted by the Financial Officer, in accordance with policies approved by the Board of Directors, when applicable. The Financial Officer identifies, assesses and protects the Company against potential financial risks in cooperation with the Company's operating units. The Financial Officer establishes principles for comprehensive risk management, as well as for specific areas, such as exchange rate risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, and investment of cash surpluses.

#### (i) Sensitivity analysis

The following table shows a sensitivity analysis of financial instruments, including derivatives, describing the risks that could lead to material losses for the Company, with the most probable scenario (scenario I) according to management's assessment, considering a one-year time horizon. In addition, two other scenarios are provided, as established by the Brazilian Securities Commission (CVM), by means of Instruction 475/2008, in order to present a 25% and 50% stress of the risk variable considered, respectively (scenarios II and III):

<u>Debt</u>	<u>Indicator</u>	<u>Current</u>	<u>Increase in indicator</u>		
			<u>Probable</u>	<u>25%</u>	<u>50%</u>
BNDES	TJLP	23.427	1.493	1.509	1.524
Leasing	CDI	8.154	2.683	2.776	2.867
Working capital	CDI	39.932	4.244	5.277	6.304
1st issue of debentures	CDI	275.530	25.626	32.388	39.158
2nd issue of debentures					
1st series	CDI	166.938	16.699	20.404	21.271
2nd series	IPCA	<u>120.803</u>	<u>14.485</u>	<u>16.308</u>	<u>18.309</u>
	Total	<u>634.784</u>	<u>65.230</u>	<u>78.662</u>	<u>89.433</u>
			Change	20,59%	37,11%

The sensitivity analysis presented above takes into account changes in a certain risk, keeping the other variables, associated with other risks, constant.

<u>Scenarios</u>	12/31/13		
	<u>Probable</u>	<u>Scenario II</u>	<u>Scenario III</u>
Rates		25%	50%
CDI (%) (i)	10.50%	13.13%	15.75%
TJLP (%) (ii)	5.00%	6.25%	7.50%
IPCA(%) (iii)	5.97%	7.46%	8.96%
US\$ (iv)	2.45	3.06	3.68

- (i) As compared to interest rate risk, the Company's management considered as probable scenario (scenario I) for its financial instruments a rate of 10.5%, whereas an increase in CDI in line with expected increases in the Selic rate, since there a direct relationship between rates and an increasing rate as the premise for the other two scenarios.
- (ii) For the financial liabilities related to borrowings and financing - BNDES, Company's management used as probable assumption (scenario I) that the TJLP would remain stable, as there is no indication that this rate would change in the near term, and a rate increase as the assumption for the other two scenarios.
- (iii) For the financial liabilities related to 2nd series debentures, the Company's management used as probable assumption (scenario I) that the IPCA would remain stable, as there is no evidence that this rate would change in the near term, and a rate increase as the assumption for the other two scenarios.
- (iv) The Company's management used as a probable assumption (scenario I) that the exchange rate will remain stable and a rate increase as the assumption for the other two scenarios.

#### 4.2. Market risk

##### (i) Foreign exchange risk

The Company is exposed to exchange rate risk resulting from exposure to certain currencies, basically the US dollar and the euro. The exchange rate risk results from future imports of equipment, mainly scissor lifts and molds.

The Company has a policy of reducing the cash risk related to exchange variation, on a conservative basis, since all its revenues are earned in Brazilian reais. For this purpose, the Company enters into NDFs agreements with financial institutions for hedging purposes. All these contracts foresee the future exchange rate of dollars.

The Company also has loans in dollar and to substantially cover the exchange risk hedged the hired operation on swap contracts (note 33).

##### (ii) Interest rate and inflation adjustment risk

The Company's debt is denominated in Brazilian reais, being subject to floating interest rates, especially the CDI and TJLP. There is the risk of the Company incurring losses due to fluctuations in interest rates, which would increase finance costs related to borrowings and financing obtained in the market.

As a management policy, the Company does not use any instrument to mitigate its exposure to interest rate fluctuations. This is a market risk due to the macroeconomic and regulatory conditions inherent to all companies operating in Brazil.

The Company takes a dynamic approach to analyzing its exposure to interest rates. Various scenarios are simulated, taking into consideration refinancing, financing and hedging. Based on these scenarios, the Company determines a reasonable change in the interest rate. The scenarios are prepared only for liabilities that represent the main positions with interest. See the sensitivity analysis of possible fluctuations in interest rates in Note 4.1. (i).

#### 4.3. Credit risk

Credit risk is the risk of financial loss for the Company should a customer or counterparty in a financial instrument fail to fulfill its contractual obligations, which arise in its operating activities (mainly related to trade receivables) and financing activities, including deposits with banks and financial institutions.

##### (i) Trade receivables

The Company periodically bills amounts for rentals and services due by its customers, for past due periods that normally vary from 30 to 60 days, with an average payment term of 60 days. Thus, it is subject to the risk of default on trade receivables. The Company's commercial credit portfolio is overwhelmingly concentrated in domestic customers. The Company recognizes an allowance for impairment when it understands there is the risk of amounts due not being received.

Customer credit risk is managed by the Company's financial management, which evaluates customers' financial capacity to pay. This analysis is performed before the actual commercial agreement between the parties, and for this purpose, each customer is analyzed individually, taking into consideration mainly the following information: (i) registration information; (ii) financial information and indicators; (iii) risk ratings (methodology of credit bureau SERASA); (iv) controlling shareholder; and (v) pending issues and protests at Serasa.

##### (ii) Financial instruments and cash deposits

The credit risk for balances with banks and financial institutions is managed by the Company's treasury in accordance with the policy established by it. Surplus funds are invested only in approved counterparties.

The Company has a policy of using only leading financial institutions classified as investment grade. Management does not expect any counterparty to fail to fulfill its obligations.

#### 4.4. Liquidity risk

Liquidity risk is the risk of the Company encountering difficulties in fulfilling its obligations associated with its financial liabilities that are settled with cash payments or with another financial asset. The Company's approach to managing liquidity is to ensure, to the greatest extent possible, that there is always sufficient liquidity to fulfill its obligations as they fall due, under normal and stress conditions, without causing unacceptable losses or risking harming the Company's reputation.

The financial department monitors ongoing forecasts of the Company's liquidity requirements to ensure that it has sufficient cash to meet its operating needs. The monthly forecasts take into consideration the plans for financing the Company's debt, fulfillment of contractual clauses and the meeting of internal targets in accordance with the Company's strategic plan. In addition, the Company maintains credit facilities with the main financial institutions operating in Brazil.

The table below presents the Company's non-derivative financial liabilities per maturity bracket, corresponding to the remaining period in the balance sheet until the contractual date of maturity.

	Less than one year	From one to two years	From two to five years	Over five years
<u>At December 31, 2013</u>				
Borrowings and financing	6,144	49,475	11,652	5,910
Debentures	139,418	131,129	374,963	167,429
Finance lease payables	7,612	1,084	-	-
Derivative financial instruments	-	267	-	-
Trade payables	37,904	-	-	-
<u>At December 31, 2012</u>				
Borrowings and financing	34,176	5,988	12,220	9,131
Debentures	49,931	137,197	432,108	145,586
Finance lease payables	10,236	8,390	1,364	-
Derivative financial instruments	800	-	-	-
Trade payables	47,784	-	-	-

The interest rates (CDI and TJLP) estimated for future commitments reflect the market rates in each period.

#### 4.5. Credit quality of financial assets

##### (i) Trade receivables

The credit risk is managed at corporate level. The credit analysis area assesses the credit quality of the customers, taking into account their financial statements, relationship history, possible restrictions on credit protection agencies, and other indicators. Individual risk limits are set based on internal or external ratings in accordance with guidelines established by management. The use of credit limits is regularly monitored.

## (ii) Cash and cash equivalents and marketable securities

	<u>12/31/2013</u>	<u>12/31/2012</u>
<u>Bank account</u>		
Bank (1)	2,049	6,550
Bank (2)	<u>-</u>	<u>132</u>
Total	2,049	6,682
<u>Short-term investments</u>		
Bank (1)	<u>23,749</u>	<u>197,124</u>
Total	<u>23,749</u>	<u>197,124</u>
Total cash and cash equivalents and marketable securities	<u>25,798</u>	<u>203,806</u>

- (1) Main financial institutions with extensive operations in Brazil, with investment grade.
- (2) Financial institutions with good operations in Brazil, but with noninvestment grade.

## 5. CAPITAL MANAGEMENT

The purpose of managing a desirable capital structure for the Company is to protect its assets, allow for business continuity, provide good conditions for its employees and stakeholders, and satisfactory returns for shareholders. The Company's general strategy has remained unchanged since 2010.

In order to maintain or adjust the capital structure, the Company may, for example, in accordance with its bylaws, increase its capital, issue new shares, and approve the issue of debentures and the buyback of shares issued by it. In addition, the Company uses as the main performance indicator to evaluate its financial leverage the ratio between accumulated EBITDA for the previous 12 months and total net debt (total bank debt less total cash and cash equivalents).

	<u>2013</u>	<u>2012</u>
Total bank debt	<u>635,051</u>	<u>625,732</u>
Financing	<u>63,626</u>	<u>53,986</u>
Leases	<u>8,154</u>	<u>18,013</u>
Debentures	<u>563,271</u>	<u>553,733</u>
Cash and cash equivalents and marketable securities	<u>25,798</u>	<u>203,806</u>
Net debt	<u>609,233</u>	<u>421,926</u>

The Company is not subject to any external capital requirement.

## 6. CASH AND CASH EQUIVALENTS

	<u>2013</u>	<u>2012</u>
Cash and banks	2,049	6,682
Short-term investments	<u>23,749</u>	<u>37,518</u>
	<u>25,798</u>	<u>44,200</u>

The balances recorded as cash and cash equivalents refer to deposits and highly liquid short-term investments, readily convertible into a known amount of cash and subject to an insignificant risk of change in value. As at December 31, 2013, short-term investments refer to bank deposit certificates (CDBs) issued by Banco Santander, bearing interest at 101.5% of the interbank deposit certificate (CDI) (103.5% as at December 31, 2012).

## 7. MARKETABLE SECURITIES

The balance of marketable securities as at December 31, 2012 referred to short-term investments with Banco Santander, through bank deposits, yielding 103.5% of the interbank deposit rate (CDI).

## 8. TRADE RECEIVABLES

	<u>2013</u>	<u>2012</u>
Heavy Construction business unit	68,785	52,867
Real Estate business unit	82,145	66,585
Industrial Services business unit (***)	4,408	59,041
Rental business unit	73,468	51,290
Events business unit (**)	3,796	4,247
	<u>232,602</u>	<u>234,030</u>
Allowance for doubtful debts (*)	<u>(53,861)</u>	<u>(36,703)</u>
	<u>178,741</u>	<u>197,327</u>
Current	<u>177,359</u>	<u>194,778</u>
Non-current	<u>1,414</u>	<u>2,549</u>

(\*) The allowance for doubtful debts is calculated based on the amount considered sufficient to cover potential losses on realization of receivables, considering an individual analysis of the Company's major customers.

(\*\*) Amount receivable from sale of property, plant and equipment of the events division, which was discontinued in 2008.

(\*\*\*) Remaining amount receivable from the operations of the Industrial Services business unit, which was discontinued on November 30, 2013.

The changes in the Company's allowance for doubtful debts are as follows:

	<u>2013</u>	<u>2012</u>
At January 1	36,703	20,646
Set up of allowance for doubtful debts	17,283	16,106
Write-offs	<u>(125)</u>	<u>(49)</u>
At December 31	<u>53,861</u>	<u>36,703</u>

As at December 31, 2013, trade receivables totaling R\$53,861 (R\$36,703 in 2012) were accrued. The increase in the amount of this allowance refers basically to the accrual of the balance receivable from specific customers that during 2013 were having difficulties meeting their obligations.

Mills holds receivables corresponding to assets of the Events business unit, whose activities were discontinued. Part of these assets was sold in the course of 2008 and 2009 under agreements for sale of chattels with reserve of title entered into on May 20, 2008 and February 18, 2009. The total amount will be received over a period not exceeding eight years, and the installments are adjusted using the percentage fluctuation of the Extended Consumer Price Index (IPCA). As at December 31, 2013, the asset is adjusted at present value and management, based on the collaterals provided for in the agreement, believes that the amount will be fully realized by the due date of the last installment.

To determine whether or not trade receivables are recoverable, the Company takes into consideration any change in the customer's creditworthiness from the date the credit was originally granted to the end of the reporting period. The credit risk concentration is limited because the customer base is comprehensive and there is no relationship between customers. The Company does not have any customer concentration in its revenue or trade receivables as no single customer or corporate group represents 10% or more of its trade receivables in any of its segments.

The aging list of the Company's trade receivables is as follows:

	<u>2013</u>	<u>2012</u>
Current	112,094	130,420
Current (bills with original due dates extended)	8,539	11,688
1 to 60 days past due (*)	37,220	40,577
61 to 120 days past due (*)	13,943	15,359
More than 120 days past due (*)	<u>60,806</u>	<u>35,986</u>
Total	<u>232,602</u>	<u>234,030</u>

(\*) The analysis above was conducted considering the extended due dates of the bills.

The aging list of the Company's trade receivables past due but not accrued is as follows:

	<u>2013</u>	<u>2012</u>
1 to 60 days past due	37,097	40,147
61 to 120 days past due	9,311	9,749
More than 120 days past due	<u>11,700</u>	<u>6,729</u>
Total	<u>58,108</u>	<u>56,625</u>

As at December 31, 2013, trade receivables amounting to R\$58,106 (2012 - R\$56,625) are past due, but no allowance for doubtful debts was recorded for them due to the fact that they do not meet the allowance recognition criteria established by the Company, as mentioned in Note 2.2.

## 9. INVENTORIES

	<u>2013</u>	<u>2012</u>
Raw materials	6,617	7,327
Finished goods (*)	15,015	8,170
Replacement parts and supplies	8,972	7,763
Advances for inventories	5,140	3,202
Other	<u>544</u>	<u>476</u>
Total	<u>36,288</u>	<u>26,938</u>

(\*)The Company has been working with buffer stocks to ensure a quick response to client requests.

Raw material and finished goods inventories, and advances for inventories are linked to toll manufacturing processes, to meet Company and customer requirements. The spare parts inventory refers basically to access equipment. All inventories are carried at average cost.

## 10. RECOVERABLE TAXES

	<u>2013</u>	<u>2012</u>
Taxes on revenue (PIS and COFINS) (*)	71,856	54,724
Income tax (IRPJ) and social contribution (CSLL) (**)	8,537	6,453
State VAT (ICMS) (***)	909	3,618
Other	<u>135</u>	<u>943</u>
	<u>81,437</u>	<u>65,738</u>
Current	<u>38,673</u>	<u>35,021</u>
Non-current	<u>42,764</u>	<u>30,717</u>

(\*) PIS and COFINS credits refer basically to amounts recoverable on purchases of property, plant and equipment and that will be offset at the rate of 1/48 per month against non-cumulative PIS and COFINS federal tax obligations. Mills expects that these credits will be realized by 2017.

(\*\*) Refers to IRPJ and CSLL tax loss carryforwards determined at December 31, 2013, which will be adjusted for inflation monthly based on the SELIC rate and offset against taxes of the same nature during 2014.

(\*\*\*) Refers to State VAT (ICMS) levied on the Company's operations due to purchase of parts and equipment for sale.

## 11. OTHER RECEIVABLES - SALE OF INVESTEE

	<u>2013</u>
2014	26,785
2015	15,763
2016	15,763
2017	<u>15,764</u>
Total	<u>74,075</u>
Current	26,785
Non-current	<u>47,290</u>
	<u>74,075</u>

On November 30, 2013 the Company completed the sale of its Industrial Services business unit to Fundo de Investimento em Participação (FIP) Leblon Equities Partners V, managed by Leblon Equities Gestão de Recursos Ltda. (see Note 29).

The agreement prescribes that the acquisition price be paid in six (6) installments, all adjusted using the CDI, from May 31, 2013 and the payment date, as follows:

1. The first installment of R\$25,000 (R\$25,207, including the CDI-based adjustment through payment date) was paid on the agreement execution date;
2. The second installment of R\$17,000 (R\$17,815, including the CDI-based adjustment through December 31, 2013) will be paid within 60 days after the delivery by the Company to the buyers of the financial statements of Mills SI for the year then ended, reviewed by independent auditors. The second installment should be adjusted by the partial performance of the business, which means that the business profit plus the depreciation of the assets acquired, less investments, plus the increase in trade payables (or less the decrease in trade payables, as applicable), and less the increase in trade receivables (or plus the decrease in trade receivables, as applicable), from May 31, 2013 and the closing date, i.e., November 30, 2013. These amounts were determined using the same expense apportionment, allowance for doubtful debts recognition, and equipment derecognition accounting criteria currently used by the Company. For profit for the year calculation purposes, the income tax and social contribution rate used was identical to the average tax rate charged on Company operations in the twelve months immediately prior to the closing date, and the following were disregarded: (i) allocated costs related to the Company's stock options and profit sharing, and (ii) finance income and costs. The accumulated partial performance of the business amount, between June 1 and November 30, 2013, the date when the Company completed the transaction, was R\$6,789. Thus, the second installment outstanding balance as at December 31, 2013 was R\$11,022;
3. Four installments of R\$15,000 each (R\$15,763, including the CDI-based adjustment through December 31, 2013), with annual maturity, on the agreement execution anniversaries.

## 12. INVESTMENTS

### a) Non-controlling interest

On February 8, 2011, the Company acquired 25% of the capital of Rohr S.A. Estruturas Tubulares (“Rohr”) for R\$ 90,000. Rohr is a privately-held company specialized in access engineering and supplying construction solutions, which operates mainly in the heavy construction and industrial maintenance sectors.

In May 2011 the Company received R\$2,035 (net of taxes) of interest on capital and dividends relating to its investment in Rohr. This amount was recognized reducing the investment amount since it refers to amounts received soon after the acquisition of the investee's shares.

In December 2011, Mills received R\$573 (net of taxes) in interest on capital related to the year 2007. This amount was recognized reducing the amount of the investment, as it referred to dividends derived from profits or reserves already existing at the time the shares were purchased. In addition, the Company received extraordinary dividends in the amount of R\$1,346 related to the year 2011 that were recognized as revenue in the income statement.

In the fourth quarter of 2011, there was an increase in the stake in Rohr S.A. Estrutura Tubulares (Rohr) from 25% to 27.47%, resulting from a buyback by Rohr of 9% of its shares, which are currently in its treasury and will be cancelled or proportionally distributed to its shareholders.

The Company assessed its influence over the management of Rohr and concluded that, even though it holds 27.47% of the investee’s capital, such investment should be carried at acquisition cost, due to the following facts: Mills does not have power to influence Rohr’s financial, operational and strategic policies, it does not control, either individually or jointly, such policies, and it is not represented in the investee’s management. Furthermore, there is no shareholders’ agreement that might give Mills the right to have influence over the investee’s management or that might give it the right to increase its stake in the future. Based on these factors, the Company concluded that it does not have significant influence over the investee and will keep the investment carried at acquisition cost.

In December 2013 the Company recognized finance income of R\$1,648 (R\$3,214 in December 2012 referring to 2011 and 2012) related to interest on capital of Rohr for 2013.

### b) Impairment loss

In 2013 the Company reviewed the recoverable amount of the investment in Rohr S.A. based on an internal report. The recoverable amount of this asset was determined based on economic projections to determine Rohr's market value, using the income approach, through a discounted cash flow projection, in order to establish the grounds for the amount paid. The discount rate used to measure the recoverable amount was approximately 12% per year. Management believes that any type of change reasonably possible in key assumptions on which the recoverable amount is based would not lead the investment's carrying amount to exceed its recoverable amount.

## 13. PROPERTY, PLANT AND EQUIPMENT

	Equipment for rental and operacional use	Leasing	Rental equipment in progress	Total rental equipment	Leasehold improvements	Buildings And land	Computers And peripherals	Vehicles	Facilities	Furniture and fixture	Construction in progress	Total Assets in use	Total PP&E
<b>Gross cost of PP&amp;E</b>													
Balance at December 31, 2011	902.920	98.971	57.503	1.059.394	9.953	11.049	8.526	951	1.197	6.145	11.596	49.417	1.108.811
Purchases	199.194	-	77.089	276.283	3.372	-	1.195	585	260	1.465	4.287	11.164	287.447
Write-offs/disposals	(38.416)	(2.733)	(12)	(41.161)	(669)	-	(647)	(66)	-	(374)	-	(1.756)	(42.917)
Adjustment for Pis and Cofins	(25.584)	-	-	(25.584)	-	-	-	-	-	-	-	-	(25.584)
Reclassification	-	-	(23)	(23)	-	-	380	-	-	-	(192)	188	165
Transfers	85.040	(56)	(87.991)	(3.007)	111	14.107	47	2.804	-	(62)	(14.000)	3.007	-
Balance at December 31, 2012	1.123.154	96.182	46.566	1.265.902	12.767	25.156	9.501	4.274	1.457	7.174	1.691	62.020	1.327.922
Purchases	364.644	-	104.863	469.507	8.344	6	5.561	752	1.453	2.454	1.280	19.850	489.357
Write-offs/disposals	(42.020)	(14.630)	-	(56.650)	-	(21)	(5)	(787)	-	(5)	-	(818)	(57.468)
Adjustment for Pis and Cofins	(43.380)	-	-	(43.380)	-	-	-	-	-	-	-	-	(43.380)
Write-offs assets sold – Mills SI	(107.374)	-	-	(107.374)	(1.189)	(867)	(1.172)	(599)	(236)	(751)	-	(4.814)	(112.188)
Reclassification	1.142	604	-	1.746	-	-	-	-	-	-	-	-	1.746
Transfers	113.532	-	(112.923)	609	(882)	-	1	-	2.796	73	(2.391)	(403)	206
Balance at December 31, 2013	1.409.698	82.156	38.506	1.530.360	19.040	24.274	13.886	3.640	5.470	8.945	580	75.835	1.606.195
<b>Acumulated depreciation</b>													
Balance at December 31, 2011	(214.387)	(9.162)	-	(223.549)	(2.620)	(884)	(4.999)	(324)	(569)	(2.980)	-	(12.376)	(235.925)
Depreciation	(99.427)	(4.816)	-	(104.243)	(1.057)	(196)	(1.172)	(323)	(85)	(468)	-	(3.301)	(107.544)
Write-offs/disposals	16.362	1.088	-	17.450	573	-	637	43	-	339	-	1.592	19.042
Reclassification	-	-	-	-	-	-	(148)	-	-	-	-	(148)	(148)
Transfers	1.918	-	-	1.918	-	-	(36)	(1.918)	-	36	-	(1.918)	-
Balance at December 31, 2012	(295.534)	(12.890)	-	(308.424)	(3.104)	(1.080)	(5.718)	(2.522)	(654)	(3.073)	-	(16.151)	(324.575)
Depreciation	(122.387)	(6.778)	-	(129.165)	(1.631)	(698)	(1.733)	(496)	(176)	(590)	-	(5.324)	(134.489)
Write-offs/disposals	17.127	4.608	-	21.735	-	-	3	385	-	-	-	388	22.123
Write-offs assets sold – Mills SI	53.105	-	-	53.105	267	241	859	412	73	265	-	2.117	55.222
Transfers	-	-	-	-	299	11	(5)	(11)	(294)	-	-	-	-
Balance at December 31, 2013	(347.689)	(15.060)	-	(362.749)	(4.169)	(1.526)	(6.594)	(2.232)	(1.051)	(3.398)	-	(18.970)	(381.719)
Annual depreciation rates - %	10	10	-	-	10	4	20	20	10	10	-	-	-
<b>Property, plant and equipem-net</b>													
Balance at December 31, 2012	827.620	83.292	46.566	957.478	9.663	24.076	3.783	1.752	803	4.101	1.691	45.869	1.003.347
Balance at December 31, 2013	1.062.009	67.096	38.506	1.167.611	14.871	22.748	7.292	1.408	4.419	5.547	580	56.865	1.224.476

Rental equipment can be summarized as follows: access scaffolding (Mills and Elite tubular scaffolding), forms (Noe and Aluma forms), props (MillsTour and Aluma), aerial platforms (JLG and Genie) and telescopic manipulators.

We highlight below the main acquisitions purchases during the year, by group of assets:

	<u>2013</u>
Props	98,020
Lifts and handlers	270,432
Reusable concrete formworks	41,135
Suspended scaffolding and access structures	48,617
Other	<u>31,153</u>
Total purchases	<u>489,357</u>

The depreciation for the year, allocated to costs of services and general and administrative expenses, amounts to R\$127,037 and R\$7,452 as at December 31, 2013 (R\$104,243 and R\$3,301 as at December 31, 2012), respectively.

Certain items of the Company's property, plant and equipment are pledged as collateral of borrowing and financing transactions (Note 16).

#### Review of estimated useful life

For purposes of this review, based on a valuation conducted by technical experts the Company issued a valuation report dated December 31, 2013, approved at an executive committee's meeting. In 2010 the Company contracted independent appraisers who issued a valuation report dated February 4, 2011. In order to prepare the report, the technical experts and independent appraisers considered the Company's operational planning for the coming fiscal years, past experience, such as the level of maintenance and use of the items, external elements for benchmarking, such as available technologies, manufacturers' recommendations and technical manuals, and the service lives of the assets. There was no change in the remaining estimated useful life of property, plant and equipment of the rental equipment group in relation to that calculated in the report of February 2011 and that is in line with the depreciation rates used by the Company; therefore, there was no change in the depreciation rate for 2013.

The Company concluded that there were no events or changes in circumstances that would indicate that such assets may be impaired.

## 14. INTANGIBLE ASSETS

	Computer software	Trademarks and patents	Goodwill on investments	Total intangible assets
Gross cost of intangible assets				
Balance at December 31, 2012	<u>17,465</u>	<u>932</u>	<u>44,294</u>	<u>62,691</u>
Purchases	16,546	-	-	16,546
Write-off of assets sold - Mills SI	(236)	(37)	-	(273)
Transfer	<u>(206)</u>	<u>-</u>	<u>-</u>	<u>(206)</u>
Balance at December 31, 2013	<u>33,569</u>	<u>895</u>	<u>44,294</u>	<u>(78,758)</u>
Accumulated amortization				
Balance at December 31, 2012	<u>(3,811)</u>	<u>(122)</u>	<u>(4,232)</u>	<u>(8,165)</u>
Amortization	(2,226)	(173)	-	(2,399)
Write-off of assets sold - Mills SI	<u>198</u>	<u>-</u>	<u>-</u>	<u>198</u>
Balance at December 31, 2013	<u>(5,839)</u>	<u>(295)</u>	<u>(4,232)</u>	<u>(10,366)</u>
Annual amortization rates - %	20	20	-	-
<u>Intangible assets, net</u>				
Balance at December 31, 2012	13,654	810	40,062	54,526
Balance at December 31, 2013	27,730	600	40,062	68,392

Allowance for impairment of goodwill

Goodwill arose on the acquisition of Jahu in 2008 and the acquisition of GP Sul in 2011 (Note 1), which are considered as a business segment and a cash-generating unit (CGU) to which the is allocated.

The impairment test of the Real Estate CGU was conducted based on the budgeted cash flow for this segment in 2014, before income tax and social contribution, approved by Management. No need to recognize an allowance for impairment losses of this goodwill was identified.

Management believes that any type of change reasonably possible in key assumptions on which the recoverable amount is based would not lead the total carrying amount to exceed the total recoverable amount of the cash-generating unit.

## 15. TRADE PAYABLES

	<u>2013</u>	<u>2012</u>
Domestic trade payables	32,229	40,091
Foreign trade payables	<u>5,675</u>	<u>7,693</u>
	<u>37,904</u>	<u>47,784</u>

As at December 31, 2013, the trade payables balance refers basically to installment purchase of equipment.

## 16. BORROWINGS, FINANCING AND FINANCE LEASES

The borrowings were used for financing the expansion of the Company's investments and for its general expenses and uses, being indexed to the CDI, TJLP and US dollars.

For borrowings in foreign currency, financial instruments were contracted to hedge the Company against fluctuations in exchange rates.

The financing agreements for rental equipment have been contracted at TJLP charges plus interest of 0.20% to 0.90% per year, with amortization on a monthly basis through June 2021.

Borrowings, financing and finance leases are as follows:

	<u>2013</u>	<u>2012</u>
Current:		
Borrowings and financing	4,936	31,672
Finance lease payables	<u>7,828</u>	<u>10,124</u>
	<u>12,764</u>	<u>41,796</u>
Non-current:		
Borrowings and financing	58,423	22,314
Finance lease payables	<u>326</u>	<u>7,889</u>
	<u>58,749</u>	<u>30,203</u>

Borrowings and financing

	<u>Current liabilities</u>	
	<u>2013</u>	<u>2012</u>
Financing from financial institutions:		
Indexed to CDI plus interest of 0.84% to 4.5% per year	-	27,323
Indexed to TJLP plus interest of 0.20% to 0.90% per year	<u>4,936</u>	<u>4,349</u>
	<u>4,936</u>	<u>31,672</u>
	<u>Non-current liabilities</u>	
	<u>2013</u>	<u>2012</u>
Financing from financial institutions:		
Indexed to US dollar plus interest of 2.13% per year	39,932	-
Indexed to TJLP plus interest of 0.20% to 0.90% per year	<u>18,491</u>	<u>22,314</u>
	<u>58,423</u>	<u>22,314</u>

The financial institutions with which the Company has borrowing and financing transactions as at December 31, 2013 are as follows:

- Santander
- Banco do Brasil
- Itaú BBA
- HSBC
- Banco Alfa

On December 6, 2013 the Company entered into a loan agreement with the Nassau Branch of Banco Itaú BBA S.A. totaling US\$16.9 million (equivalent to R\$40.0 million). Principal and interest will be settled in a bullet payment on January 30, 2015. In order to eliminate the foreign exchange risk on this borrowing, on the same date a swap was contracted with Banco Itaú BBA S.A. in the amount of R\$25.4 million so that the obligations (principal and interest) are fully converted into local currency and carried out on the same maturity dates (see Note 33).

The table below shows a breakdown of the contractual guarantees outstanding on the indicated dates:

	<u>2013</u>	<u>2012</u>
Guarantees provided:		
Receivables	-	904
Collateral sale (*)	<u>65,858</u>	<u>66,775</u>
Total collaterals	<u>65,858</u>	<u>67,679</u>
Promissory notes	20,128	20,777

\* Refer to equipment acquired under the Federal Equipment Financing Program (FINAME) and leases.

The promissory notes are enforceable guarantees and serve as additional guarantees in relation to the borrowings and financing.

The maturities of the non-current portions at December 31, 2013 are as follows:

2015	43,473
2016	3,138
2017	3,138
2018 to 2021	<u>8,674</u>
	<u>58,423</u>

The Company's borrowings do not have restrictive covenants.

#### Finance leases

Refer basically to agreements for purchase of property, plant and equipment for rental for periods between 36 and 60 months, with maturities through 2015 and indexed to the CDI plus interest of 2.5% to 3.80% per year. These obligations are collateralized by the leased assets. The Company is not presenting the undiscounted debt payment cash outflows since payments are calculated at a floating rate basis according to CDI fluctuation.

	<u>2013</u>	<u>2012</u>
2013	-	10,124
2014	7,828	6,773
2015	<u>326</u>	<u>1,116</u>
Present value of minimum lease payments	<u>8,154</u>	<u>18,013</u>
Current portion	7,828	10,124
Non-current portion	326	7,889

There are no significant differences between the present value of minimum lease payments and the market value of such financial liabilities. Interest charges are at floating rates and are recognized on a prorated basis.

The Company has finance lease agreements with purchase option at the end of the contractual term. The purchase option is based on the guaranteed residual value that can be paid at the beginning of, end of or during the contractual term. There is also an option to renew the lease agreement for the period and under the terms agreed by the parties.

The Company's current finance leases do not contain any restrictive covenants.

## 17. DEBENTURES

### 1<sup>st</sup> issue of debentures

The first issue by the Company of a total of 27,000 unsecured, nonconvertible registered debentures in single series was approved on April 8, 2011, totaling R\$270,000 and unit face value of R\$10.00. These debentures mature on April 18, 2016 and pay interest equivalent to 112.5% of the CDI, payable semiannually, and will be amortized in three annual, consecutive installments, commencing on April 18, 2014. The transaction costs associated with this issue, in the amount of R\$2,358, are being recognized as borrowing costs, in accordance with the contractual terms of the issue.

### 2<sup>nd</sup> issue of debentures

The second issue by the Company of a total of 27,000 unsecured, nonconvertible registered debentures in two series was approved on August 3, 2012, totaling R\$270,000 and unit face value of R\$10.00. The transaction costs associated with this issue, in the amount of R\$1,810, are being recognized as borrowing costs, in accordance with the contractual terms of the issue. The debentures have their maturities according to the issue of each series, as follows:

- 1st series - 16,094 debentures of the first series, totaling R\$160,940, with maturity on August 15, 2017, not subject to adjustment for inflation. The nominal amount of the debentures of the first series will be amortized in two annual installments as from the fourth year of their issue and interest paid semiannually will correspond to a surcharge of 0.88% p.a. levied on 100% of the accumulated variation of the DI rate;
- 2nd series - 10,906 debentures of the second series, totaling R\$109,060, with maturity on August 15, 2017, subject to adjustment for inflation based on the accumulated variation of the IPCA index. The nominal amount of the debentures of the second series will be amortized in three annual installments as from the sixth year of their issue and interest paid semiannually will correspond to 5.50% p.a. of the amount adjusted for inflation as indicated above.

As at December 31, 2012 the balance of debentures including transaction costs is R\$113,271 in current liabilities and R\$450,000 in non-current liabilities, and R\$112,532 and R\$448,238, net of transaction costs, respectively. (As at December 31, 2012 the balance of debentures is R\$13,733 in current liabilities and R\$540,000 in non-current liabilities, and R\$12,994 and R\$537,459, net of transaction costs, respectively.)

### Covenants

The indentures of the debentures require the compliance of debt and interest coverage ratios under preset parameters, as follows:

- (1) Net debt-to-EBITDA ratio equal to three (3) or less; and
- (2) EBITDA-to-net financial expenses equal to two (2) or higher.

On the closing of the financial statements for the year ended December 31, 2013 the Company was compliant with all ratios.

### General Meeting of Debenture Holders

At the General Meeting held on October 3, 2013, the debenture holders of the first and second issues (1st and 2nd series) were called by means of call notices published as required by Law to decide, for all purposes provided for in the Issue Indenture (and especially for purposes of not featuring an Event of Default), on the transfer of the assets, liabilities, rights and obligations related to the operations of the Company's Industrial Services Division.

The Debenture Holders present expressed their agreement with the transfer of the operations of the Industrial Services Division to Mills SI Serviços Industriais Ltda. (see Note 28), approving since the aforementioned date the performance of all acts necessary to the implementation of such transfer, and their agreement with the sale of all of the share units held by the Company in Mills SI Serviços Industriais Ltda. to Albuquerque Participações Ltda., on a date to be informed later to the Market.

As a result of the decisions above, the Company undertook to pay to each Debenture Holder, until October 10, 2013, a commission equivalent to 0.10% of the debt balance of the Debentures (including the nominal amount and remuneration until October 3, 2013), multiplied by the number of Debentures held by the respective Debenture Holder, R\$561.

## 18. RELATED PARTIES

### a) Transactions and balances

There were no loans between the Company and any of its officers during the year.

As at December 31, 2013 the Company had no service agreements with members of its Board of Directors.

b) Management compensation

The amounts relating to compensation paid to the members of the Company's management are as follows:

	<u>2013</u>	<u>2012</u>
Salaries and payroll charges - officers	6,342	4,769
Directors' fees	1,729	1,456
Profit sharing	1,225	637
Share-based payments	<u>2,694</u>	<u>1,690</u>
Total	<u>11,990</u>	<u>8,552</u>

19. EMPLOYEE BENEFITS

a) Employee profit sharing

The provision for profit sharing of employees and executives is set up on an accrual basis and is accounted for as an expense. The determination of the amount, which is paid in the year following the year the provision is set up, takes into consideration the targets established together with the employees' union under a collective labor agreement, in accordance with Law 10,101/00 and the Company's Bylaws.

The Company's Board of Directors decided on March 27, 2012 that the amount of the profit sharing will no longer be set at 25% of profit and can vary between 20% and 30% of the economic value added (EVA), which is calculated based on operating profit deducted from or added to non-recurring profits, less taxes and the weighted average cost of capital. The metrics for this calculation is approved by the Company's management.

The percentage set for 2013 was 25% (30% in 2012).

The profit sharing is recognized over the year and paid in the following year. The amount recognized in current liabilities and profit for the year as at December 31, 2013 is R\$18,697 (as at December 31, 2012 - R\$20,142 in current liabilities and profit for the year).

## b) Stock option plan

The Company has stock option plans approved by the shareholders' meeting aimed at integrating its executives in the Company development process over the medium and long terms. These plans are managed by the Company and the options granted are approved by the board of directors.

Plans	Grant date	Final exercise date	Shares in thousands		
			Shares granted	Shares exercised	Outstanding shares
Top Mills Special Plan 2010 Plan	01/01/2008	07/10/2015	782	(782)	-
2010 Program	05/31/2010	05/31/2016	1,475	(1,043)	432
2011 Program	04/16/2011	04/16/2017	1,184	(474)	710
2012 Program	06/30/2012	05/31/2018	1,258	(214)	1,044
2013 Program	04/30/2013	04/30/2019	768	-	768

The information related to the Company's stock option programs is summarized below:

Plan pricing and accounting

In order to price the cost of the portions of the plans relating to their equity component, the volatilities applicable to each one were determined at the risk-free rates and stock prices based on valuations of 6.6 times the EBITDA, less the net debt in the period of each plan, and the Company used the Black-Scholes model to calculate the fair values.

The plans granted as from 2010 were classified as equity instruments and the weighted average fair value of the options granted was determined based on the Black-Scholes valuation model, considering the following assumptions:

Program	Grant	Weighted average fair value by option - R\$	Weighted average fair value of the share at the grant date - R\$	Exercise price - R\$	Volatility	Dividend yield	Annual risk-free interest rate	Maximum exercise period
2010	First	3.86	11.95	11.50	31.00%	1.52%	6.60%	6 years
2010	Second	5.49	14.10	11.50	31.00%	1.28%	6.37%	6 years
2011	Single	6.57	19.15	19.28	35.79%	1.08%	6.53%	6 years
2012	Basic	21.75	27.60	5.86	37.41%	0.81%	3.92%	6 years
2012	Discretionary	12.57	27.60	19.22	37.41%	0.81%	3.92%	6 years
2013	Basic	24.78	31.72	6.81	35.34%	0.82%	3.37%	6 years
2013	Discretionary	11.92	31.72	26.16	35.34%	0.82%	3.37%	6 years

The table below shows the accumulated balances of the plans in the balance sheet accounts and the effects on profit for the year.

	<u>2013</u>	<u>2012</u>
2002 Plan		
Capital reserve	1,446	1,446
Number of shares exercised (thousands)	3,920	3,920
Top Mills, Special CEO and EX-CEO plans		
Capital reserve	1,148	1,148
Number of exercisable options (thousands)	-	95
Number of shares exercised (thousands)	1,055	960
Mills Rental Executives Plan		
Capital reserve	4,007	4,007
Number of shares exercised (thousands)	391	391
2010 Plan		
Capital reserve	5,303	3,825
Number of exercisable options (thousands)	413	768
Number of shares exercised (thousands)	1,062	707
2011 Program (2010 Plan)		
Capital reserve	5,142	3,280
Number of exercisable options (thousands)	711	1,011
Number of shares exercised (thousands)	473	173
2012 Program (2010 Plan)		
Capital reserve	6,308	2,153
Number of exercisable options (thousands)	1,015	1,258
Number of shares exercised (thousands)	243	-
2013 Program (2010 Plan)		
Capital reserve	2,503	-
Number of exercisable options (thousands)	768	-
Total recognized as equity (accumulated)	25,857	15,859
Impact on profit	(9,998)	(5,837)

## 20. INCOME TAX AND SOCIAL CONTRIBUTION

## a) Reconciliation of the income tax and social contribution benefit (expenses)

Reconciliation between the income tax and social contribution expense at the statutory and effective rates is as follows:

	<u>2013</u>	<u>2012</u> (Restated)
Profit for the year before income tax and social contribution	233,389	207,522
Statutory income tax and social contribution rate	<u>34%</u>	<u>34%</u>
Income tax and social contribution at statutory rate	(79,352)	(70,557)
Non-deductible provisions(*) and permanent differences	(4,114)	(2,637)
Interest on capital - declared	14,625	13,992
Other	<u>3,126</u>	<u>922</u>
Total current and deferred income tax and social contribution	(65,715)	(58,280)
Effective tax rate	28%	28%
Current income tax	(68,396)	(49,902)
Deferred income tax	<u>2,681</u>	<u>(8,378)</u>
	(65,715)	(58,280)

\* Non-deductible provisions consist of stock option expenses, gifts, debt waivers, and fines for tax infractions.

## b) Income tax and social contribution recognized in other comprehensive income

The deferred tax recognized in other comprehensive income is a result of the provision for gains/losses on cash flow hedging instruments transferred to the opening carrying amounts of the hedged items. The total income tax and social contribution recognized in other comprehensive income in December 2013 is R\$2,673.

- c) The changes in deferred income tax and social contribution during the year, without considering the offset of balances, are as follows:

<u>Description</u>	<u>December 31, 2012</u>	<u>Additions</u>	<u>Write-offs</u>	<u>December 31, 2013</u>
Itapoã goodwill	681	-	(681)	-
Discount to present value	129	-	(52)	77
Hedge on property, plant and equipment	1,252	(1,434)	(1,252)	(1,434)
Other provisions	470	345	-	815
Allowance for doubtful debts	6,059	1,780	-	7,839
Finance leases	(745)	2,244	745	2,244
Provision for tax, civil and labor claims	3,415	222	-	3,637
Provision for billing write-off	-	2,815	-	2,815
NDF derivatives	155	(2,673)	(155)	(2,673)
Accelerated depreciation	-	(753)	-	(753)
GP Andaimes Sul Locadora	(190)	(135)	-	(325)
Jahu goodwill	(11,510)	(1,439)	-	(12,949)
Adjustment for inflation of judicial deposits	(987)	-	66	(921)
Debentures	<u>(1,110)</u>	<u>-</u>	<u>260</u>	<u>(850)</u>
	<u>(2,381)</u>	<u>972</u>	<u>(1,069)</u>	<u>(2,478)</u>

- d) The rationale and expectations for realization of the deferred income tax and social contribution are shown below:

<u>Nature</u>	<u>Realization rationale</u>
Provision for tax, civil and Labor	Tax realization of loss
Allowance for receivables impairment losses	Filing of lawsuits and past-due credits
Finance leases	Realization over straight-line depreciation period of assets
Discount to present value	Tax realization of loss/gain
Other provisions	Payment
Itapoã goodwill	Tax amortization
Jahu goodwill/GP Sul goodwill	Asset disposal/impairment
Adjustment for inflation of judicial deposits	Deposit withdrawal
Debentures	Amortization of borrowing cost
Derivatives – Cash flow hedge	Depreciation

The table below shows the expected realization of deferred income tax and social contribution as at December 31, 2013:

	Deferred IR and CSLL assets	Deferred IR and CSLL liabilities
2014	3,122	(971)
2015	3,122	(1,155)
2016	3,122	(1,008)
2017	3,122	(970)
2018	3,122	(1,672)
Beginning 2019	<u>1,817</u>	<u>(14,129)</u>
Total	<u>17,427</u>	<u>(19,905)</u>

#### Transition Tax Regime

The Transition Tax Regime (RTT) shall remain in effective until the enactment of a law governing the tax impacts of the new accounting methods to ensure tax neutrality.

On November 12, 2013 Provisional Act (“MP”) 627 was issued to repeal the Transitional Tax Regime (RTT) and the Corporate Income Tax Return (DIPJ) and create the Tax Accounting Recordkeeping Form (ECF) in exchange.

The Accounting Recordkeeping Form (ECF) will consolidate the tax neutrality adjustments that were previously reported using the Transition Tax Accounting Control (FCONT). Under the MP, the adoption of the ECF is optional for taxable events recorded beginning January 2014 and becomes mandatory beginning 2015 for all corporate entities that elect taxation based on the actual taxable income. To date this statute had not yet been passed into law. The MP could be amended when it is passed into law. The Company is assessing the amendments to said MP together with its legal counsel, but it does not expect any material impacts on the profit for the year.

## 21. PROVISION FOR TAX, CIVIL AND LABOR CLAIMS AND JUDICIAL DEPOSITS

The Company is a party to tax, civil and labor lawsuits that have arisen in the normal course of business, and is discussing these matters in both the administrative and legal spheres, which, when applicable, are backed by judicial deposits.

Based on the opinion of its outside legal counsel, management understands that the proper legal steps and measures already taken in each situation are sufficient to cover potential losses and preserve the Company's net assets, being reassessed periodically.

The Company does not have any contingent assets recorded.

a) Breakdown of the provision for tax, civil and labor claims:

	<u>2013</u>	<u>2012</u>
Tax (i)	3,818	4,425
Civil (ii)	467	444
Labor (iii)	3,588	2,462
Success fees (iv)	<u>2,700</u>	<u>2,588</u>
Total	<u>10,573</u>	<u>9,919</u>

Changes in the provision for tax, civil and labor claims:

	<u>2013</u>	<u>2012</u>
Balance at January 1	<u>9,919</u>	<u>16,079</u>
Amount recognized	3,107	2,720
Reversals	(1,740)	(6,713)
Derecognition	(713)	(2,585)
Transfers	-	418
Balance at December 31	<u>10,573</u>	<u>9,919</u>

- (i) Refers basically to a writ of mandamus filed by the Company when challenging the increase in the PIS and COFINS rates (established by the non-cumulative regime of these contributions, with the enactment of Laws 10,637/2002 and 10,833/2003). The Company maintains a judicial deposit for this provision, related to the differences in rates.
- (ii) The Company is a party to lawsuits filed against it relating to civil liability and compensation claims.
- (iii) The Company is a defendant in several labor lawsuits. Most of the lawsuits involve claims for compensation due to occupational diseases, overtime, hazardous duty premium and salary equalization.
- (iv) The success fees are generally set in up to 10% of the amount pledged in each claim, payable to outside legal counsel depending on the success of the demand of each case. Payment is contingent upon favorable outcome in the lawsuits.

a) Breakdown of judicial deposits:

	<u>2013</u>	<u>2012</u>
Tax (i)	6,805	8,440
Civil	278	555
Labor (ii)	<u>2,970</u>	<u>2,858</u>
	<u>10,053</u>	<u>11,853</u>

- (i) In October 2001 the Company filed a lawsuit in the different cities where it operates aimed at recovering the service tax (ISS) paid since 1991 on the rental of its chattels. The lawsuits are in progress, awaiting court decisions. After the enactment of Supplementary Law 116/2003 in August 2003, Mills discontinued the payment of ISS on such rentals, although it continues taxing the assignment of its scaffolding and other structures for temporary use.

The former Jahu filed lawsuits challenging the levy of ISS on rentals of chattels and made judicial deposits, even after enactment of Law 116/2003. Based on the opinion of its legal counsel, the Company did not recognize a provision for this contingency, although it is booked, since the likelihood of loss is either remote or possible.

- (ii) The judicial deposits are linked to various labor lawsuits in which the Company is the defendant. Most of the lawsuits involve claims for compensation due to occupational diseases, overtime, hazardous duty premium and salary equalization.

The Company is a party to tax, civil and labor lawsuits involving risks of loss classified by management as possible based on the assessment of its legal counsel, for which no provision was recognized as estimated below:

	<u>2013</u>
Tax	26,442
Labor	10,944
Civil	4,812
Other	-
	<u>42,198</u>

## 22. TAX DEBT REFINANCING PROGRAM (REFIS)

In November 2009, the Company enrolled in the Special Payment in Installments, established by Law 11,941/2009 and Provisional Measure 470/2009, with the purpose of settling tax liabilities through this special system of payment of tax and social security obligations in installments.

The general conditions of this payment in installments can be summarized as follow:

- (a) The payment period was 180 months.
- (b) 60% reduction in the amounts related to voluntary and late payment fines, and a 25% reduction in late payment interest.

(c) The debts made payable in installments were:

- (i) PIS and COFINS (for the period from April 2002 to May 2004).
- (ii) IRPJ (for December 2003, January 2004 and April 2004).
- (iii) CSLL (for November 2003, January 2004 and April 2004).
- (iv) INSS – Additional Occupational Accident Insurance (SAT) contribution.

The amounts related to PIS/Cofins, IRPJ and CSLL had been offset by PIS and COFINS credits on rental (from September 1993 to January 1999), referring to the rental and assembly of own leased assets. The origin of these credits was based on a decision by the Federal Supreme Court that does not consider the rental of chattel as provision of services.

In light of the new guidance from the court precedent, set by the Superior Court of Justice (STJ) (1st Panel of the STJ - judgment in September 2009 of Special Appeal No. 929.521), which settled the understanding regarding the levy of COFINS on revenue earned from rental of chattel, the Company decided to pay in installments the amount related to the aforementioned debts.

The debts were consolidated on June 29, 2011, in accordance with Joint Administrative Rule PGFN/RFB 2/2011.

As a result of the enrollment in this special payment in installments, the Company assumed the commitment to payment of the installments no more than three months past their due dates, and has been paying the REFIS installments of the debt consolidated in June 2011.

(d) At the time of the preliminary stage of consolidation of the debt for payment in installments, on June 30, 2010, the Company decided to include an INSS debt in light of the change in the chance of success in the lawsuit from probable to remote, according to an opinion by the outside legal counsel.

Also in the preliminary stage of consolidation of the debts for payment in installments, PIS and Cofins debts considered expired by the outside legal counsel were excluded.

	<u>2011</u>	<u>Write-</u> <u>offs</u>	<u>Adjustment</u> <u>for inflation</u>	<u>2012</u>	<u>Write-</u> <u>offs</u>	<u>Adjustment</u> <u>for inflation</u>	<u>2013</u>
PIS	1,856	(151)	126	1,831	(159)	103	1,775
COFINS	5,688	(461)	387	5,614	(489)	318	5,443
IRPJ	2,308	(187)	157	2,278	(198)	129	2,209
CSLL	152	(12)	10	150	(13)	9	146
INSS	<u>868</u>	<u>(70)</u>	<u>59</u>	<u>857</u>	<u>(75)</u>	<u>49</u>	<u>831</u>
	<u>10,872</u>	<u>(881)</u>	<u>739</u>	<u>10,730</u>	<u>(934)</u>	<u>608</u>	<u>10,404</u>
Current				907			960
Non-current				<u>9,823</u>			<u>9,444</u>
				<u>10,730</u>			<u>10,404</u>

## 23. TAXES PAYABLE

	<u>2013</u>	<u>2012</u>
Withholding Income tax (IRRF) on interest on capital	2,480	2,614
Taxes on revenue (PIS and COFINS)	3,417	10,048
Social Security Contribution (INSS)	321	470
State VAT (ICMS)	-	3,467
Service Tax (ISS)	586	1,773
Other	<u>280</u>	<u>225</u>
	<u>7,084</u>	<u>18,597</u>

## 24. EQUITY

### a) Subscribed capital

The Company's fully subscribed and paid-in capital as at December 31, 2013 is R\$553,232 (R\$537,625 as at December 31, 2012) represented by 127,386,000 registered common shares without par value (126,399,000 as at December 31, 2012). Each common share corresponds to the right to one vote in decisions made by the shareholders.

Under the Company's Mills bylaws, the Board of Directors may increase the capital up to a ceiling of 200,000,000 shares.

#### (a.1) Treasury shares

On May 28, 2012, the Company repurchased 4,000 preferred shares of its own issue, acquired from a shareholder that exercised his right to withdraw, for cancelation. The total amount paid on the acquisition of the shares, net of income tax and social contribution, was R\$23, deducted from the capital reserve in equity. On June 21, 2012, the Company's Board of Directors approved the cancelation of all the shares, pursuant to item (o) of the Company's bylaws.

## (a.2) Share issue

The Company's share issue has occurred as approved by the Company's Board of Directors due to the exercise of stock options by beneficiaries. The shares issued in the period were fully subscribed and paid up by their respective beneficiaries and are as follows:

Stock option plan	Approval by the Board of Directors	Number of shares issued	Issue price	Capital increase (in thousands)
2010 Program	02/08/2013	600	12.49	8
2010 Program	02/08/2013	3,050	12.40	38
2011 Program	02/08/2013	88,574	20.54	1,819
Top Mills Plan	04/10/2013	66,903	2.53	169
2010 Program	05/09/2013	230,481	12.90	2,973
2011 Program	05/09/2013	138,185	21.13	2,920
2012 Program	05/09/2013	24,372	5.88	143
2012 Program	05/09/2013	153,265	20.05	3,073
Top Mills Plan	05/22/2013	15,512	2.55	40
2010 Program	08/15/2013	101,395	12.81	1,299
2011 Program	08/15/2013	55,952	21.10	1,181
2012 Program	08/15/2013	7,148	5.74	41
2012 Program	08/15/2013	29,335	20.00	587
2011 Program	11/01/2013	5,152	21.23	110
2012 Program	11/01/2013	945	20.23	19
2010 Program	11/14/2013	19,086	13.00	248
2011 Program	11/14/2013	17,231	21.40	369
2012 Program	11/14/2013	1,780	5.83	10
2012 Program	11/14/2013	<u>27,600</u>	20.28	<u>560</u>
		<u>986,566</u>		<u>15,607</u>

The table below shows the shareholding structure at the reporting dates:

Shareholders	2013		2012	
	Number of shares (in thousands)	Percentage	Number of shares (in thousands)	Percentage
Andres Cristian Nacht	15,596	12.24%	15,596	12.34%
Snow Petrel S.L.	17,728	13.90%	17,728	14.03%
HSBC Bank Brasil S.A.(*)	6,323	5.07%	6,323	5.00%
Capital Group International, Inc (**)	6,445	5.01%	-	-
Other signatories of the Company				
Shareholders' Agreement (***)	11,825	9.28%	11,826	9.36%
Other	<u>69,469</u>	<u>54.50%</u>	<u>74,926</u>	<u>59.28%</u>
	<u>127,386</u>	<u>100.00 %</u>	<u>126,399</u>	<u>100.00%</u>

(\*) On October 2, 2012, now holds a relevant interest in accordance with information received officially by the Company and disclosed to the CVM.

- (\*) On June 15, 2013, became the holder of a material share interest according to information officially received by the Company and disclosed to CVM.
- (\*\*) The other signatories of the Company's Shareholders' Agreement, all holders of individual interests of less than 5% of the Company's capital, are represented in the capacity as shareholders, including for voting right exercise purposes, by Andres Cristian Nacht.

b) Earnings reserves

(b.1) Legal reserve

The legal reserve is set up annually by allocating 5% of profit for the year until it reaches a ceiling of 20% of the share capital. The purpose of the legal reserve is to ensure the integrity of share capital and it can only be used to offset losses and increase capital.

(b.2) Expansion reserve

The purpose of the expansion reserve is to provide funding to finance additional investments in fixed and working capital and expand corporate activities. Under the Company's bylaws, the ceiling of the expansion reserve is 80% of total subscribed capital.

(b.3) Special reserve

The Company's special reserve referred to the tax benefit generated by the corporate restructuring undertaken in 2009.

c) Capital reserve

The capital reserve incorporates the transaction costs incurred in capital funding, amounting to R\$15,068, net of taxes, related to the distribution of shares under the IPO, the premium reserve of the stock options amounting to R\$25,857 related to the employees' stock option plans, and the cost of the canceled shares amounting to R\$558, totaling R\$10,231 as capital reserve as at December 31, 2013 (R\$233 as at December 31, 2012).

d) Earnings retention

This earnings retention reserve refers to the remaining balance of retained earnings used to fund the business growth project set out in the Company's investment plan, according to the capital budget proposed by management, to be submitted to and approved at a Shareholders' Meeting, pursuant to Article 196 of the Brazilian Corporate Law.

e) Valuation adjustment to equity – cash flow hedge

The cash flow hedge reserve incorporates the effective portion of the cash flow hedges through the end of the reporting period, amounting to R\$5,188, net of taxes (R\$300 negative as at December 31, 2012).

## 25. DIVIDENDS AND INTEREST ON CAPITAL PROPOSED

As per the Company's Bylaws, shareholders are entitled to minimum mandatory dividends corresponding to 25% of profit for the year, calculated in accordance with the Brazilian Corporate Law. The Company may make other distributions, provided that there are profits and reserves available. All the distributions referred to above may be made in the form of dividends or interest on capital, deductible from income tax.

The Board of Directors approved at the meeting held on June 21, 2013 the declaration of the amount R\$23,448 as interest on capital, part of the minimum mandatory dividend (R\$20,421 net of taxes), equivalent to R\$0.18 per share. The proposed interest on capital will be part of the amount paid as minimum mandatory dividends upon the end of fiscal year 2013.

The Board of Directors approved at the meeting held on December 23, 2013 the declaration of the amount R\$19,566 as interest on capital, part of the minimum mandatory dividend (R\$17,086 net of taxes), equivalent to R\$0.15 per share. The proposed interest on capital will be part of the amount paid as minimum mandatory dividends upon the end of fiscal year 2013.

According to art. of Law 9,249/1995, a legal entity may deduct, for purposes of calculation of taxable profit interest paid or credited individually to owners, partners or shareholders, as remuneration for capital, calculated on equity accounts and limited to the variation, on a daily pro rata basis, of the Long-Term Interest Rate (TJLP). The amount credited by the Company as interest on capital is within the legal deductibility limit.

The dividend proposal recorded in the Company's financial statements is subject to shareholder approval in the Shareholders' Meeting, calculated in accordance with the aforementioned law, especially regarding the provisions of Articles 196 and 197, and is as follows:

	<u>2013</u>	<u>2012</u>
Profit for the year	172,592	151,516
Legal reserve - 5%	<u>(8,630)</u>	<u>(7,576)</u>
Dividend calculation basis	<u>163,962</u>	<u>143,940</u>
Mandatory minimum dividends - 25% (net of taxes)	<u>40,990</u>	<u>35,985</u>
Proposed interest on capital for payment in the following year	43,014	41,780
Withholding income tax - 15% (*)	<u>(5,508)</u>	<u>(5,610)</u>
Proposed net interest on capital for payment in the following year	37,506	36,170
Mandatory minimum dividends for payment in the following year	<u>3,484</u>	<u>-</u>
Total net dividends proposed for payment	40,990	36,170
Total dividends including income tax proposed for payment	<u>46,498</u>	<u>41,780</u>
Percentage of dividends including income tax on profit for the year	26.94%	27.57%

(\*) Tax rate of 15%, less withholding income tax of exempt shareholders.

The amount recognized in current liabilities as at December 31, 2013 is R\$37,507 (R\$36,170 in December 2012).

## 26. EARNINGS PER SHARE

## a) Basic

Basic earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of common shares issued during the year.

	<u>2013</u>	<u>2012</u> (Restated)
Profit attributable to owners of the Company	<u>172,592</u>	<u>151,516</u>
Weighted average number of common shares issued (thousands)	<u>126,955</u>	<u>126,084</u>
Basic earnings per share from continuing and discontinued operations	<u>1.36</u>	<u>1.20</u>
Basic earnings per share from continuing operations	<u>1.32</u>	<u>1.18</u>

## b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has one category of dilutive potential common shares: stock options. A calculation is made for the stock options to determine the number of shares that would be acquired at fair value (determined as the annual average market price of the Company's share), based on the monetary amount of the subscription rights linked to the outstanding stock options. The number of shares calculated as described above is compared with the number of shares issued, assuming exercise of the stock options.

	<u>2013</u>	<u>2012</u> (Restated)
Profit		
Profit used to determine diluted earnings per share	<u>172,592</u>	<u>151,516</u>
Weighted average number of common shares issued (thousands)	126,955	126,084
Adjustments for:		
Stock options (thousands)	<u>1,085</u>	<u>911</u>
Weighted average number of common shares for diluted earnings per share (thousands)	<u>128,040</u>	<u>126,995</u>
Diluted earnings per share from continuing and discontinued operations	<u>1.35</u>	<u>1.19</u>
Diluted earnings per share from continuing operations	<u>1.31</u>	<u>1.18</u>

## 27. NET REVENUE FROM SALES AND SERVICES

The information on net revenue from sales and services below refers only to the nature of the revenue per type of service:

	<u>2013</u>	<u>2012</u> (Restated)
Rentals	842,431	657,881
Sales	85,588	52,106
Technical assistance	32,821	23,278
Indemnities and recoveries	96,773	48,741
Taxes on sales and services	(83,356)	(64,193)
Cancelations and discounts	<u>(141,995)</u>	<u>(52,339)</u>
	<u>832,262</u>	<u>665,474</u>

## 28. COST OF SALES AND SERVICES AND GENERAL AND ADMINISTRATIVE EXPENSES (BY NATURE)

The costs refer mainly to personnel expenses and payroll taxes, the equipment sublet from third parties when the Company's inventory is insufficient to meet demand, freight for transportation of equipment between branches and occasionally to customers, and expenses on supplies consumed in the projects, from personal protective equipment (PPE) to wood, paint and thermal insulation.

General and administrative expenses refer to the management of each Company contract, encompassing the project teams and sales function engineers, which correspond basically to salaries, payroll taxes and benefits, and other expenses on travel, representations and communications, as well as the administrative function overheads.

<u>Nature</u>	<u>2013</u>			<u>2012</u> (Restated)		
	<u>Direct project and rental costs</u>	<u>General and administrative expenses</u>	<u>Total</u>	<u>Direct project and rental costs</u>	<u>General and administrative expenses</u>	<u>Total</u>
Personnel	(58,768)	(107,447)	(166,215)	(45,894)	(89,728)	(135,622)
Third parties	(5,026)	(20,432)	(25,458)	(3,776)	(17,734)	(21,510)
Freight	(15,479)	(763)	(16,242)	(12,491)	(706)	(13,197)
Construction/ maintenance material and repair	(43,462)	(6,097)	(49,559)	(29,604)	(4,041)	(33,645)
Equipment and other rentals	(5,861)	(14,955)	(20,816)	(4,296)	(9,835)	(14,131)
Travel	(4,984)	(11,552)	(16,536)	(3,362)	(9,495)	(12,857)
Cost of sales	(68,017)	-	(68,017)	(38,739)	-	(38,739)
Depreciation and amortization	(122,623)	(8,419)	(131,042)	(94,045)	(3,206)	(97,251)
Write-off of assets	(8,856)	-	(8,856)	(5,050)	-	(5,050)
Allowance for doubtful debts	-	(16,235)	(16,235)	-	(13,944)	(13,944)
Stock option plan	-	(8,959)	(8,959)	-	(4,774)	(4,774)
Provisions	-	193	193	-	4,276	4,276
Profit sharing	-	(18,794)	(18,794)	-	(23,641)	(23,641)
Other	<u>(1,858)</u>	<u>(11,959)</u>	<u>(13,817)</u>	<u>(930)</u>	<u>(12,621)</u>	<u>(13,551)</u>
	<u>(334,934)</u>	<u>(225,419)</u>	<u>(560,353)</u>	<u>(238,187)</u>	<u>(185,449)</u>	<u>(423,636)</u>

## 29. OTHER OPERATING INCOME

On July 10, 2013, the Company entered into an agreement for the sale of assets and liabilities of its Industrial Services business unit to FIP Leblon Equities Partners V, a fund managed by Leblon Equities Gestão de Recursos Ltda. through its subsidiary Albuquerque Participações Ltda. The sales price, set on May 31, 2013, negotiation's base date, was R\$102,000.

During the three-month period started on the closing date, the parties entered into a mutual non-compete agreement.

This transaction was completed on November 30, 2013 and the price was adjusted for inflation based on the CDI variance, adjusted by the partial performance of the business and settled, after adjustments, in local currency. The R\$8,296 gain on divestiture is broken down as follows (see Note 30):

Original sales price	102,000
Original advance amount	<u>(25,000)</u>
	77,000
CDI variance between 05/31/2013 and 11/30/2013	<u>1,04314</u>
Balance adjusted to the CDI	80,323
Adjusted advance	25,207
Partial performance of the business	<u>(6,789)</u>
Adjusted transaction price at 11/30/2013	98,741
Derecognized investment amount	<u>(90,445)</u>
Capital gain on divestiture	<u>8,296</u>

## 30. DISCONTINUED OPERATIONS

As prescribed by CPC 31, from June 30 to November 30, 2013, the Company reclassified its assets and liabilities held for sale, related to its operating unit Industrial Services, or "SI", without any impact on profit for the year from this reclassification.

The profit on discontinued operations is shown in Note 32 – Segment Information – Industrial Services.

<u>Statement of cash flows of the discontinued operations</u>	<u>12/31/2013</u>
Net cash generated by operating activities	32,993
Net cash generated by investing activities	4,823
<u>Net assets transferred</u>	
Trade receivables	31,204
Receivables from employees	2,150
Land	122
Rental equipment	54,270
Assets in use	2,575
Intangible assets	<u>75</u>
Total	<u>90,396</u>

On July 12, 2013, pursuant to the agreement for sale of assets and liabilities, the company Mills SI Serviços Industriais Ltda. (“Company”) was established with subscribed and unpaid capital of R\$1,000.

On October 4, 2013, the Company and shareholder Albuquerque paid in the entire capital of R\$1,000.00 and approved a capital increase amounting to R\$49, fully paid-in, represented by 49,000 shares with par value of R\$1.00 each. As a result, the Company’s capital increased to R\$50, represented by 50,000 shares held by the Company, with 45,000 shares totaling R\$45, and Albuquerque, with 5,000 shares totaling R\$5.

On November 30, 2013, the Company, through the second Amendment to and Consolidation of the company’s articles of organization, sold to Albuquerque 44,999 shares with par value of R\$1.00 each totaling R\$44,999.00. As a result, Albuquerque became the holder of 49,999 shares with par value of R\$1.00 each, totaling R\$49,999.00, and the Company the holder of one share with par value of R\$1.00.

Also on November 30, 2013, the Company, through the third Amendment to and Consolidation of the articles of organization, paid in capital amounting to R\$90,396, through the merger of the assets of its industrial services business unit. Concurrently, the Company sold all its shares to Albuquerque, which became the Company’s controlling shareholder.

### 31. FINANCE INCOME (COSTS)

#### a) Finance income

	<u>2013</u>	<u>2012</u> (Restated)
Dividend income	1,648	2,859
Interest income on past-due bills	3,407	1,238
Income from short-term investments	6,040	5,936
Discounts obtained	226	277
Foreign exchange and inflation gains	1,693	272
Other	<u>142</u>	<u>15</u>
	<u>13,156</u>	<u>10,597</u>

#### b) Finance costs

	<u>2013</u>	<u>2012</u> (Restated)
Borrowing costs	(5,265)	(7,908)
Inflation losses	(1,933)	(783)
Interest on finance leases	(1,389)	(4,057)
Interest - debentures	(49,087)	(29,653)
Commissions	(1,434)	-
Bank fees	(327)	(274)
Other	<u>(537)</u>	<u>(2,238)</u>
	<u>(59,972)</u>	<u>(44,913)</u>

## 32. SEGMENT INFORMATION

Information by operating segment is being presented in accordance with CPC 22 Operating Segments (IFRS 8).

The Company's reportable segments are business units that offer different products and services and are managed separately since each business requires different technologies and market strategies. The main information used by management to assess the performance of each segment is as follows: total property, plant and equipment since these are the assets that generate the Company's revenue and the profit of each segment to evaluate the return on these investments. The information on liabilities by segment is not being reported since it is not used by the Company's chief decision makers to manage the segments. Management does not use analyses by geographic area to manage its businesses.

The Company's segments involve completely different activities, as described below, and thus their assets are specific for each segment. The assets have been allocated into each reportable segment according to the nature of each item.

### Heavy Construction business unit

Mills Heavy Construction operates in the heavy construction market, using cutting edge technology in formworks, props, and special equipment systems to perform construction works. This business unit is present in several states and draws on a team of engineers and specialized technicians, acting as consultants, to meet deadline and optimize costs and safety.

### Real Estate business unit

Mills Real Estate provides non-mechanized access equipment, mast climbing platforms, and scaffolds for the residential and office building construction sector. It has the largest product and service portfolio, with customized solutions that meet the specific needs of each project and generate efficiency and cut costs. Mills Real Estate is present in several states, where it has teams qualified to provide technical assistance and help planning works, detail projects, and oversee the assembly.

### Industrial Services business unit

This division supplies structures developed to give access of personnel and supplies during the equipment and tubular scaffolding assembling phases, as well as for preventive and corrective maintenance in large plants, including industrial painting, surface treatment and insulation services.

On July 10, 2013 the Company entered into an agreement for sale of assets and liabilities of this business unit, this operation was concluded on November 30, 2013.

### Rental business unit

Mills Rental operates in the scissor lifts and telescopic handlers lease and sale market, for height works in all sectors of the construction, trade, and manufacturing markets. The BU ensures productivity, profitability and safety, has the most advanced product line for lifting people and cargo, and offers its customers operation training certified by the IPAF (world areal access authority). Its presence in several Brazilian cities not only reinforces only the agility of its commercial service but it also broadens the technical assistance with certified professionals.

The accounting policies for the operating segments are the same described in the summary of significant accounting policies. The Company assesses the performance by segment based on pretax profit or loss as well as on other operating and financial indicators.

No customer individually made up for 10% or more of the Company's revenues in 2013 and 2012.

## Income statement per business segment

	Heavy Construction		Real Estate		Industrial Services		Rental		Other		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net revenue	216,956	174,059	257,964	237,955	208,295	213,800	357,342	253,460	-	-	1,040,557	879,274
(-) Costs and expenses	(108,851)	(89,694)	(164,193)	(124,483)	(188,801)	(194,390)	(156,130)	(112,204)	(137)	-	(618,112)	(520,771)
(-) Depreciation and amortization	(30,476)	(24,839)	(40,060)	(31,024)	(5,846)	(11,364)	(60,506)	(41,392)	-	-	(136,888)	(108,619)
Other operating income	-	-	-	-	-	-	-	-	8,296	-	8,296	-
Profit before finance income (costs)	<u>77,629</u>	<u>59,526</u>	<u>53,711</u>	<u>82,448</u>	<u>13,648</u>	<u>8,046</u>	<u>140,706</u>	<u>99,864</u>	<u>8,159</u>	<u>-</u>	<u>293,853</u>	<u>249,884</u>
Finance income	3,113	2,448	4,363	3,977	1,067	1,453	5,127	4,172	553	-	14,223	12,050
Finance costs	(13,690)	(11,182)	(21,828)	(16,582)	(7,513)	(6,336)	(24,425)	(17,149)	(29)	-	(67,485)	(51,249)
Profit before IRPJ/CSL	67,052	50,792	36,246	69,843	7,202	3,163	121,408	86,887	8,683	-	240,591	210,685
⊗ (-) IRPJ/CSL	<u>(18,749)</u>	<u>(14,264)</u>	<u>(10,135)</u>	<u>(19,616)</u>	<u>(2,284)</u>	<u>(889)</u>	<u>(33,948)</u>	<u>(24,400)</u>	<u>(2,883)</u>	<u>-</u>	<u>(67,999)</u>	<u>(59,169)</u>
Profit for the year	<u>48,303</u>	<u>36,528</u>	<u>26,111</u>	<u>50,227</u>	<u>4,918</u>	<u>2,274</u>	<u>87,460</u>	<u>62,487</u>	<u>5,800</u>	<u>-</u>	<u>172,592</u>	<u>151,516</u>

## Assets by business segment

	Heavy Construction		Real Estate		Industrial Services		Rental		Other		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Property, plant and equipment	271,685	214,221	369,569	309,293	-	73,162	583,222	406,671	-	-	1,224,476	1,003,347
Other assets	<u>118,462</u>	<u>117,365</u>	<u>209,426</u>	<u>195,548</u>	<u>-</u>	<u>133,393</u>	<u>161,489</u>	<u>127,016</u>	<u>87,392</u>	<u>87,392</u>	<u>576,769</u>	<u>660,714</u>
Total assets	<u>390,147</u>	<u>331,586</u>	<u>578,995</u>	<u>504,841</u>	<u>-</u>	<u>206,555</u>	<u>744,711</u>	<u>533,687</u>	<u>87,392</u>	<u>87,392</u>	<u>1,801,245</u>	<u>1,664,061</u>

### 33. FINANCIAL INSTRUMENTS

#### 33.1. Category of financial instruments

The classification of financial instruments, by category, can be summarized as shown in the table below:

	Carrying amount	
	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	25,798	
Loans and receivables:		
Trade receivables	178,741	197,327
Judicial deposits	10,053	11,853
Financial liabilities measured at amortized cost		
Borrowings and financing	63,359	53,986
Finance leases	8,154	18,013
Debentures	560,770	550,453
Trade payables	37,904	47,784
Financial liabilities at fair value		
Derivatives - NDF	-	800
Derivatives - Swap	267	-
Financial assets at fair value		
Marketable securities	-	159,606
Derivatives	7,516	-
Equity financial instruments		
Stock option plans	25,858	15,859

#### 33.2. Fair value of financial instruments

Several Company policies and accounting disclosures require the determination of the fair value both for financial assets and liabilities and for non-financial assets and liabilities. The fair values have been determined for the purpose of measurement and/or disclosure based on the methods below. When applicable, additional information on the assumptions used in calculating the fair values are disclosed in specific notes applicable to such asset or liability.

The Company applies CPC 40/IFRS 7 for financial instruments measured in the balance sheet at fair value, which requires disclosure of fair value measurements at the level of the following fair value measurement hierarchy:

- Quoted (unadjusted) prices on active markets for identical assets and liabilities (Level 1).
- In addition to the quoted prices, included in Level 1, inputs used by the market for assets or liabilities, whether directly (e.g. prices) or indirectly (e.g., derived from prices) (Level 2).

The Company does not have financial instruments measured at fair value that are classified as Level 3, i.e., obtained based on valuation techniques that include variables for the asset or liability, but which are not based on observable market inputs.

The table below shows the Company's assets and liabilities measured at their fair values at December 31, 2013.

	Level 2		Total balance	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Assets				
Marketable securities	-	159,606	-	159,606
Derivatives used for hedging	<u>7,516</u>	<u>-</u>	<u>7,516</u>	<u>-</u>
Total assets	<u>7,516</u>	<u>159,606</u>	<u>7,516</u>	<u>159,606</u>
Financial liabilities				
Derivatives used for hedging	-	800	-	800
Derivatives used for borrowings	<u>(267)</u>	<u>-</u>	<u>(267)</u>	<u>-</u>
Total liabilities	<u>(267)</u>	<u>800</u>	<u>(267)</u>	<u>800</u>

(a) Fair value of securities

Available-for-sale securities consist of short-term investments made with prime financial institutions that are indexed to the CDI fluctuation. Considering that the CDI rate already reflects the interbank market position, it is assumed that the carrying amounts of securities approximate their fair values.

(b) Fair value of trade receivables and payables

The fair value of trade and other receivables is estimated according to the present value of future cash flows, discounted at the market interest rate determined at the end of the reporting period.

The fair values of trade receivables and trade payables, considering as the criterion for calculation the discounted cash flow method, are substantially similar to their carrying amounts.

(c) Fair value of borrowings and financing

Fair value determined for disclosure purposes is calculated based on the present value of principal and future cash flows, discounted at the market interest rate determined at the end of the reporting period. For finance leases, the interest rate is determined by reference to similar lease agreements.

The Company's management believes that the carrying amounts of borrowings and financing stated in the financial statements are substantially similar to their fair values.

The fair value of borrowings from BNDES was not calculated since this type of financing does not have observable fair value calculation as BNDES adopts differentiated rates for borrowers.

#### Borrowings and financing

<u>Debt</u>	<u>Indicator</u>	<u>Fair value</u>		<u>Carrying amount</u>	
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
BNDES	TJLP	23,427	26,664	23,427	26,664
Working capital	CDI	40,027	27,134	39,932	27,322
Leasing	CDI	8,043	17,796	8,154	18,013
1 <sup>st</sup> issue of debentures	CDI	275,483	275,283	275,530	274,067
2 <sup>nd</sup> issue of debentures					
1 <sup>st</sup> series	CDI	166,208	162,395	166,938	165,674
2 <sup>nd</sup> series	IPCA	119,718	113,783	120,803	113,992

#### (d) Fair value of stock options

The fair values of the employees' stock options and rights to Company share appreciation are measured using the Black-Scholes approach. Changes in measurement include share prices on measurement date, the strike price of the related instrument, the expected volatility (based on the historical weighted average volatility adjusted for expected changes based on publicly available information), the average weighted life of the instruments (based on historical experience and the overall behavior of option holders), expected dividends and risk-free interest rate (based on government bonds). Non-market service conditions and performance conditions inherent to the transactions are not taken into account in determining the fair value.

#### (e) Derivatives

The fair value of exchange forwards is calculated at present value, using market rates that are accrued on each measurement date.

The fair value of interest rate swaps is based on quotations obtained from brokers. These quotations are tested as to their reasonableness by discounting the estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument calculated on the measurement date. The fair values reflect the credit risk of the instrument and include adjustments to consider the credit risk of the entity and the counterparty, when appropriate.

### 33.3. Derivative financial instruments - hedging

#### (a) Derivative policy

In order to protect its assets from the exposure to commitments assumed denominated in a foreign currency, the Company has developed its own strategy to mitigate such market risk. When applied, the strategy is carried out to reduce the volatility of cash flows to the desirable level, i.e., to maintain the planned disbursements.

Mills believes that the management of such risks is key to support its growth strategy without potential financial losses that reduce its operating profits, as the Company does not aim at obtaining financial gains through the use of derivatives. Foreign currency risks are managed by the Finance Manager and the CFO, who evaluate possible exposures to risks and set guidelines to measure, monitor and manage the risk related to the Company's activities.

Based on this objective, the Company contracts derivative transactions, usually NDFs (non-deliverable forwards) with prime financial institutions (with credit ratings of brAAA - national scale, Standard & Poor's or similar), in order to guarantee the agreed trading value at the time the imported goods are ordered. Likewise, swaps or NDFs are entered into to guarantee the flow of payments (amortization of principal and interest) for foreign currency-denominated financing. Pursuant to the Company's bylaws, any contract or obligation assumed in amounts exceeding R\$10,000 (ten million reais) has to be approved by the Board of Directors, unless it is already set out in the Business Plan. For amounts under R\$100 (one hundred thousand reais) for periods of less than 90 days, it is not necessary to contract hedge transactions. Other commitments should be hedged against foreign exchange exposure.

The swap and NDF transactions are carried out to convert into reais future financial commitments in foreign currency. At the time such transactions are entered into, the Company mitigates the foreign exchange risk by matching the commitment amount and the exposure period. The derivative cost is pegged to the interest rate, usually a percentage of the CDI rate. The swaps and NDFs with maturities shorter or longer than the final maturity of the commitments may, over time, be renegotiated so that their final maturities match or approximate the final maturity of the commitment. Accordingly, on the settlement date, the gain or loss on the swap or NDF can offset part of the impact of the exchange fluctuation in relation to the real, thus helping to stabilize cash flows.

As these transactions involve derivatives, the calculation of the monthly position is carried out using the fair value method and they are valued by calculating their present value using market rates that are impacted on the date of each calculation. This widely used methodology can present monthly distortions in relation to the curve of the contracted derivative; however, the Company believes that this is the best applicable method since it measures the financial risk should an early settlement of the derivative be required.

Monitoring the commitments assumed and the monthly valuation of the fair value of the derivatives permits following up on the financial results and the impact on cash flows, and ensure that the initially planned objectives are achieved. The calculation of the fair value of positions is made available on a monthly basis for management monitoring purposes.

The derivatives contracted by the Company for certain equipment import transactions are intended to hedge against exchange rate fluctuation risks during the period between the time an order is placed and the time the equipment is delivered in Brazil.

- (b) NDF transactions can be summarized as follows:

<u>Type</u>	<u>12/31/2013</u>		
	<u>Notional amount</u>	<u>Fair value</u>	<u>Amounts receivable/ payable</u>
NDF Forward US dollar purchase contracted: 2.22 to 2.42 (USD)	168,419	7,516	7,516

<u>Type</u>	<u>12/31/2012</u>		
	<u>Notional amount</u>	<u>Fair value</u>	<u>Amounts receivable/ payable</u>
NDF Forward US dollar purchase contracted: 2.05 to 2.15 (USD)	152,868	(800)	(800)

- (c) Swap

The operation, in exchange swap, engaged by the Company, aims to protect against exposure of the loan of U.S. \$ 16.9 million (see note 16) to exchange rate variations. The FX swap this operation consisted in changing the burden of exchange variation plus interest of 2.31% pa by CDI plus 0.29% pa. On December 31, 2013, the fair value determined to pay this transaction was R \$ 267.

- (d) Derivatives fair value calculation method

Derivatives are measured at present value at the market rate, on the base date of the future flow calculated using the contractual rates through maturity. For capped or double-index contracts, the Company also takes into consideration the option embedded in the swap contract.

- (e) Hedge effectiveness calculation method

The Company's hedges (swaps) are aimed at hedging against the impact of foreign exchange fluctuations on its machinery and equipment imports. These transactions are classified as hedge accounting.

The Company evidences the effectiveness of these instruments using the Dollar offset method, which is commonly used by derivatives market players. This method consists of comparing the present value, net of future exposures in foreign currency, of commitments assumed by the Company with the derivatives contracted for such foreign exchange hedging.

As at December 31, 2013, no ineffectiveness was recognized in profit for the year as a result of the Company's hedging transactions.

(f) Gains and losses for the period

Since the Company evidences the effectiveness of the conducted hedge accounting swap transactions, the losses and gains on these derivative transactions are recognized as a balancing item to the hedged assets (property, plant and equipment) as part of the initial cost of the assets at the same time the asset is accounted for. As at December 31, 2013, the amount of R\$2,287 was transferred from equity and deducted from the initial cost of the equipment.

The allowance for unrealized losses is recognized in other liabilities in the balance sheet, as a balancing item to valuation adjustments to equity, in equity.

As at December 31, 2013, total unrealized gains on currency futures, recognized in "Other comprehensive income", accumulated in equity, in line item "Valuation adjustments to equity" and related to such future purchases scheduled, amounted to R\$5,188 (loss of R\$300 as at December 31, 2012). The Company expects that the purchases will occur in the next year, when the amount then deferred in equity will be included in the carrying amount of the imported equipment.

(g) Embedded derivatives

All contracts with potential derivative instrument clauses or securities are assessed by the Company's Finance Manager together with the legal counsel team before their execution, for guidance regarding any effectiveness testing, the definition of the accounting policy to be adopted, and the fair value calculation method.

Currently, the Company is not party to any contracts with embedded derivatives.

(h) Value and type of margins pledged as guarantees

The current foreign currency-denominated derivative transactions do not require the deposit of any margin calls.

### 34. INSURANCE

It is the Company's policy to constantly monitor the risks inherent in its operations. Accordingly, the Company takes out insurance, whose nature and coverage as at December 31, 2013 are indicated below.

<u>Type of insurance</u>	<u>Insured amounts (in thousands of reais)</u>
Rental equipment	959,263
Property	279,830
Civil liability	50,600
Civil liability of officers	30,000
Vehicles	2,972

### 35. NON-CASH TRANSACTIONS

On November 30, 2013 the Company transferred net assets amounting to R\$90.396, not involving cash (see Note 29), as capital contribution to Sociedade Mills SI Serviços Industriais Ltda. This amount is not disclosed in the statement of cash flows. On the same date the Company entered into an asset purchase and sale, liability transfer and assumption agreement and other covenants with Sociedade Mills SI Serviços Industriais Ltda., with the intermediation of Albuquerque. Under this agreement the Company transferred to Sociedade Mills R\$14,724 in assets, in exchange for the latter assuming liabilities in the same amount. This agreement did not involve cash and, therefore, is not disclosed in the statement of cash flows.

In the year ended December 31, 2013, the Company declared interest on capital of R\$37,507 (R\$36,170 as at December 31, 2012), net of income tax.

In 2013, Mills made an installment purchase of equipment amounting to R\$32,837 as part of its non-cash investing activities. This investment, therefore, is not disclosed in the statement of cash flows (R\$41,366 for the year ended December 31, 2012).

As at December 31, 2013, the balance of R\$7,516 related to derivative financial instruments is not reflected in the statement of cash flows.

### 36. EVENTS AFTER THE REPORTING PERIOD

#### Capital increase

The Company approved, at the Board of Directors' meeting, a capital increase within the authorized capital ceiling, through the issue of registered common shares, without par value, due to the exercise of granted stock option by their beneficiaries under Stock Option Programs 01/2010, 01/2011, 01/2012, and 01/2013.

The approval dates, the stock option programs, the number of shares, the share prices, and the amounts of these exercises are summarized in the table below:

<u>Stock option plan</u>	<u>Approval by the Board of Directors</u>	<u>Number of shares issued</u>	<u>Issue price</u>	<u>Capital increase (in thousands)</u>
2010 Program	01/10/2014	6	13.02	-
2011 Program	01/10/2014	5,772	21.51	124
2012 Program	01/10/2014	711	5.76	4
2012 Program	01/10/2014	3,000	20.39	61
2010 Program	02/05/2014	50,174	13.13	659
2011 Program	02/05/2014	13,825	21.70	300
2012 Program	02/05/2014	3,554	5.81	21
2012 Program	02/05/2014	11,250	20.56	231
2013 Program	02/05/2014	7,710	6.78	52
2010 Program	02/14/2014	1,820	13.16	24
2011 Program	02/14/2014	3,890	21.74	85
2012 Program	02/14/2014	<u>2,800</u>	20.60	<u>58</u>
		<u>104,512</u>		<u>1,619</u>

### SAP implementation

In November 2013 the Company implemented the SAP at the Mills Real Estate business unit. The assisted production process was completed in December 2013.

On February 10, 2014 the Company completed the SAP implementation with the system implementation in the Infrastructure and Rental business units. The assisted production process will take place by the end of March 2014.

With the SAP implementation the Company unifies and standardizes its information systems aimed at achieving a new efficiency level of its internal controls, mainly the operating and financial controls.

### Shareholders' Agreement

On February 28, 2014, the Company entered into a new shareholders' agreement, maintaining the bases and assumptions of the prior agreement, effective until this date.

This new shareholders' agreement does not cause any change in the Company's administrative structure and control, which remain held by the signatories of the shareholders' agreement, as previously defined.

The Company's new Shareholders' Agreement was made available to the market pursuant to the regulation of the Brazilian Securities Commission.