

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

*Financial Statements in Accordance
with Accounting Practices Adopted in Brazil and
IFRS as at December 31, 2011,
and Independent Auditor's Report
on Financial Statements
(Free Translation from Portuguese Original)*

Deloitte Touche Tohmatsu Auditores Independentes

(Free Translation from Portuguese Original)

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

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, 2011, 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. We conducted our audit 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, 2011, 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

Other Matters

Statements of Value Added

We have also audited the statements of value added (“DVA”), for the year ended December 31, 2011, 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. These statements were subject to the same auditing procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Examination of the prior year financial statements

The financial statements for the year ended December 31, 2010, presented for comparative purposes, were previously audited by other independent auditors who issued an unqualified report dated February 25, 2011.

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

Rio de Janeiro, February 9, 2012

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 February 9, 2012, examined (i) the Management Report and the Company’s Financial Statements relating to the fiscal year ended December 31, 2011, as well as the opinion of the Company’s independent auditors, Deloitte Touche Tomatsu Auditores Independentes, relating to such financial statements; (ii) the proposal for the allocation of net income for the fiscal year ended December 31, 2011, as approved by the Board of Directors at the meeting held on February 9, 2012; and (iii) the proposed capital budget for fiscal year 2012, as approved by the Board of Directors at the meeting held on February 9, 2012, and have unanimously resolved in favor of the items previously mentioned, with no qualification, and indicating its forwarding to the Annual Shareholders’ Meeting for the proper purposes of the law.

Rio de Janeiro, February 9, 2012.

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 2011.

Rio de Janeiro February 9, 2012.

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 2011.

Rio de Janeiro February 9, 2012.

2012 CAPITAL BUDGET (all amounts presented in R\$)

1	<i>Sources of funding</i>	127,000,000.00
	Profit reserve from the 2010 fiscal year	63,741,776.68
	Cash generation and funding	63,258,223.32
2	<i>Use of funds</i>	127,000,000.00
	Investments in expansion (acquisition of equipment)	110,000,000.00
	Investments in facilities and information technology to aid in expansion	17,000,000.00

Mills: Revenue growth of 23.2% in 2011, with record EBITDA

CEO's Message

2011 was a year of many challenges for Mills, but also of great achievements.

The combination of capital availability, market opportunities, leadership in innovation and Mills' entrepreneurial spirit led us to reach new records in revenue and cash generation, as measured by EBITDA. We invested R\$ 525.9 million in 2011, of which R\$ 430.4 million in organic growth and R\$ 95.5 million in acquisitions.

On the one hand, we succeeded in our geographic expansion in the Jahu and Rental divisions, consolidating Mills' presence in regions of the country that have strong economic growth, and introducing new technologies in these locations, which enable productivity gains and more safety for our clients. Today, Mills is present in 13 Brazilian states with 43 branches, more than double the number of branches two years ago.

On the other hand, a new global economic crisis led to uncertainties about the evolution of the Brazilian economy and of the heavy construction market, while delays in several important infrastructure projects led to results that fell below what we expected for our Heavy Construction division. The good news is that we ended 2011 with several construction projects already contracted and proposals in progress, so we are confident that 2012 will be a very good year for this division.

In Industrial Services, the maintenance contracts, which have a more predictable revenue stream, saw their revenue contribution increase, however some construction projects did not bring the expected results. Our goals for 2012 are to improve profitability of existing contracts and increase our presence in the oil and gas industry, particularly in the offshore market.

In the human resources area, we have made great strides in further qualifying our staff. We achieved a total of over 9 thousand behavioral, technical and operational training interventions, amounting to almost 42 thousand hours of training and with the participation of more than 3,500 employees. At the same time, we are moving ahead with our project to reinforce the Company's values and the ways we can preserve and perpetuate Mills' culture, in the challenging context of a high growth environment.

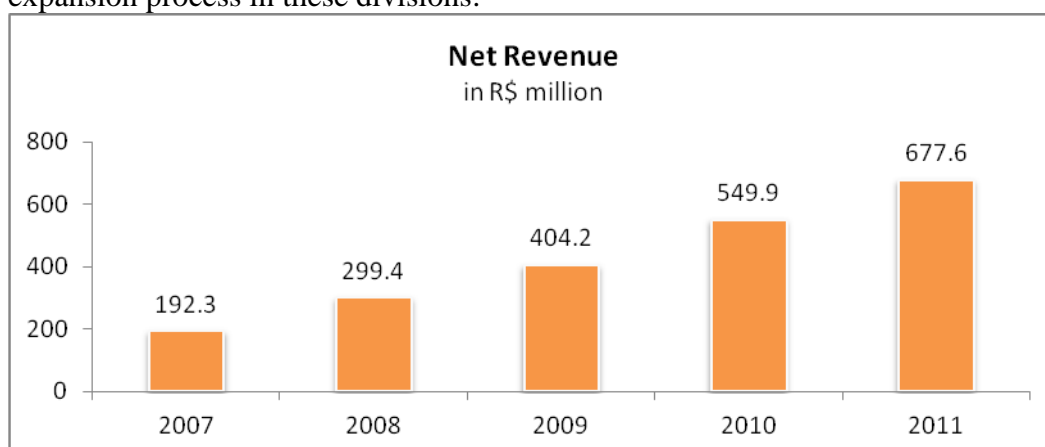
Finally, I would like to thank our collaborators and suppliers, for their dedication, and our clients and shareholders, for their trust. We will continue to work hard to continue to surprise our clients with innovative solutions and with the constant improvement of the quality of our services and our shareholders with growth in cash generation and return on invested capital.

Financial Performance 2011¹

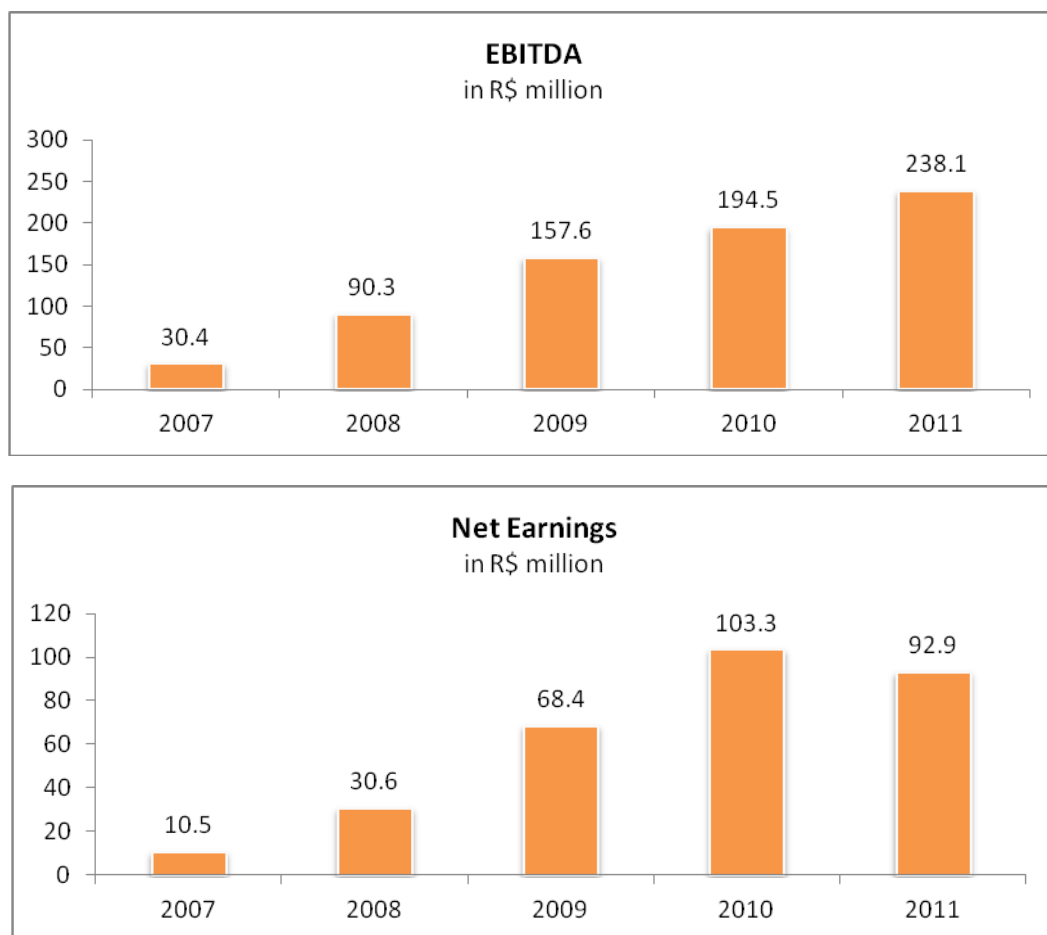
Mills Estruturas e Serviços de Engenharia S.A. (Mills) presented in 2011 record net revenues and EBITDA, with 23.2% and 22.4% growth over 2010, respectively. Net revenues reached, R\$ 677.6 million in 2011, with the branches opened in the last two years contributing with 28.3% of this amount. Cash generation, as measured by EBITDA, reached R\$ 238.1 million in 2011.

Net earnings totaled R\$ 92.2 million in 2011, against R\$ 103.3 million in the previous year. The EBITDA growth in the year was insufficient to offset the expansion in the amount of depreciation and financial expenses resulting from our investment program to take advantage of market opportunities.

The return on invested capital (ROIC) reached 12.3% in 2011, against 21.0% in 2010. The yoy ROIC reduction is explained by the weak demand in the heavy construction sector and the high level of investment in the last twelve months, mainly in the Jahu and Rental divisions, in order to take advantage of market opportunities and the geographic expansion process in these divisions.



¹The 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 previous years Mills prepared its financial statements in accordance with the accounting policies adopted in Brazil (BRGAAP).



Debt Indicators

As of December 31, 2011, Mills' total debt was R\$ 410.9 million, with an average maturity of 3.0 years. At the end of 2011 our net debt position was R\$ 375.8 million, with availabilities amounting to R\$ 35.2 million.

Our debt is 17% short-term and 83% long-term. In terms of currency, 100% of Mills' debt is in Brazilian *reais*.

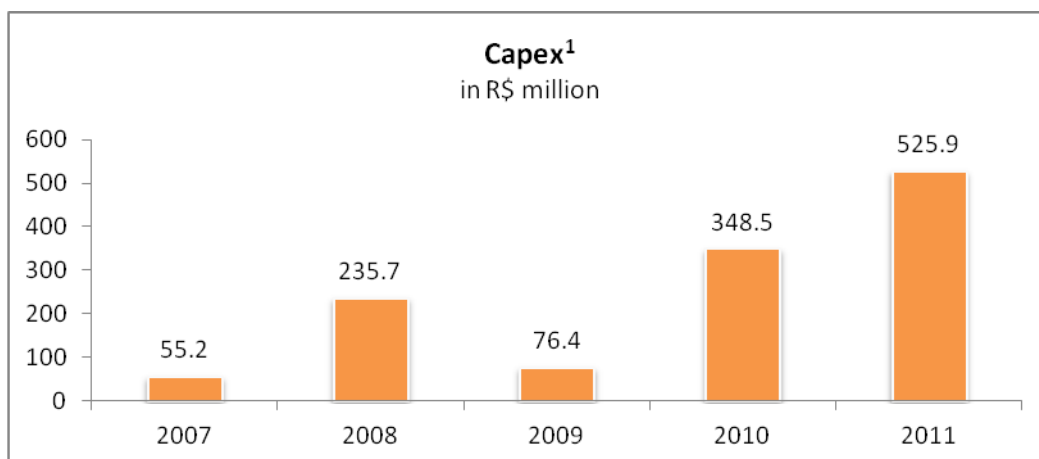
In April 2011, we issued our first public offering of non-convertible debentures amounting to R\$ 270 million, with a maturity of five years and interest rate equivalent to 112.5% of CDI (interbank interest rate), allowing the reduction of the average cost of debt and the increase of the average maturity. The credit risk agency Moody's rated Mills' corporate credit in national currency as Aa3.br, as well as for our debentures.

We ended the year with leverage, as measured by the net debt/LTM EBITDA, of 1.6x. The interest coverage, as measured by the LTM EBITDA/LTM interest payments, was 7.4x.

Capex

Mills invested R\$ 525.9 million in 2011, of which R\$ 430.4 million in organic growth and R\$ 95.5 million in acquisitions. In 2011, we acquired a 25% stake in Rohr S/A Estruturas Tubulares (Rohr) for R\$ 90 million and a 100% stake in GP Andaimes Sul Locadora Ltda (GP Sul) for R\$ 5.5 million. We ended 2011 with 27.47% stake in Rohr, resulting from the purchase by Rohr itself of 9% of its shares.

The 2012 budget includes investments of R\$ 127 million, below our medium-term sustainable capex, in order to return our leverage to the target of 1.0x. If our core markets present attractive opportunities and the macroeconomic scenario is favorable, we may expand investments for 2012 over the year, as our operating cash flow increases, since we have great flexibility as regards increasing our inventory of equipment, because the time between investment decision-making and receiving equipment is only about 90 days.



¹ In 2008, it includes R\$ 60.1 million related to Jahu acquisition and in 2011, it includes R\$ 90.0 million related to the acquisition of 25% stake in Rohr and R\$ 5.5 million related to acquisition of 100% stake in GP Sul.

Performance of the business segments

Heavy Construction Division

The net revenue of the Heavy Construction division totaled R\$ 131.6 million in 2011, with a yoy decline of 14.7%, due to the weakening of demand in the Heavy Construction segment from the end of 2010 to mid-2011. In 2011, EBITDA totaled R\$ 57.8 million, *versus* R\$ 73.6 million in 2010. The ROIC was equal to 12.1% in the year, versus 24.1% in 2010.

Jahu Division

The net revenue of the Jahu division totaled R\$ 155.8 million in 2011, 48.1% higher than 2010, including an increase of 61.9% in rental revenue, as a result of the investments made and the success of the geographic expansion. The nine branches which have opened since November 2009 contributed 39% of the revenue for the division in the last year.

EBITDA totaled R\$ 66.0 million, a yoy increase of 50.4%, as a result of the maturation of the branches opened in late 2010 and the investments of the last twelve months. The ROIC was equal to 14.3% in 2011, versus 23.5% in 2010.

Industrial Services Division

Net revenues for the Industrial Services division amounted to R\$ 214.8 million in 2011, with a yoy increase of R\$ 19.4 million, or 9.9%, primarily in maintenance services. EBITDA amounted to R\$ 20.7 million in 2011, representing a yoy decrease of 20.6%. ROIC was 5.9% in 2011, versus 16.0% in 2010.

Rental Division

The net revenue of the Rental division totaled R\$ 175.4 million in 2011, 84.5% higher yoy. The twelve branches opened since 2010 have contributed 58% of the revenue for the division during the last year.

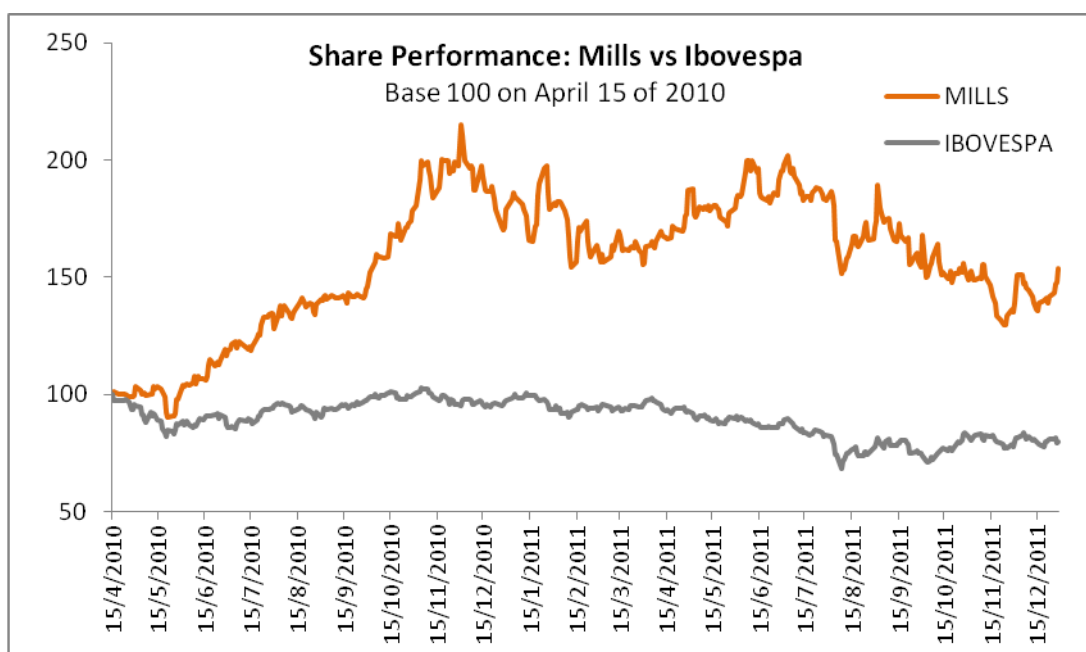
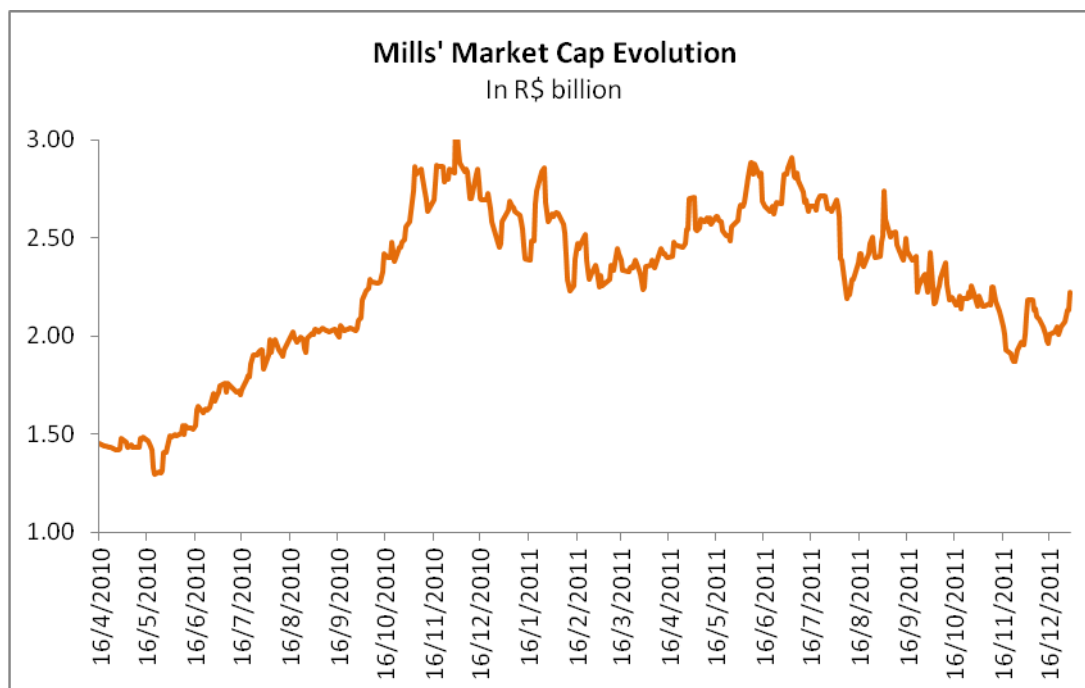
EBITDA totaled R\$ 93.6 million in 2011, with an 83.8% yoy increase, due to the maturation of the new branches opened in late 2010 and the investments of the last twelve months. The ROIC was equal to 16.5% in 2011, versus 19.2% in 2010.

Generating value to our shareholders

We conducted our IPO on April 15, 2010. On December 31, 2011, the closing price of Mills' shares on BM&FBovespa was of R\$ 17.70, an increase of 53.9% over the IPO price (R\$ 11.50), compared to -19.5% from the IBOVESPA index performance at the same period, and a decrease of 14.1% in the last twelve months, versus decrease of 18.1% of IBOVESPA index. By the end of 2011, Mills' market value (market cap) was of R\$ 2.2 billion.

We will pay our shareholders gross remuneration of R\$ 25.3 million under interest on equity and dividends, related to the fiscal year of 2011, equivalent to R\$ 0.21 per share, subject to approval at Mills' Shareholders Meeting.

Mills' total shareholder return since the IPO date was equal to 57.6%.



Human Resources

We ended the year 2011, with 4,541 employees, compared to 4,359 in the end of 2010. The increase in the number of employee is related to the growth of our business, specially the Jahu and Rental division.

The turnover rate of our employees was 5.50%, in 2011 compared to 5.87% in 2010. The turnover rate of professionals who deal with assembly and disassembly of structures and equipment is significantly higher than our average, due to the conclusion of short-term work contracts motivated by the fluctuation of the

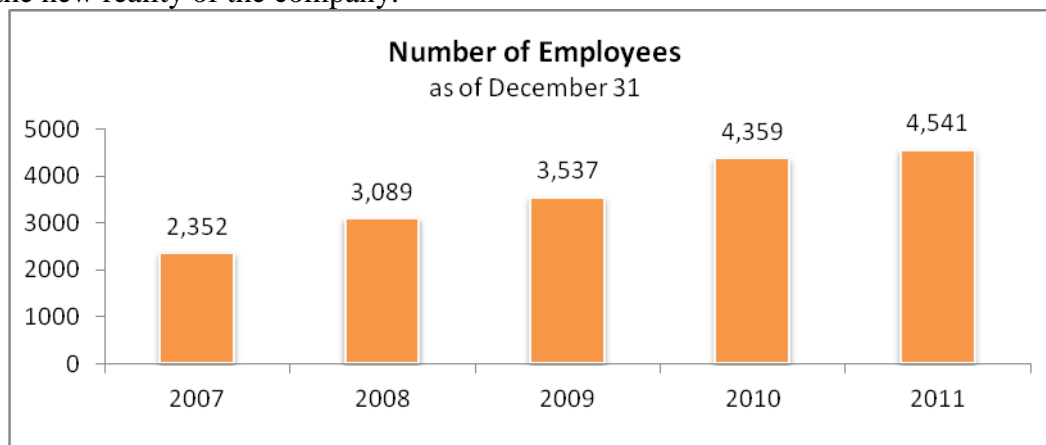
demand. Excluding these professionals from assembly and disassembly of equipment, the turnover rate of our employees in 2011 was 3.64% versus 4.33% in 2010.

In order to take part of the result and align their incentives with the value creation to our shareholders, we offer to our employees the profit sharing program, based on economic value added (EVA), which is the adjusted net income subtracted from the remuneration of the invested capital by our shareholders. Annually, 25% of the EVA is distributed to our administrators and employees. In 2011 we distributed R\$ 17.5 million, referred to the 2010 results, and in 2012 we will distribute R\$ 7.9 million, related to the 2011 result.

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 2011, 150 interns participated in the program, of which 78% were allocated in engineering and technical areas.

In 2010 we started the trainee program – *Conexão Mills* (Mills' Connection), aiming to prepare new talents to take leadership roles in the Company in the mid-term. Currently, we have five trainees participating in the program.

Due to the large company growth, we started working on the Company's culture. More than 400 employees, old and newly hired, from all sectors and places, young and old, men and women were involved in order to generate a statement of the values of the Mills: part with the legacy of the past adjusted to the new reality of the company.



Ownership structure and corporate restructuring

In early 2011, Mills' total and voting capital consisted of 125,495,309 common shares, being its major shareholder Nacht Participações S.A. (Nacht) with 39.0% of the voting and total capital, and the free float equal to 57.2%.

In February 2011, Nacht reduced its shares through the delivery of shares issued by the Company currently held by Nacht to some of its shareholders, being the transaction completed on April 18, 2011. In order to regulate the voting rights and the transfer of shares of Nacht and Mills, all shareholders of Nacht executed a shareholders' agreement on February 11, 2011, before the capital reduction date, therefore including all of its former shareholders. The capital reduction of Nacht and execution of the shareholders' agreement did not cause any change in administrative structure or the Company's control, which remained held by Nacht family by the same proportion of 39% as owned previously. Additionally, this operation did not involve changes in the number of shares or the voting capital of the Company.

In May 2011, the Company entered into a purchase and sale agreement to acquire 100% of the voting and total capital of GP Sul for R\$ 5.5 million. In August 1st, 2011, was approved, in Extraordinary Shareholders' Meeting, the merger of GP Sul by Mills, without a capital increase and without the issuance of new shares. There was a dissenting shareholder of this resolution, and in September 2011, was approved the cancellation of 99,140 common shares, book-entry shares, with no par value of the Company, held in treasury, due to reimbursement payment to shareholders.

In July, September and October 2011, in view of the exercise of stock option by a part of the beneficiaries of Mills' existing stock option plans, there was issuance of 128,287, 66,626 and 65,642 new common shares, respectively.

Therefore Mills' total and voting capital by the end of 2011 consisted of 125,656,724 common shares.

Independent Auditor

In the Board of Directors meeting held on April 8th of 2011, was approved the replacement of PricewaterhouseCoopers Auditores Independentes with Deloitte Touche Tohmatsu Auditores Independentes, as of the first quarter of fiscal year 2011, as the Company's independent auditors.

According to CVM's Instruction 381/2003, the contracted services with our external auditors, Deloitte for the fiscal year 2011, other than the financial statement audit usually served by it, presented disbursements in the amount of R\$ 34.5 thousand, equivalent to 11.5% of the financial statement auditing expenses in the same period, for preparing the valuating report, which calculated the book value of GP Sul, for the purposes of the merger by Mills.

The hiring of external auditors requires the prior approval from our Board of Directors and follows the restriction rules established by the legislation and since they do not endanger the independence and objectivity from our auditors. We believe that there are no interest conflicts between the provided services 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 valuation report of book value issue service for the merger of GP Sul also has the feature of external audit services.

Fiscal Council

In the Ordinary Shareholders Meetings, held in April 2011, the Fiscal Council was installed, as requested by the Company's minority shareholders, non-permanent, for the 2011 fiscal year. We believe that this was an important step to continue to adopt the best practices of Corporate Governance in Mills, taking into account that the Fiscal Council is an independent body, which primary responsibility is to monitor management's activities, review the Company's financial statements, and report its findings to the shareholders. We are satisfied with the installation and performance of the Fiscal Council and we believe we are increasing the transparency of the Company with the use of this body.

Business perspective

The demand for the heavy construction market should be heated in the coming years, driven by investments (i) in infrastructure, (ii) in Brazilian industry, especially in the oil and gas sector and (iii) related to the sports events to be held in Brazil.

The investments in Brazil should reach R\$ 3.3 trillion in the 2011-2014 period, of which R\$ 1.0 trillion in industry and R\$ 401 billion in infrastructure, according to the Brazilian National Development Bank (BNDES). The direct investment planned for the 2014 World Cup and 2016 Olympics Games total R\$ 47 billion up to 2014, of which R\$ 11.5 billion for urban transport, R\$ 5.6 billion for stadiums and R\$ 4.8 billion for airports, according to the Ministry of Sports.

Several important construction projects are in progress, such as the stadiums for the 2014 World Cup, subway lines in Rio de Janeiro and in São Paulo, highways and beltway in Rio de Janeiro, expansion of *Jacu Pêssego* highway complex and the Eastern section of the beltway in São Paulo, the *Igarapé* highway complex in Manaus, the refineries *Abreu e Lima* and *Comperj*, *Jirau*, *Santo Antônio* and *Colider* hydroelectric power plants, the *Porto Maravilha*, *Sudeste* and *Açu* ports, projects from Vale, and the *Transnordestina* and *Norte Sul* railroads, among others, which will benefit our revenues during 2012. This month, the auctions for concession of the *Guarulhos* and *Viracopos* airports in São Paulo, and the *Juscelino Kubitschek* airport in Brasília took place, with estimated investments of R\$ 4.5 billion up to the 2014 World Cup.

Of the major construction projects in progress in the Heavy Construction division, 57% comes from private capital, 24% from public capital – of which 60% are related to the 2014 World Cup stadiums - and 19% from public-private partnership.

As for the market for residential construction, the demand for residential properties remains influenced by (i) the large housing deficit in Brazil, estimated at, at least, 7.2 million houses, (ii) the expansion in housing credit availability, estimated balance of which increased by 42.0% between December 2010 and December 2011, according to the Brazilian Central Bank (Bacen), and (iii) increase in the purchasing power of the population.

We expect sales from the Jahu division to increase as new launches of the government housing program “*Minha Casa, Minha Vida*” (MCMV) occur and the use of the concrete wall technology in such construction jobs expands. Currently, concrete wall represents 20% of the low income residential market, with a projection to double to 40% in the next two years.

The growth of launches in real estate continues, but at a more moderate pace. 13 real estate companies² reported a total value of R\$ 40.6 billion for new building announced in 2011, with a 10% yoy growth, versus 60% between 2009 and 2010.

The civil construction market is currently experiencing greater risk of cost inflation and shortage of labor. As our projects and equipment enable productivity gains in the construction projects, with the reduction of the length of the construction cycle and the number of workers involved, they become more competitive in this context, enabling the Jahu division business to expand above real estate sector growth.

In the Industrial Services segment, the estimated investment of R\$ 378 billion in the oil and gas sector in Brazil between 2011 and 2014 is the main driver of growth. Our strategy for this division is to expand its profitability by identifying opportunities for complementary services with higher added value and, therefore, more profitable to offer to our clients, mainly in the offshore market. Hence, we signed a cooperation contract with a Norwegian company to manufacture, commercialize and implement their insulation and fire protection products, with wide application in the Brazilian offshore market.

The motorized access equipment market is booming. The Brazilian fleet of aerial work platform and telescopic handlers grew 46.2%, ending 2011 with 15,777 units, against 10,795 units in late 2010, 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 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).

² PDG, Cyrela, MRV,Rossi, Brookfield, Even, Helbor, Eztec, Tecnisa, Direcional, Trisul, Rodobens e Gafisa.

(Free Translation from Portuguese Original)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

BALANCE SHEET AS AT DECEMBER 31, 2011

(Expressed in thousands of Reais – R\$000)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents	6	35,179	6,192
Marketable securities	7	-	136,146
Trade receivables	8	139,142	122,136
Inventories		11,191	5,630
Recoverable taxes	9	22,051	26,157
Advances to suppliers		11,485	7,275
Derivative financial instruments		2,841	-
Other assets		<u>2,980</u>	<u>4,379</u>
		<u>224,869</u>	<u>307,915</u>
NONCURRENT ASSETS			
Trade receivables	8	2,608	3,781
Recoverable taxes	9	31,577	3,943
Deferred taxes	17	16,117	8,057
Deposits in court	18	<u>7,666</u>	<u>7,328</u>
		<u>57,968</u>	<u>23,109</u>
Investments	10	87,392	
Property, plant and equipment	11	872,886	551,174
Intangible assets	12	<u>45,488</u>	<u>41,895</u>
		<u>1,005,766</u>	<u>593,069</u>
TOTAL ASSETS		<u>1,288,603</u>	<u>924,093</u>

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

(Free Translation from Portuguese Original)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

BALANCE SHEET AS AT DECEMBER 31, 2011

(Expressed in thousands of Reais – R\$000)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Trade payables		35,898	32,743
Borrowings and financings	13	65,282	46,698
Debentures	14	6,126	
Salaries and payroll charges		24,967	21,264
Income tax and social contribution		2,742	
Tax refinancing program (REFIS)	19	353	717
Taxes payable		8,119	7,939
Profit sharing payable	16	7,917	17,504
Dividends payable	21	21,892	24,530
Derivative financial instruments	27	-	7,003
Other current liabilities		<u>4,441</u>	<u>2,392</u>
		<u>177,737</u>	<u>160,790</u>
NONCURRENT LIABILITIES			
Borrowings and financings	13	71,110	85,925
Debentures	14	268,428	-
Tax refinancing program (REFIS)	19	10,519	10,041
Deferred taxes	17	11,229	
Provision for tax, civil and labor risks	18	12,834	11,139
Other liabilities		<u>606</u>	<u>1,046</u>
		<u>374,726</u>	<u>108,151</u>
Total Liabilities		<u>552,463</u>	<u>268,941</u>
STOCKHOLDERS' EQUITY			
Capital stock	20	527,587	525,123
Capital reserves	20	(5,581)	(8,170)
Revenue reserves	20	212,032	145,202
Equity appraisal adjustment	20	2,102	(7,003)
Total Stockholders' Equity		<u>736,140</u>	<u>655,152</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u>1,288,603</u>	<u>924,093</u>

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

(Free Translation from Portuguese Original)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

INCOME STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

(In thousands of Reais, except per-share data)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
Net revenues from sales and services	23	677,592	549,884
Cost of products sold and services rendered	24	(340,422)	(254,798)
GROSS PROFIT		337,170	295,086
General and administrative expenses	24	(175,202)	(147,623)
OPERATING PROFIT		<u>161,968</u>	<u>147,463</u>
Finance income	25	14,714	18,673
Finance costs	25	<u>(46,555)</u>	<u>(24,306)</u>
NET FINANCE COSTS		(31,841)	(5,633)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		130,127	141,830
Income tax and social contribution	17	<u>(37,950)</u>	<u>(38,547)</u>
NET INCOME FOR THE YEAR		<u>92,177</u>	<u>103,283</u>
Basic earnings per share - centavos	22(a)	<u>0,73</u>	<u>0,82</u>
Diluted earnings per share - centavos	22(b)	<u>0,72</u>	<u>0,81</u>

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

(Free Translation from Portuguese Original)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011
(In thousands of Reais)

	<u>2011</u>	<u>2010</u>
NET INCOME FOR THE YEAR	92,177	103,283
OTHER COMPONENTS OF COMPREHENSIVE INCOME		
Cash flow hedges	<u>9,105</u>	<u>(7,003)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>101,282</u>	<u>96,280</u>

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

(Free Translation from Portuguese Original)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

(In thousands of Reais, except per-share data)

	Capital Stock		Capital reserve	Earnings Reserves			Retention of earnings	Equity appraisal adjustment	Retained earnings (deficit)	Total
	Subscribed	To be paid in		Legal reserve	Expansion reserve	Special reserve				
Balances at January 1, 2010	<u>81,003</u>	<u>(322)</u>	<u>5,728</u>	<u>3,419</u>	<u>77,444</u>	<u>5,369</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>172,641</u>
Paying in of capital	-	322	-	-	-	-	-	-	-	322
Capital increase - capitalization of expansion reserve	16,201	-	-	-	(16,201)	-	-	-	-	-
Capital increase - issue of stock - IPO	408,261	-	-	-	-	-	-	-	-	408,261
Capital increase - issue of shares - overseas	17,665	-	-	-	-	-	-	-	-	17,665
Capital increase - issue of shares - stock options	1,993	-	-	-	-	-	-	-	-	1,993
Cost for issue of shares	-	-	(15,068)	-	-	-	-	-	-	(15,068)
Stock option premiums	-	-	1,170	-	-	-	-	-	-	1,170
Realization of special reserve - tax amortization of goodwill on upstream merger of Itapoã	-	-	-	-	-	(1,520)	-	-	1,520	-
Comprehensive income for the year - cash flow hedge	-	-	-	-	-	-	-	(7,003)	-	(7,003)
Net income for the year	-	-	-	-	-	-	-	-	103,283	103,283
Appropriation of net income	-	-	-	-	-	-	-	-	-	-
Setting up of statutory reserves from net income	-	-	-	5,164	-	-	71,527	-	(76,691)	-
Proposed dividends (R\$\$0.02 per share)	-	-	-	-	-	-	-	-	(2,712)	(2,712)
Proposed interest on capital invested (R\$0.20 per share)	-	-	-	-	-	-	-	-	(25,400)	(25,400)
Balances at December 31, 2010	<u>525,123</u>	<u>-</u>	<u>(8,170)</u>	<u>8,583</u>	<u>61,243</u>	<u>3,849</u>	<u>71,527</u>	<u>(7,003)</u>	<u>-</u>	<u>655,152</u>

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

(Free Translation from Portuguese Original)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011

In thousands of Reais (except per-share data)

	<u>Capital Stock Subscribed</u>	<u>Capital reserve</u>	<u>Earnings Reserves</u>			<u>Retention of earnings</u>	<u>Equity appraisal adjustment</u>	<u>Retained earnings (deficit)</u>	<u>Total</u>
			<u>Legal reserve</u>	<u>Expansion reserve</u>	<u>Special reserve</u>				
Balances at January 1, 2011	<u>525,123</u>	<u>(8,170)</u>	<u>8,583</u>	<u>61,243</u>	<u>3,849</u>	<u>71,527</u>	<u>(7,003)</u>	<u>-</u>	<u>655,152</u>
Paying in of capital - issue of shares	2,464	-	-	-	-	-	-	-	2,464
Purchase of treasury stock	-	-	-	-	(535)	-	-	-	(535)
Cancellation of treasury stock	-	(535)	-	-	535	-	-	-	-
Stock option premiums	-	3,124	-	-	-	-	-	-	3,124
Realization of special reserve - tax amortization of goodwill on upstream merger of Itapoã	-	-	-	-	(1,520)	-	-	1,520	-
Comprehensive income for the year - cash flow hedge	-	-	-	-	-	-	9,105	-	9,105
Net income for the year	-	-	-	-	-	-	-	92,177	92,177
Appropriation of net income									
Setting up of statutory reserves on net income	-	-	4,609	-	-	63,741	-	(68,350)	-
Proposed dividends (0.01 per share)	-	-	-	-	-	-	-	(947)	(947)
Proposed interest on capital invested (R\$0.19 per share)	-	-	-	-	-	-	-	(24,400)	(24,400)
Balances at December 31, 2011	<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>-</u>	<u>736,140</u>

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

(Free Translation from Portuguese Original)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2011

(In thousands of Reais)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities			
Net income before income tax and social contribution		130,127	141,830
Adjustments:			
Depreciation and amortization	11	76,188	47,052
Provision for tax, civil and labor risks	18	1,695	1,361
Provision for expense on stock options	15	3,124	586
Profit sharing payable	16	7,917	17,504
Profit on sale of fixed and intangible assets		(19,277)	(13,770)
Yields from marketable securities		(1,549)	(4,812)
Interest and monetary and exchange variation on borrowings, contingencies and deposits in court		38,938	22,020
Allowance for doubtful debts		11,353	1,526
Tax refinancing program (REFIS)		1,230	(1,036)
Trade receivables	8	(27,186)	(51,526)
Inventories		(5,561)	(4,248)
Taxes recoverable	9	(6,019)	10,560
Deposits in court	18	(339)	(1,368)
Other assets		(5,652)	(7,385)
Trade payables (suppliers)		1,129	21,030
Salaries and payroll charges		3,704	6,548
Taxes payable		(2,940)	(755)
Other liabilities		3,696	1,555
Cash provided by operations			
Interest paid		(32,170)	(19,282)
Income tax and social contribution paid	17	(20,347)	(31,941)
Profit sharing paid		<u>(17,504)</u>	<u>(13,824)</u>
Cash provided by operations		140,557	121,625
Cash flows from investing activities:			
Marketable securities	6	137,695	(131,334)
Aquisitions of investments	10	(92,892)	-
Acquisitions of fixed and intangible assets (*)	11	(430,347)	(348,481)
Amount received on sale of fixed and intangible assets		<u>26,137</u>	<u>17,999</u>
Net cash used in investing activities		(359,407)	(461,816)

(continues)

(Free Translation from Portuguese Original)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2011

(In thousands of Reais)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
Cash Flows from Financing Activities			
Capital injections	20	2,464	428,241
Acquisition of treasury stock	20	(535)	-
Cost of stock issue	20	-	(15,068)
Dividends and interest on capital invested paid	21	(24,530)	(15,527)
Amortization of loans		(86,266)	(99,451)
Borrowings received	13	<u>356,704</u>	<u>46,613</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		<u>247,837</u>	<u>344,808</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>28,987</u>	<u>4,617</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6	<u>6,192</u>	<u>1,575</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	<u>35,179</u>	<u>6,192</u>

(*) PIS and COFINS credits are included in total of acquisitions of fixed and intangible assets.

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

(Free Translation from Portuguese Original)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENTS OF VALUE ADDED FOR THE YEAR ENDED DECEMBER 31, 2011

(In thousands of Reais)

	<u>2011</u>	<u>2010</u>
REVENUES		
Sales of merchandise, products and services	785,295	632,990
Cancellations and discounts	(42,847)	(28,455)
Other revenues (sale of assets)	680	125
Allowance for doubtful debts	<u>(11,353)</u>	<u>(1,525)</u>
INPUTS ACQUIRED FROM THIRD PARTIES	731,775	603,135
Cost of merchandise and products sold and services rendered	(23,879)	(23,227)
Materials, energy, third party services and sundry items	(113,700)	(90,498)
Write-offs of assets	(4,559)	(3,859)
Other inputs acquired from third parties	<u>(1,719)</u>	<u>(1,276)</u>
GROSS VALUE ADDED	587,918	484,275
Depreciation, amortization and depletion	(76,188)	(47,050)
NET VALUE ADDED PRODUCED BY THE ENTITY	<u>511,730</u>	<u>437,225</u>
VALUE ADDED RECEIVED IN TRANSFER		
Finance income	14,714	18,673
TOTAL VALUE ADDED FOR DISTRIBUTION	<u>526,444</u>	<u>455,898</u>
DISTRIBUTION OF VALUE ADDED	526,444	455,898
Personnel and payroll charges	220,853	185,052
Direct remuneration	171,061	144,584
Benefits	38,009	31,168
Accrued severance pay (FGTS)	11,783	9,300
TAXES, FEES AND CONTRIBUTIONS	147,271	126,236
Federal taxes and contributions	133,244	112,882
State taxes	4,759	4,161
Municipal taxes and fees	9,268	9,193
REMUNERATION OF THIRD PARTY CAPITAL	66,143	41,327
Interest and exchange variation	46,701	24,666
Rentals	19,442	16,661
REMUNERATION OF CAPITAL INVESTED	92,177	103,283
Interest on capital invested	25,347	28,112
Earnings retained	<u>66,830</u>	<u>75,171</u>
Total Value Added Distributed	<u>526,444</u>	<u>455,898</u>

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

(Free Translation from Portuguese Original)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2011

(Monetary amounts expressed in thousands of Reais – R\$ 000, except as indicated otherwise)

1. OPERATIONS

Mills Estruturas e Serviços de Engenharia S.A. ("Mills" or the "Company") is a publicly traded corporation under Brazilian law with registered offices in the City of Rio de Janeiro. The Company basically operates in the civil construction and industrial maintenance markets, engaging in the following principal activities:

- (a) Rental and sale, including export, of steel and aluminum structures for civil construction work, as well as reusable concreting forms, along with optional supply of related engineering projects, supervisory and assembly services;
- (b) Rental, assembly and dismantling 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; and
- (d) Sale, lease and distribution of aerial work platforms and telescopic manipulators, as well as parts and components, and technical assistance and maintenance services for such equipment.

The accounting information contained in these financial statements was approved and authorized for publication by the Company's Board of Directors on February 09, 2012.

1.1. Acquisition of GP Sul

On May 27th, 2011 Mills acquired 100% of the total and voting capital of GP Andaimés Sul Locadora Ltda. ("GP Sul") for R\$ 5,500, which amount was paid for out of the Company's available cash. GP Sul is a limited liability company under Brazilian law founded in 2009 and based in Porto Alegre, capital of the State of Rio Grande do Sul (RS). GP Sul's stated corporate purpose is the rental of mechanical suspended scaffolding, motorized suspended scaffolding and tubular scaffolding.

The acquisition of GP Sul was recognized in accordance with Brazilian accounting pronouncement committee standard No CPC 15 (IFRS 3R), considering the fair value of the identifiable assets and liabilities.

On September 30, 2011 the specialized firm contracted by the Company concluded its market appraisal of GP Sul and the net assets acquired as of the business combination date are as follows:

	<u>Fair value recognized upon acquisition</u>
Current Assets	
Cash and cash equivalents	34
Trade and other current accounts receivable	245
Noncurrent Assets	
Property, plant and equipment	3,312
Current Liabilities	
Trade and other current accounts payable	<u>68</u>
Total Net Identifiable Assets	3,523
Consideration Transferred	<u>5,500</u>
Goodwill	<u>1,977</u>

Based on the market appraisal report prepared by the specialized firm, the fair value of the shareholders' equity of GP Sul is R\$11.294, for which reason the specialists concluded that expectations for future profitability of GP Sul will serve as the grounds for the goodwill calculated in the amount of R\$ 1,977, which is not being amortized and is further subject to annual impairment testing.

1.2. Upstream merger of GP Sul

On August 1, 2011 the Extraordinary General Meeting of the Company's Stockholders approved the upstream merger of GP Sul by Mills, with absorption of the former's shareholders' equity by the latter and resulting extinction of GP Sul. Appraisal of the equity and net assets were carried out based on the balance sheet of GP Sul as at May 31, 2011. The following is a breakdown of the balance sheet incorporated.

<u>ASSETS</u>	1,003
CURRENT ASSETS	337
Cash and cash equivalents	337
NONCURRENT ASSETS	666
Trade receivables	119
Property, plant and equipment	547
<u>LIABILITIES AND EQUITY</u>	1,003
CURRENT LIABILITIES	97
Trade payables (suppliers)	28
Tax obligations	42
Salaries and payroll charges	27
SHAREHOLDERS' EQUITY	
Capital stock	100
Earnings	806

The changes that occurred between May 31 and July 31, 2011 were recorded at Mills.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by Mills in preparation of these financial statements are set out below. Such policies have been applied in a manner that is consistent for all periods presented, unless stipulated otherwise.

2.1. Basis of presentation

a) Statement of conformity

The Company's financial statements have been prepared and are being presented in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board – IASB, and with accounting practices adopted in Brazil (BR GAAP). The latter encompass those included in Brazilian corporate legislation, the standards of the Brazilian Securities Commission (CVM) and the pronouncements, interpretations and guidelines issued by the Brazilian Accounting Pronouncements Committee (CPC).

b) Basis of measurement

The financial statements of Mills have been prepared on the basis of historical cost, except for the following items recognized in the balance sheets:

- Derivative financial instruments measured at fair value (Notes 4 and 27); and
- Financial instruments measured at fair value through profit and loss – FVTPL (Notes 4 and 27).

c) Functional and reporting currency

The financial statements are being presented in Brazilian Reais (R\$ or BRL), which is the Company's functional currency. All the financial information is presented in thousands of Reais (R\$ 000), except as indicated otherwise.

d) Segment reporting

The Company's segment reporting is presented in a manner consistent with the internal report supplied by the main operating decision-maker. The main Mills operating decision-maker, responsible for appropriating resources and evaluating the performance of the operating segments, is the Executive Officers Committee, which is further responsible for making the Company's strategic decisions.

e) Statement of value added - DVA

The purpose of such statement is to evidence the wealth created by the Company and its distribution during a determined period of time. As required by Brazilian corporate legislation, it is presented by Mills as supplementary information to the financial statements, since it is neither required by or mandatory in accordance with IFRS.

The DVA has been prepared using information obtained from the Company's accounting records that serve as the basis for preparation of the financial statements and following the provisions contained in CPC 09 – Statement of Value Added. The first part the DVA shows the wealth created by Mills, represented by its revenues (gross sales revenues, including taxes levied thereon, other revenues and the effects of the allowance for doubtful accounts), inputs purchased from third parties (cost of sales and purchases of materials, energy and services from third parties, including the taxes on sales, the effects of impairment and recovery of assets, and depreciation and amortization) and the value added received from third parties (equity pickup, finance income and other revenues). The second part of the DVA shows the distribution of such wealth among personnel, taxes, fees and contributions, lenders and stockholders.

2.2. Significant accounting policies

a) Cash and cash equivalents

These amounts are maintained in order to meet short-term cash commitments, rather than for investment or other purposes. They include cash on hand, bank deposits, highly liquid short-term investments with original maturity of three months or less that are readily convertible into a known amount of cash and feature insignificant risk of change in value.

b) Financial instruments

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

Financial assets and liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issuance of financial assets and liabilities (except financial assets and liabilities recognized at fair value in results) are added to or deducted from the fair value of the financial assets or liabilities, if applicable, after initial recognition. Transaction costs directly attributable to the acquisition of financial assets and liabilities appraised at fair value through profit and loss (FVTPL) are recognized immediately in results.

c) Financial assets

The Company's financial assets are classified in the following specific categories: financial assets at FVTPL, investments held to maturity, financial assets available for sale and loans and receivables. When a financial instrument is not quoted on an active market and its fair value cannot be measured reliability, it is measured at cost and tested for impairment.

The classification depends on the purpose of the financial assets and is determined on the date of initial recognition. All normal acquisitions or disposals of financial assets are recognized or derecognized based on the trading date. The effective interest rate method is used to calculate the amortized cost of the debt instrument and to appropriate its interest income over the corresponding period. The effective interest rate is the rate that precisely discounts the estimated future cash receipts over the estimated life of the debt instrument or, when appropriate, over a shorter period, to the net carrying value as of the initial recognition date. Revenue is recognized based on the effective interest for debt instruments not characterized as financial assets at FVTPL.

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 amounts recognized and there is the intention to settle them on a net basis, or realize the asset and settle the liability simultaneously.

i) Financial assets at FVTPL

Financial assets are classified at fair value through profit and loss (FVTPL) when they are held for trading or designated as FVTPL. Financial assets at FVTPL are recognized at their fair values, with any gains or losses resulting therefrom being recognized in results. A financial asset is classified as held for trading if (i) it has been acquired chiefly for the purpose of selling it in the near term; or (ii) upon 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.

ii) Financial assets held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that Mills has a 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.

iii) Financial assets available for sale

The Company's financial assets available for sale are represented by non-derivative financial instruments that are either designated in this category or are not classified in any other category. They are included under Noncurrent assets, unless Management intends to sell the investment within 12 months after the reporting date. Changes in the fair value of securities classified as available for sale are recognized under stockholders' equity. Yields from such securities are recognized as finance income in the income statement.

They are represented by securities featuring immediate liquidity through financial institutions and are indexed to the variation in the Certificate of Interbank Deposit (CDI) rate. The yields are recognized in the income statement as Finance income for the period in which they occur. Since the securities are indexed to the CDI rate, the carrying values of such securities substantially approximate their fair values.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as Current assets, except those with maturities of greater than 12 months after the reporting date (which are classified as Noncurrent assets). The Company's receivables include trade receivables, other accounts receivable, deposits in court and cash and cash equivalents, except short-term investments. Receivables are recognized at amortized cost, using the effective interest rate method.

Financial assets measured at cost

Equity instruments that are not quoted in an active market and cannot be reliably measured are measured at cost, less any impairment identified at year-end.

v) Impairment of financial assets

Financial assets, other than those recognized at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Impairment losses are recognized if, and only if, there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

In the case of equity investments classified as available for sale, a significant or prolonged decline in its fair value below cost is considered as 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
- probability that the borrower will enter bankruptcy or financial re-organization; or
- disappearance of an active market for the financial asset due to 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, 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 amortized 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 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 unrecoverable, the accumulated gains and losses recognized in Other comprehensive income is reclassified to profit and 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.

With respect to equity instruments classified as available for sale, impairment losses previously recognized in profit and loss are not reverted through results.

Any subsequent increase in fair value after the recording of an impairment loss is recognized under Other comprehensive income and accumulated in the Investment revaluation reserve. As regards securities available for sale, impairment losses are subsequently reverted through results if an increase in the fair value of the investment can be objectively related to an event that occurred after recognition of the impairment loss.

d) Financial liabilities

The Company's financial liabilities are classified as either "Financial liabilities at FVTPL" or "Other financial liabilities".

i) Financial liabilities at FVTPL

The Company's financial liabilities are classified as Financial liabilities at FVTPL when they are held for trading or designated as financial liabilities at FVTPL. They are recognized at their fair values, with any gains or losses resulting therefrom being recognized in results.

A financial liability is classified as held for trading if (i) it has been acquired chiefly for the purpose of repurchase in the near term; or (ii) upon initial recognition it is part of a portfolio of identified financial instruments that the Company and its subsidiaries manage 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.

ii) Other financial liabilities

The other financial liabilities held by Mills (including borrowings and debentures) are measured at their amortized cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense 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.

e) Derivative financial instruments

i) Hedging activities

Derivative financial instruments are initially recognized at their fair value on the date on which the derivative contract is signed and then subsequently remeasured at their fair value, with changes in fair value being charged or credited to profit and loss, except when the derivative instrument in question is designated as a cash flow hedge instrument.

ii) Fair value hedges

Changes in the fair value of derivative financial instruments designated and qualified as fair value hedges are recorded in results, with any changes in the fair value of the items that are the object of the hedge attributable to the

risk being hedged. Changes in the fair value of the hedge instruments and in the item that is the object of hedge attributable to the risk being hedged are recognized in the caption of the income statement related to the item covered by the hedge.

Recognition of the hedge is discontinued on a forward-looking basis when the Company cancels the hedge relationship, the hedge instrument expires or is sold, rescinded or executed, or when it no longer qualifies for hedge accounting. The change in the fair value of the hedged item is recorded in results as from such date.

iii) Cash flow hedges

At the beginning of the hedging operation, the Company documents the relationship between the hedge instruments and the hedged items, as well as the risk management objectives and the strategy for carrying out hedging operations. Mills likewise documents their appraisal, both at the beginning of the hedge and in an ongoing manner as well, that the derivative financial instruments used in the hedging operations are highly effective in offsetting the changes in fair value or cash flows of the hedged items.

The effective portion of the changes in fair value of the derivative financial instruments designated and qualified as cash flow hedges is recognized under stockholders' equity. The gain or loss related to the ineffective portion is immediately recognized in the income statement for the year.

When the hedged operation forecast results in recognition of non-financial assets (such as PP&E, for example) previously deferred under stockholders' equity, the gain or loss related to the effective portion is transferred from the latter heading and included in the initial measurement of the cost of the fixed assets. The deferred amounts are finally recognized in results for the year through depreciation of the PP&E.

The total fair value of a hedge derivative is classified as a noncurrent asset or liability when the remaining maturity of the hedged item is longer than 12 months, and as a current asset or liability when such period is shorter than 12 months,

The fair value of the Company's derivative financial instruments is disclosed in Nota 27.

f) Trade receivables

The Company's trade receivables are recognized under the accrual method of accounting upon performance of the services and/or sales to customers. The receivables are recognized at the fair value as of the time of sale, adjusted by impairment of accounts receivable (allowance for doubtful debts). The latter provision is set up when there is objective evidence that Mills will not be able to receive the total amount according to the original amounts of the accounts receivable. This allowance is calculated based on Management's analysis of credit risk, which encompasses the individual situation of customers, the situation of the economic group to which they belong, the tangible guarantees posted for the debts and the appraisal of the Company's legal counsel.

g) Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined using the average cost method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

h) Current and deferred income tax and social contribution

The Company's expenses on the federal corporate income tax (IRPJ) and social contribution on net income (CSLL) encompass both current and deferred taxes. Such income taxes are recognized in the income statement, except in the proportion in which they are related to items recognized directly under stockholders' equity or comprehensive income. In this case, the tax is also recognized in one of the latter two captions.

The current IRPJ and CSLL expense is calculated according to the legal tax bases effective in Brazil as of the reporting date, namely 15% plus a surcharge of 10% for taxable income in excess of R\$ 240 for income tax and 9% on taxable results for social contribution purposes. Management periodically evaluates the positions adopted in relation to tax issues that are subject to interpretation and recognizes a provision when there are expectations for payment of IRPJ and CSLL on the tax bases.

The deferred IRPJ and CSLL are calculated on temporary differences between the bases for calculation of taxes on assets and liabilities and the carrying values recognized in the financial statements. The rates for such taxes as currently defined for determination of such deferred credits 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 income will be available for use in offsetting the temporary differences, based on projections for future results drawn up and grounded on internal premises and on future economic scenarios that may therefore be subject to alterations.

The recoverability of the balance of deferred tax assets is reviewed at the end of each reporting period and, when it is no longer considered probable that future taxable income will be available to permit recovery of all such assets, or part of them, the balance thereof is adjusted to the amount that it is expected will be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For purposes of calculating the IRPJ and CSLL, the Company adopted the Transition Tax System (RTT), pursuant to Law No. 11.941/09, that is to say, in determining the taxable income, Management considered the accounting criteria under Law No. 6.404/76 (the previous Brazilian corporation law), prior to the alterations imposed by the new corporation Law (No. 11.638/07).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities are related to the income taxes levied by the same taxing authority on the taxable entity or different taxable entities when there is the intent to settle the balances on a net basis.

Current and deferred taxes are recognized in results, except when they correspond to items recorded under Other comprehensive income, or directly under Stockholders' equity, in which case the current and deferred taxes are also recognized under Other comprehensive income or directly under Stockholders' equity, respectively. When current and deferred taxes result from the initial recognition of a business combination, the tax effect is considered in recording the business combination.

i) Deposits in court

Deposits in court are shown at their monetarily updated amounts under Noncurrent assets (Note 18).

j) PP&E: Company use and rental and operational use

Property, plant and equipment for rental and operational use provides the better part of its revenues, either through simple rental, or rental combined with assembly/dismantling work.

The PP&E for Company use consists principally of the installations for equipment storage, offices, betterments, furniture, fixtures and equipment required for functioning of the installations.

PP&E is valued at historic cost, less accumulated depreciation and impairment losses. Historic cost includes expenditures directly attributed to the acquisition of such fixed assets.

Subsequent costs are incorporated into the residual value of the PP&E or recognized as a specific item, as appropriate, only if the economic benefits associated with such items are probable and the amounts thereof can be reliably measured. The residual balance of the replaced item is derecognized. Other repair and maintenance work is recognized directly in results when incurred.

Depreciation is recorded under the straight-line method, at the rates presented in Note 11, which take into consideration the estimated useful economic life of the assets. Land is not depreciated.

Assets maintained through finance leases are depreciated based on their expected useful life, just as the Company's own assets, or for a shorter period, if applicable, as per the terms of the lease agreement in question.

Gains and losses on disposals are determined by comparing the values of the sale with the carrying value and are included in operating results.

The residual value and estimated useful life of the assets are reviewed each year and the effect of any changes in the estimates is recognized on a forward-looking basis.

k) Intangible assets

Computer software programs

These intangible assets are appraised at cost, less accumulated amortization and impairment losses, when applicable.

Costs associated with software development and maintenance are recognized as expenses when incurred.

Software programs have a defined useful life and are amortized over a five-year period (Note 11). The estimated useful life and the amortization method are reviewed at the end of each year and the effect of any changes in the estimates is recorded on a forward-looking basis.

l) Goodwill

The goodwill resulting from a business combination is recognized at cost as of the business combination date, net of any accumulated impairment losses.

The goodwill is allocated to cash generation units (CGU's) for impairment testing purposes. Allocation is made to CGU's or groups of CGU's that should benefit from the business combination from which the goodwill arose, and such units/groups are identified per business segment.

m) Impairment of assets

PP&E and other noncurrent assets, including goodwill and intangible assets, are reviewed annually to identify evidence of impairment, or further, whenever events or changes in circumstances indicate that the carrying values thereof may not be recoverable. When such is the case, the recoverable amount is calculated to check whether there is a loss. When there is, it is recognized at the amount by which the carrying value of the asset exceeds its recoverable amount, which is the greater of the net sale price and the value of the asset in use. For impairment testing purposes, assets are grouped into the lowest levels for which separately identifiable cash flows exist (CGU's). Non-financial assets, except goodwill, that have become impaired are reviewed for analysis of possible reversal of the impairment as of the reporting date.

n) Trade payables (suppliers)

Trade payables to suppliers are obligations to pay for goods or services that have been acquired from the Company's suppliers in the normal course of business. If the payment is due within a period of up to one year (or in the normal operational cycle of business, even if within a longer period), they are classified as current liabilities. Otherwise, they are presented as noncurrent.

They are initially recognized at fair value and subsequently measured at their amortized cost using the effective interest rate method. In practice, they are normally recognized at the amount of the corresponding invoice.

o) Provisions

Provisions are recognized when the Company has a present, legal or non-formalized obligation as a result of past events and it is probable that an outflow of funds will be needed to settle the obligation and a reliable estimate of the amount thereof can be made.

The provisions for tax, civil and labor risks are recorded in the amount of probable losses, with due heed being paid to the nature of each provision (Note 18). Based on the opinion of legal counsel, the Company's Management believes that the provisions set up are sufficient to cover any losses on cases underway. The provisions are measured at the present value of the expenditures that should be needed to settle the obligation, with use of a pre-tax rate that reflects current market appraisals of the time value of money and the specific risks of the obligation. The increase in the obligation as a result of the passage of time is recognized as an expense.

A provision for onerous contracts is recognized when the expected benefits to be derived from the contract are lower than the inevitable cost of meeting the contractual obligations. The provision is measured at the present value of the lower of the expected cost for terminating the contract and the expected net cost of continuing with the contract.

p) Profit sharing

Recognition of this sharing is carried out over the course of the year, being disbursed in the following year. The amount of profits distributed is 25% of the economic value added (see Note 16).

q) Stock-based remuneration

Mills offers its employees and executives a remuneration plan based on stock options that are convertible into common shares, whereby the Company receives their services as consideration for the stock purchase options. The fair value of the options granted is recognized as an expense during the period in which the rights vest, during which the specific terms for the vesting rights are to be met. At the reporting date the Company revises its estimates of the quantity of options that are to be vested based on such terms, in order to recognize the impact of the revision of the initial estimates, if any, on the income statement, with a contra entry in the capital reserve under stockholders' equity.

The amounts received, net of any directly attributable transaction costs, are credited to the capital stock upon exercise of the options.

r) Borrowings and financings

The Company's borrowings are initially recognized at fair value and subsequently shown at their amortized cost. The calculation methodology for each borrowing follows the particular terms and conditions of each agreement, using the effective interest rate method.

The effective interest rate method is used to calculate the amortized cost of a financial liability and to allocate the interest expense thereof over the respective period. The effective interest rate is the rate that precisely discounts the estimated future cash flows (including fees and points paid or received that are an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the estimated life of the financial liability or, when appropriate, over a shorter period, for initial recognition of the net carrying value.

The fees and taxes paid for contracting the borrowing are recognized as borrowing transaction costs, and they are also recorded under the finance costs caption at the effective interest rate.

Each month Management controls the balances of each debt through managerial controls that updated the financial indicators (interest rates) as agreed in each agreement.

Borrowings and financings are classified under current liabilities, except for those portions that can be unconditionally settled after 12 months from the reporting date.

s) Commercial leasing

The Company leases certain items of its fixed assets. Leasing of PP&E where the Company retains substantially all the risks and benefits of ownership of such assets are classified as finance leases.

Upon initial recognition, the leased asset is measured at the lower of its fair value and the present value of the lease installment payments. After initial recognition, the asset is recorded according to the accounting policy applicable to it.

The balance of the finance leasing account, shown under current and noncurrent liabilities, refers to the remaining installments payable for the commercial leasing agreements.

t) Foreign currency translation

Foreign currency transactions are translated into Reais at the exchange rates in effect as of the transaction dates. The balance sheet accounts are translated at the exchange rate in effect at the balance sheet date. Exchange gains and losses resulting from settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currency are recognized in the income statements, except when deferred under stockholders' equity as qualified cash flow hedge operations.

u) Capital stock

The Company's capital stock is divided into common shares without par value.

The incremental costs directly attributable to the issue of new shares or stock options are shown under stockholders' equity as a deduction of the amount of funding obtained, net of taxes.

Repurchased shares are classified as treasury stock and are presented as a deduction from stockholders' equity until such time as the shares are cancelled or reissued. Upon subsequent sale or reissue, the amount received is recognized as an increase in stockholders' equity and the resulting surplus or deficit is transferred to retained earnings (deficit).

v) Distribution of dividends and interest on capital invested

The distribution of dividends and interest on capital invested to the Company's stockholders is recognized as a liability in the year-end financial statements based on the Bylaws. Any amounts over and above the mandatory minimum annual dividends are only provided for as of the date on which they are approved by the stockholders at a general meeting.

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

w) Revenue recognition

Revenue from the performance of services is recognized based on the measurement of the stages for performance of the services carried out through the reporting date.

Revenue from the sale of merchandise is recognized when the significant risks and benefits of ownership of the merchandise are transferred to the buyer. Accordingly, the Company adopts the date on which the product is delivered to the buyer as the basis for its revenue recognition policy.

Leasing revenue is recognized on a prorated basis in monthly results on a straight-line basis, according to the equipment lease agreements.

The Company separates the identifiable components of a single contract or group of contracts in order to reflect the substance thereof, recognizing the revenue from each one of the elements in a manner that is proportional to their fair value. Accordingly, the Company's revenue is divided into leasing, technical assistance, sales and indemnities/recoveries of expenses.

Interest income is recognized in a manner proportional to time, taking into consideration the outstanding principal and the effective interest rate over the period to maturity, at which time it is determined that such revenue will be appropriated to the Company.

The revenues from dividends from investments made by Mills is recognized when the shareholder's right to receive such dividends is established, provided that it is probable that the future economic benefits will flow to the Company and the amount of such revenues can be reliably measured.

Revenues, expenses and assets are recognized net of the taxes levied on sales.

x) Earnings per share

Basic earnings per share are calculated based on income for the year and the average weighted number of common shares in circulation in the respective period. Diluted earnings per share are calculated based on the cited average number of shares in circulation, adjusted according to the instruments potentially convertible into shares with diluting effect in the periods presented, in the manner prescribed by Brazilian accounting pronouncement No CPC 41 and international accounting standard No IAS 33.

y) Business combinations

In the financial statements business acquisitions are recorded under the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated according to the sum of the fair values of the assets transferred by the Company and the liabilities incurred by Mills as of the acquisition date and transferred to the former shareholders of the acquired business. Costs related to the acquisition are generally recognized in profit and loss when incurred.

The identifiable assets acquired and liabilities assumed are recognized at their fair values as of the acquisition date, except for:

- Deferred tax assets or liabilities and assets and liabilities related to agreements for providing benefits to employees are measured according to IAS 12 – Income Taxes and IAS 19 – Employee Benefits (equivalent to CPC 32 and CPC 33), respectively;
- Liabilities or equity instruments related to agreements for payment based on shares of the business acquired or agreements for payment based on Group shares signed to replace agreements for payment of shares of the business acquired are measured according to IFRS 2 – Share-based Payment (equivalent to CPC 10) as of the acquisition date; and
- Assets (or groups of assets for disposal) classified as held for sale according to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations (equivalent to CPC 31) are measured according to such standard.

Goodwill is measured as being the excess of the consideration transferred in relation to the net assets acquired and liabilities assumed. If the consideration is less than the fair value of the net assets acquired, the difference is recognized as a gain in the statement of income. After initial recognition, the goodwill is measured at cost, less any accumulated impairment losses. For impairment testing purposes, the goodwill acquired in a business combination is appropriated as from the acquisition date to each Company cash generating unit (CGU) that is expected to benefit from the synergies of the combination, irrespective of other assets or liabilities of the business acquired being attributed to such unit.

2.3. Adoption of new and revised IFRS without material effects on the financial statements

The following new and revised international financial reporting standards (IFRS) have also been adopted in these financial statements. Adoption of such new and revised IFRS has not had any material effects on the amounts reported for the current and previous year. Nevertheless, such adoption may affect the recognition of future transactions or agreements.

- a) Modifications in IAS 1 – Presentation of Financial Statements (as part of Improvements to the IFRS issued in 2010)

The modifications to IAS 1 clarify that an entity may elect to disclose its analysis of other comprehensive income as an item of the statement of changes in stockholder' equity. Mills elected to continue presenting such information in a separate statement.

- b) IAS 24 - Disclosure of Related Parties (already adopted by CPC 05 - R1)

IAS 24 (revised in 2009) modified two aspects: (a) it introduced partial exemption of disclosure requirements for governmental entities; and (b) it altered the definition of a related party. The Company and its subsidiaries are not governmental entities. Adoption of the revised definition of related parties under IAS 24 (revised in 2009) in the current year permits identification of related parties not identified as such in accordance with the previous standard.

The disclosures of the Company's related parties already include such alterations, in that they already consider CPC 5 (R1) – Disclosures of Parties Related to the financial statements.

New and revised IFRS that affect financial performance and/or financial position reported.

- c) Modifications in IFRS 3 – Business Combinations

As part of the Improvements to the IFRS issued in 2010, IFRS 3 was changed in order to clarify that the option of appraising minority equity interests as of the acquisition date will only be available in the case of minority equity interests that represent current minority equity interests granting such stockholders the right to proportional stakes in the entity's net assets in the event of liquidation.

All other types of minority equity interests are appraised at fair value as of the acquisition date, unless other standards require use of another basis for appraisal. Moreover, IFRS 3 was modified to provide more guidelines on the recording of share-based compensation rights held by the employees of the business acquired. Specifically, the modifications required that transactions involving payments based on shares of the business acquired that are not replaced are to be measured according to IFRS 2 – Share-based Payment (equivalent to CPC 10(R1)) as of the acquisition date (“marked to market measurement”).

Adoption of this modification did not affect the Company, since GP Sul (the company acquired this year, see Note 1), did not have any minority shareholders and nor did it offer its employees share-based payment.

d) Modifications in IAS 32 – Classification of Rights

The alterations in this international accounting standard deal with the classification of certain rights denominated in foreign currency, such as equity instruments or financial liabilities. According to the changes made, the rights, options or bonuses issued by an entity in order for the holders thereof to be able to acquire a fixed quantity of the entity's equity instruments for a fixed amount in any currency are to be classified as equity instruments in the entity's financial statements, provided that the offer is made proportionally to all the existing holders of the same class of non-derivative equity instruments. Prior to the changes made in IAS 32, the rights, options or bonuses for acquisition of a fixed quantity of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The changes require retrospective adoption. In any event, the adoption of these modifications by the Company did not affect the amounts reported in the current and previous years, since Mills did not issue instruments of this kind.

e) Modifications in IFRIC 14 – Prepayments of Minimum Funding Requirements

The changes determine when refunds or reductions of future contributions should be considered as available under IAS 19.58; how minimum funding requirements may affect the availability of the reductions in future contributions; and when minimum funding requirements may result in a liability. With the modifications, the standard began to permit recognition of an asset in the form of pre-payment of minimum funding requirements. Application of the changes will not have a material effect on the financial statements.

f) IFRIC 19 Extinction of Financial Liabilities with Equity Instruments

This Interpretation provides guidelines on recording the extinction of a financial liability through issue of equity instruments. Specifically, under IFRIC 19 the equity instruments issued with such a transaction are to be measured at fair value and any difference between the carrying value of the extinguished liability and the effective payment for the equity instruments issued is to be recognized in results. Adoption of IFRIC 19 did not affect the amounts reported in the current and previous year since the Company has not carried out any transactions of this nature.

2.4. New and revised interpretations already issued and not yet adopted

The Company has not adopted the following new and revised IFRS that have already been issued:

Modifications in IFRS 7	Disclosures of Transfers of Financial Assets (1)
IFRS 9	Financial Instruments (2)
IFRS 10	Consolidated Financial Statements (2)
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities (2)
IFRS 13	Fair Value Measurement (2)
Modifications in IAS 1	Presentation of Items of Other Comprehensive Income (3)
Modifications in IAS 12	Deferred Taxes – Recovery of Underlying Assets (4)
IAS 19 (revised in 2011)	Employee Benefits (2)
IAS 27 (revised in 2011)	Separate Financial Statements (2)
IAS 28 (revised in 2011)	Investments in Associates and Joint Ventures (2)

- (1) In effect for annual periods beginning on or after July 1, 2011.
- (2) In effect for annual periods beginning on or after January 1, 2013.
- (3) In effect for annual periods beginning on or after July 1, 2012.
- (4) In effect for annual periods beginning on or after January 1, 2012.

- The changes in IFRS 7 increase the disclosure requirements for transactions involving financial assets. Such alterations intend to provide greater transparency to exposures to risks when financial assets are transferred but the transferor continues retaining a certain level of exposure due to the asset. The alterations also require disclosure of the transfer of financial assets when they are not equally distributed over the period.

The Company does not expect that these modifications in IFRS 7 will have a significant effect on its disclosures in relation to the transfers of receivables previously affected. Nonetheless, in the event Mills undertakes other types of transfers of financial assets in the future, the disclosures relating to such transfers may be affected.

- IFRS 9 – Financial Instruments, which was issued in November 2009 and altered in October 2010, introduced new requirements for the classification, measurement and derecognition of financial assets and liabilities.

IFRS 9 establishes that all financial assets recognized that are covered by the scope of IAS 39 – Financial Instruments: Recognition and Measurement (equivalent to CPC 38) be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held according to a business model aimed at receiving contractual cash flows and which have contractual cash flows that refer exclusively to payments of the principal and interest on the principal due are generally measured at the amortized cost at the end of the subsequent reporting periods. All other debt instruments and investments in equity instruments are measured at fair value at the end of the subsequent reporting periods.

The most significant effect of IFRS 9 related to the classification and measurement of financial liabilities refers to the recording of changes in the fair value of a financial

liability (designated at fair value through profit and loss - FVTPL) attributable to changes in the credit risk of such liability. Specifically, under IFRS 9, in relation to financial liabilities recognized at FVTPL, the amount of the change in the fair value of the financial liability attributable to changes in the credit risk of such liability is recognized under Other comprehensive income, unless recognition of the changes in the liability's credit risk under Other comprehensive income results in or increases the accounting dissolution in income. Changes in the fair value attributable to the credit risk of a financial liability are reclassified in income. Previously, under IAS 39 and CPC 38, the total amount of the change in the fair value of a financial liability recognized at FVTPL was recognized under results.

IFRS 9 is applicable to annual periods beginning on or after January 1, 2013.

Company Management expects IFRS 9 to be adopted in the financial statements for the annual period beginning January 1, 2013 and that adoption of this new standard will not have a material effect on the reported balances of its financial assets and liabilities. Nonetheless, it is not possible to provide a reasonable estimate of such effect until such time as a detailed review is conducted.

In May of 2011 a package of five standards for consolidation, joint arrangements, associates and disclosures was issued: IFRS 10, IFRS 11, IFRS 12, IAS 27 (revised in 2011) and IAS 28 (revised in 2011).

The main requirements of these five standards are as follows:

- IFRS 10 substitutes the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Companies was withdrawn with the issue of IFRS 10. According to IFRS 10, there is only one base for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee; (b) exposure or rights to variable returns from its interest in the investee and (c) capacity for using its power over the investee to affect the amounts of the returns to the investor. Comprehensive guidelines have been included in IFRS 10 to deal with complex scenarios.
- IFRS 11 substitutes IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement where two or more parties have joint control is to be classified. SIC-13 Joint Ventures – Non-Monetary Contributions of Investors was withdrawn with the issue of IFRS 11. Under IFRS 11, joint arrangements are classified as combined or joint ventures according to the rights and obligations of the parties to the joint arrangements. On the other hand, under IAS 31 there are three types of joint arrangements: jointly held entities, jointly controlled assets and jointly controlled operations.

In addition, under IFRS 11 joint ventures are to be recorded under the equity accounting method, whereas jointly held entities, according to IAS 31, can be recognized under the equity accounting method or the proportional accounting method.

- IFRS 12 is a disclosure standard applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. By and large, the disclosure requirements under IFRS 12 are more comprehensive than the current standards.

These five standards are applicable to annual periods beginning on or after January 1, 2013.

Management believes that these five norms will be adopted for the Company's financial statements for the annual period beginning January 1, 2013, although it does not expect significant effects.

- IFRS 13 presents a single source of orientation for measurement of fair value and disclosures regarding fair value measurements. The standard defines fair value, presents a fair value measurement structure and requires disclosures of the fair value measurements. The scope of IFRS 13 is comprehensive, applying to items of financial and non-financial instruments for which other IFRSs require or permit fair value measurements and disclosures of fair value measurements, except in determined cases. For example, quantitative and qualitative disclosures based on the fair value hierarchy of three levels, currently employed for financial instruments only under IFRS 7 Financial Instruments: Disclosures, will be complemented by IFRS 13 so as to include all assets and liabilities in its scope.

IFRS 13 is applicable to annual periods beginning on or after January 1, 2013.

Management expects IFRS 13 to be adopted in the Company's financial statements for the annual period beginning January 1, 2013 and that adoption of the new standard may result in amounts being reported in the financial statements and more comprehensive disclosures in the financial statements.

- The changes to IAS 1 permit presentation of income and other comprehensive income in a single statement or in two separate and consecutive statements. Even so, the changes to IAS 1 require additional disclosures in other comprehensive income, such that the items of other comprehensive income are grouped in two categories: (a) items that will not be reclassified later in income, and (b) items that will be reclassified later according to determined conditions. The income tax on the items of other comprehensive income will be dealt with likewise.

The modifications in IAS 1 are applicable to annual periods beginning on or after July 1, 2012. Presentation of the items of other comprehensive income will be modified appropriated as the changes are adopted in future reporting periods.

- The changes to IAS 12 involve an exception to the general principles of IAS 12 in the sense that measurement of deferred tax assets and liabilities is to reflect the tax effects resulting from the manner in which the entity expects to recover the carrying value of an asset. Specifically, according to the changes, it is expected the investment properties measured based on the fair value model under IAS 40 Investment Property be recovered through sale for purposes of measuring deferred taxes, unless the premises are invalidated in determined circumstances.

The modifications in IAS 12 are applicable to annual periods beginning on or after January 1, 2012. Management has not yet conducted a detailed analysis of the impact of applying these Standards, though it does not expect the effects thereof to be material.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND PREMISES

Preparation of the Company's financial statements requires Management to make judgments and estimates and adopt premises that affect the amounts or revenues, expenses, assets and liabilities, as well as disclosures of contingent liabilities as of the reporting date. Nevertheless, the uncertainty relating to such premises and estimates may lead to results that require significant adjustment to the carrying value of the asset or liability affected in future periods.

The main premises relating to sources of uncertainties in the future estimates and other importance sources of uncertainty in estimates as of the reporting date, involving significant risk of causing a major change in the carrying value of assets and liabilities in the next financial year, are as set out below:

3.1. Impairment of non-financial assets

An impairment loss occurs when the carrying value of an asset exceeds its recoverable amount, which is the greater of the fair value less sale costs and its value in use. Calculation of the latter is based on the discounted cash flow method. Cash flows derive from the budget for the next five years and do not include reorganization activities for which the Company has not yet committed itself to or made significant investments that will improve the base of assets of the cash generating unit being tested. 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 growth rate used for extrapolation purposes.

3.2. 3.2 Transactions with payments based on shares

The Company measures the cost of transactions settled with shares with employees based on the fair value of the equity instruments upon the grant date. The estimate of the fair value of share-based payments requires determination of the most appropriate appraisal model for granting the equity instruments, which depends on the terms and conditions of the grant. This also requires determination of the most appropriate data for the appraisal model, including the expected life of the option, the volatility and yield of dividends and corresponding premises. The premises and models used to estimate the fair value of the share-based payments are disclosed in Note 16.

3.3. Taxes

There are uncertainties in relation to the interpretation of complex tax regulations and to the value and timing of future taxable income. Differences between actual results and the premises adopted, or future changes in such premises, may require future adjustments in tax revenues and expenses already recorded. The Company has set up

provisions, based on appropriate estimates, for possible consequences of tax audits conducted by the authorities. The amount of such provisions is based on several factors, such as experience in past tax audits and differing interpretations of tax regulations by the entity subject to taxation and the respective tax authorities. Such differences in interpretation may arise in a wide variety of matters, depending on the conditions in effect in the Company's tax domicile. A deferred tax asset is recorded for all temporary differences to the extent that it is probable that there will be taxable income available for use thereof. Significant Management judgment is required to determine the amount of the deferred tax asset that can be recognized, based the probable term and level of future taxable income, together with future tax planning strategies.

3.4. Fair value of financial instruments

When the fair value of financial assets and liabilities, such as stock options, marketable securities and hedging instruments as shown in the balance sheet cannot be obtained from active markets it is determined using appraisal techniques, including the discounted cash flow method. The data for such methods are based on those employed on the market, whenever possible. Even so, when this is not feasible, a determined level of judgment is required to establish the fair value. Such judgment includes considerations regarding the data used, such as, for example, liquidity risk, credit risk and volatility. Changes in the premises of these factors may affect the fair value presented in the financial statements. Note 4 provides detailed information on the main premises used in determining the fair value of financial instruments, as well as a sensitivity analysis of such premises.

3.5. Provisions for tax, civil and labor risks

The Company recognizes its tax, civil and labor risks through a provision. Appraisal of the likelihood of loss includes evaluating the available evidence, the hierarchy of laws, jurisprudence available, the most recent decision in the courts and the relevance thereof in the legal order, as well as the evaluation conducted by external legal counsel. The provisions are reviewed and adjusted to take into account changes in circumstances, such as the statute of limitations, conclusions of tax inspections or additional exposure identified based on new issues or court decisions.

3.6. Useful life of fixed assets

As described in Note 11, the Company reviews the estimated useful life of its PP&E annually at the end of each reporting period. During the year, Management deemed that the useful life of 10 years, which has always been adopted by Mills, represents a reasonable average life span for the Company's assets and should be maintained for our equipment in the year 2011.

3.7. Revenue recognition

The revenue of the Mills industrial services division from the rendering of its services is recognized based on the percentage of completion method, as measured by the steps for performance of the services carried out through the reporting date.

4. FINANCIAL RISK MANAGEMENT

4.1. Financial risk factors

The Company's activities expose it to several financial risks: market risks (including currency risk, interest rate risk and 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 potential adverse effects on the Company's financial performance. Mills uses derivative financial instruments to hedge against certain exposures to risks, though its policy continues to not participate in any negotiations involving derivatives for speculative purposes.

Risk management is performed by the Financial Department, according to policies approved by the Board of Directors, when such is the case. The Financial Department identifies, evaluates and protects the Company against any financial risks in cooperation with the operating units. The financial Department establishes principles for the management of global risk, as well as for specific areas, such as exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investment of excess cash.

i) Sensitivity analysis

The following is a statement that breaks down the sensitivity of the financial instruments, including derivative ones, which describes the risks that may generate material losses for the Company, with the most probable scenario (Scenario I) according to Management's analysis, considering a three-month horizon, after which the next financial information containing such analysis will be disclosed. In addition, two other scenarios are shown, in the manner prescribed by the Brazilian Securities Commission (CVM) through Instruction No. 475/2008, in order to present 25% and 50% deterioration in the risk variable considered, respectively (Scenarios II and III):

Risk	Instrument/operation	Description	<u>Scenario I</u> <u>(probable)</u>	<u>Scenario II</u> <u>25%</u>	<u>Scenario III</u> <u>50%</u>
Interest rate	Debt				
	BNDES - TJLP	Rise in rate	22,134	22,138	22,142
	Leasing - CDI	Rise in rate	52,159	53,607	55,058
	Working capital - CDI	Rise in rate	34,889	35,023	35,155
	Debentures	Rise in rate	276,598	297,783	318,849
	Promissory notes	Rise in rate	27,210	27,885	28,561
		Total	412,990	436,436	459,765
		Variation		6%	11%
	Cumulative effect on income and stockholders' equity, respectively		-	23,447	46,776
Risk	Instrument/operation	Description			
Exchange rate (USD)	Commercial commitments	Rise in exchange rate	(69,253)	(86,566)	(103,879)
	NDF	Rise in exchange rate	1,295	18,608	35,921
		Total	(67,958)	(67,958)	(67,958)
		Variation		0%	0%
	Cumulative effect on stockholders' equity				
Exchange rate (EUR)	Commercial commitments*	Rise in exchange rate	(206)	(257)	(308)
	NDF	Rise in exchange rate	(0)	51	102
		Total	(206)	(206)	(206)
		Variation		0%	0%
	Cumulative effect on stockholders' equity		-	-	-

* The swap agreements are signed for swap of 100% of the foreign currency risk (US\$) for Brazil's currency (R\$).

The sensitivity analysis presented above considers changes in relation to the risk in question, maintaining the other variables associated with other risks constant.

	Scenario I		
	<u>Rate holding</u>	<u>Scenario II</u>	<u>Scenario III</u>
Reference	steady	25%	50%
CDI (%) (i)	11.00%	13.75%	16.50%
TJLP (%) (ii)	6.00%	7.50%	9.00%
US\$ (%) (iii)	R\$ 1.88	R\$ 2.34	R\$ 2.81
Euro (%) (iv)	R\$ 2.43	R\$ 3.04	R\$ 3.65

- ii) In relation to the interest rate risk, Company Management considered as the probable premise (Scenario I) for its financial instruments maintenance of the SELIC rate, and therefore of the CDI rate as well, since there is a direct relationship between these two rates, and a rise in the rate as the premise for the other two scenarios.
- iii) For the financial liabilities related to borrowings and financings from the Brazilian Development Bank (BNDES), Company Management considered as the probable scenario (Scenario I) maintenance of the long-term interest rate (TJLP) for the next three months, since there is no evidence of alteration in this rate on a short-term basis, and a rise in the rate as the premise for the other two scenarios.
- iv) Company Management considered as the probable scenario (Scenario I) maintenance of the exchange rate for the next three months and a rise in the rate as the premise for the other two scenarios.

4.2. Market risk

a) Exchange risk

Mills is exposed to the exchange risk resulting to certain currencies, basically in relation to the United States Dollar and the Euro. The exchange risk involves future importations of equipment, chiefly telescopic manipulators and forms.

Company policy is to eliminate 100% of the cash risk related to exchange variation, in a conservative manner, since all its revenues are accrued in Reais. To this end, the Company signs swap agreements with financial institutions for hedging purposes. All these agreements provide for simple rate swaps whereby the financial institution assumes the exchange risk and, in return, the Company undertakes to pay an interest rate on the national amount (corresponding to the original amount of the liability in foreign currency).

b) Exchange rate and monetary updating risk

The Company's indebtedness is denominated in Reais, subject to floating interest rates, basically the CDI and TJLP. There is a risk that Mills may incur losses on account of fluctuations in such interest rates, thereby increasing the finance costs relating to borrowings and financings obtained on the market.

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

The Company analyzes its exposure to the interest rate risk in a dynamic manner. Various scenarios are simulated taking into consideration refinancing and hedges. Based on such scenarios, Mills defines a reasonable change in the interest rate. The scenarios are drawn up only for liabilities that represent the principal interest positions. See the sensitivity analysis in relation to the interest rate risk in Note 27 (b.4).

4.3. Credit risk

The credit risk is the risk of financial loss to the Company in case a customer or counterparty in a financial instrument defaults on fulfillment of its contractual obligations which arise in operating activities (chiefly in relation to trade accounts receivable) and financing activities, including deposits in banks and other financial institutions.

a) Trade receivables

The Company periodically bills amounts for rentals and services owed by its customers, for maturity periods that normally vary from 30 to 45 days, with average receiving terms of 50 days. Accordingly, it is subject to the risk of default in relation to trade receivables. Even so, default indices are low, which can be attributed to the lengthy history of relations with customers. The Company's customer portfolio is comprised of Brazilian customers. Mills sets up a provision for impairment when it believes there is a risk that the amounts due will not be received.

Management of the credit risk with respect to customers is managed by the Company's Financial Department, which evaluates the customer's financial capacity. This analysis is performed prior to the effective commercial agreement signed between the parties and each customer is analyzed individually, chiefly taking into consideration the following information: (i) data on file; (ii) financial information and indicators; (iii) classes of risk (SERASA methodology); (iv) majority shareholder; and (v) pending items and protests filed at the SERASA credit bureau. The Company does not adopt a policy of obtaining financial guarantees from its customers in order to manage credit risks.

b) Financial instruments and cash deposits

The credit risk related to banks and financial institutions is managed by the Company treasury according to the policy it has established. Excess funds are only invested with approved counterparties.

Company policy is to use only top line financial institutions that are classified as investment grade. Management does not expect any counterparty to default on fulfilling its obligations.

4.4. Liquidity risk

Liquidity risk is the risk that the Company will have difficulties in complying with the obligations associated with its financial liabilities that are settled with cash payments or with some other financial asset. The Company's approach in managing liquidity is to guarantee as much as possible that it will always have sufficient liquidity to comply with its obligations as they fall due, under both normal and stress conditions, without causing unacceptable losses or risks of harming the Company's reputation.

The Financial Department the ongoing forecasts of the Company's liquidity requirements to ensure that it has sufficient cash to meet operating needs. The monthly forecasts take into consideration the plans for financing debt, compliance with contractual clauses and meeting internal targets as per the strategic plan. Moreover, the Company maintains credit lines with the principal financial institutions that operate in Brazil.

The table below analyzes the principal financial liabilities per aging bracket, corresponding to the remaining period in the balance sheet to contractual maturity, when the Company expects to make the payment.

	Under 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years
At December 31, 2011				
Borrowings and financings	16,293	33,367	10,104	8,317
Promissory notes	30,620	-	-	-
Debentures	33,677	35,692	320,552	-
Finance lease obligations	27,471	21,876	12,047	-
Derivative financial instruments	(2,841)			
Trade payables	36,232			
At December 31, 2010				
Borrowings and financings	21,924	20,916	22,640	9,182
Finance lease obligations	28,460	25,477	37,737	
Derivative financial instruments	5,924	385		
Trade payables	32,743			

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

4.5. Quality of credit of financial assets

a) Trade receivables

The quality of the credit of trade accounts receivable from the Company's customers is verified based on historical information and their financial payment capacity.

<u>Risk of non-receipt</u>	<u>Level</u>	<u>12/31/2011</u>	<u>12/31/2010</u>
Very low	(1)	65,371	81,464
Low	(2)	71,550	37,795
Moderate	(3)	<u>25,947</u>	<u>16,573</u>
Total		<u>162,868</u>	<u>135,832</u>

- (1) Very low risk - Level 1: customers with excellent financial capacity (average billings over R\$ 100 million) for making payments and enormous track record of business with the Company (+ 5 years).
- (2) Low risk - Level 2: customers with good financial capacity (average billings between R\$ 20 and 100 million) for making payments and average track record of business with the Company (from 1 to 5 years).
- (3) Moderate risk - Level 3: customers with reasonable financial capacity (average billings up to R\$ 20 million) for making payments and average track record of business with the Company (from 1 to 5 years).

b) Banks and marketable securities

	<u>2011</u>	<u>2010</u>
Current accounts		
Bank (1)	6,729	5,611
Bank (2)	<u>44</u>	<u>306</u>
Total	<u>6,773</u>	<u>5,917</u>
Marketable securities		
Bank (1)	<u>28,048</u>	<u>136,146</u>
Total	<u>28,048</u>	<u>136,146</u>
Total banks and marketable securities	<u>34,821</u>	<u>142,062</u>

- (1) Leading financial institutions with wide-ranging activities in Brazil and investment grade.
- (2) Financial institutions with solid operations in Brazil, but without investment grade.

5. CAPITAL MANAGEMENT

The Company's primary objective in managing its desirable capital structure is to protect its assets and equity, continue operating as a healthy going concern, offer solid conditions for its collaborators and interested parties and satisfactory returns for stockholders. The overall capital management strategy of the Mills Group has remained unchanged since 2010.

With a view to maintaining or adjusting its capital structure, the Company may increase its capital, for example, issue new shares, approve the issue of debentures and purchase treasury stock, all pursuant to its Bylaws. Moreover, the Company uses as the principal indicator of its performance in order to appraise its financial leverage the ratio between the accumulated EBITDA for the past 12 months and the total net indebtedness (total bank debt less total cash and cash equivalents).

	<u>2011</u>	<u>2010</u>
Total bank debt	<u>412,990</u>	<u>132,623</u>
Financings	84,233	46,698
Commercial leasing operations	52,159	85,925
Debentures	276,598	-
Cash, cash equivalents and marketable securities	35,179	142,338
Net indebtedness	377,811	(9,715)
EBITDA*	238,156	194,523
Net indebtedness / EBITDA*	1,59	-

* Earnings before interest, taxes, depreciation and amortization (EBITDA): This is a non-accounting measurement prepared by the Company's Management pursuant to the provisions contained in CVM Circular No. 01/2007, when applicable. EBITDA is calculated based on the operating profit before net financial results, the effects of depreciation of PP&E for Company use and rental equipment and amortization of intangible assets. EBITDA is not a measurement recognized by either accounting practices adopted in Brazil (BR GAAP) or IFRS, does not have a standard meaning and may not be comparable with measurements using similar titles supplied by other companies. EBITDA should not be considered on an isolated basis -- or as a substitute for net income or operating profit -- as indicators of operating performance of cash flows or to measure liquidity or debt payment capacity. Information not reviewed by independent auditors.

As at December 31, 2010, the total balance of cash, cash equivalents and marketable securities was higher than the bank debt, such that the indicators Net Indebtedness / EBITDA and Net Short-Term Bank Debt / Bank Debt do not apply.

The Company is not subject to any external requirement with respect to its capital.

6. CASH AND CASH EQUIVALENTS

	<u>2011</u>	<u>2010</u>
Cash	358	275
Cash equivalents	<u>34,821</u>	<u>5,917</u>
	<u>35,179</u>	<u>6,192</u>

The balance recorded under banks (cash equivalents) refers to the resources derived from the issue of promissory notes in December 2011, and there is no restriction as to the use thereof.

7. MARKETABLE SECURITIES

The Company's cash investment in marketable securities as at December 31, 2010 basically refer to operations at the banks Santander and Votorantim and were derived from funding obtained on the initial public offering (IPO). The yields from such operations amounted to R\$ 4,812 in December 2010. The balance of the account was fully used in 2011 on acquisition of the investment in Rohr and other Company investments.

8. TRADE RECEIVABLES

	<u>2011</u>	<u>2010</u>
Construction division	40,934	47,960
Jahu division	31,844	19,143
Maintenance and assembly division	49,755	45,550
Rental division (Mills Rental)	34,708	16,616
Events (**)	5,627	6,563
	<u>162,868</u>	<u>135,832</u>
Allowance for doubtful debts (*)	<u>(20,646)</u>	<u>(9,293)</u>
	<u>142,222</u>	<u>126,539</u>
Present value adjustment	<u>(472)</u>	<u>(622)</u>
	<u>141,750</u>	<u>125,917</u>
Current assets	<u>139,142</u>	<u>122,136</u>
Noncurrent assets	<u>2,608</u>	<u>3,781</u>

(*) The provision for reduction of trade receivables to their recoverable amount is calculated based on the amount considered sufficient to cover potential losses on realization of credits, considering an individual analysis of the Company's customers.

(**) Amount receivable from sale of the PP&E of the Events division, which was discontinued in 2008.

Changes in the allowance for doubtful debts with respect to the Company's trade receivables from its customers are as follows:

	<u>2011</u>	<u>2010</u>
As at January 1	9,293	7,767
Allowance for doubtful debts	11,392	1,807
Amounts received	(39)	(28)
Others	-	(253)
As at December 31	<u>20,646</u>	<u>9,293</u>

As at December 31, 2011, trade receivables in the total amount of R\$ 20,646 (2010 - R\$ 9,293) had allowance for doubtful debts. The rise in the amount of this provision refers largely to the balances receivable from two specific customers that during the year 2011 were having difficulties meeting their obligations.

In December the Company reached an agreement to receive part of this debt in the amount of R\$ 3,300. Reversal of the provision will take place as the debt is received.

Mills has trade accounts receivable corresponding to the assets of the Events Division, the activities of which were discontinued. Some of this division's assets were sold over the course of 2008 and 2009 by means of an agreement for sale of chattel goods with reserve of title (lien) signed on February 18, 2009. The total amount involved in the sale is to be received over a period of no more than 8 (eight) years, with the installments being adjusted according to the percentage variation in the Brazilian Comprehensive Consumer Price Index - IPCA. As at December 31, 2011 the assets have been adjusted to present value and the Company's Management, based on the tangible guarantees called for in the agreement, believes that they will be fully realized by the time the last installment falls.

In order to determine the recoverability of its trade receivables, the Company considers any change in the quality of the customer's credit from the date on which the credit was initially granted through to the end of the reporting period. Concentration of credit risk with respect to Mills is limited since the customer base is very wide and there is no relationship between customers. The Company does not have any customer concentration issues in its revenues or trade receivables, such that there is no single customer or economic group that represents 10% (ten per cent) or more of its trade receivables in any of its segments.

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

	<u>2011</u>	<u>2010</u>
Current	95,364	78,207
Overdue (bills with extended original due dates)	14,330	16,283
Overdue from 1 to 60 days (*)	20,743	22,448
Overdue from 61 to 120 days (*)	10,675	4,481
Overdue more than 120 days (*)	<u>21,756</u>	<u>14,413</u>
Total	<u>162,868</u>	<u>135,832</u>

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

The aging list of trade receivables overdue but not provided for is broken down as follows:

	<u>2011</u>	<u>2010</u>
Overdue from 1 to 60 days	20,681	22,359
Overdue from 61 to 120 days	8,731	3,454
Overdue more than 120 days	<u>3,115</u>	<u>6,236</u>
Total	<u>32,528</u>	<u>32,049</u>

As at December 31, 2011 trade receivables in the amount of R\$ 32,528 (2010 - R\$ 32,049) were overdue but no allowance for doubtful debts were recorded. The amount of R\$ 20,681 refers to bills overdue up to 60 days that do not meet the provision criteria established by the Company, while the rest of the balance refers to a series of independent customers with no recent track record of default.

9. RECOVERABLE TAXES

	<u>2011</u>	<u>2010</u>
Federal PIS and COFINS contributions (*)	48,506	18,747
Federal corporate income tax (IRPJ) and social contribution (CSLL)	606	6,647
State value-added tax on circulation of goods and services (ICMS)	2,051	934
Other taxes and contributions	<u>2,465</u>	<u>3,772</u>
	<u>53,628</u>	<u>30,100</u>
Current assets	<u>22,051</u>	<u>26,157</u>
Noncurrent assets	<u>31,577</u>	<u>3,943</u>

(*) The credits relating to the Social Integration Program (PIS) and Social Security Finance (COFINS) contributions basically refer to the amounts recoverable on acquisitions of PP&E and they are being offset with non-cumulative PIS and COFINS contributions; expectations are that these credits will be realized by 2015.

In calculating and paying over the PIS/COFINS, since December of 2009, the Company used the credits resulting from acquisition of fixed assets for rental at the rate of 1/12. Due to various interpretations of Article 1 of Law No. 11.774/08 regarding the possibility of accelerated use of such credits for purposes of leasing chattel goods, Mills filed a formal inquiry to the Brazilian Federal Revenue Service (RFB) in order to certify the procedure adopted up to that point. The reply received in July of 2011 stated that such leasing activities were not included in the legal provision in question, such that Mills was not entitled to take credit at the rate of 1/12. Give this, the Company promptly changed its methodology for calculating PIS and COFINS credits from 1/12 to 1/48 and paid over the taxes, theoretically postponed, in the total amount of R\$ 25,548 with all charges due. Such payment was recorded as a contra entry to recoverable taxes in order to be used in the future at the rate of 1/48. Despite this, since the Company does not agree with the RFB's interpretation, it filed a common suit in order to obtain an injunction to continue allowing it to use the credits at the 1/12 rate and is awaiting the outcome of this case.

10. INVESTMENTS

a) Minority equity 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 that is specialized in access engineering and supplying solutions for civil construction. It operates mainly in the heavy construction and industrial maintenance segments.

The Company appraised its influence over the management of Rohr and concluded that, even though it held 25% of the investee’s capital, such investment ought to be recorded at the cost of acquisition, due to the following facts: Mills does not have the power to participate in drawing up and making Rohr’s financial, operational and strategic decisions, such that it does not control such policies in either an individual or joint manner and is not represented on the investee’s managerial bodies. Furthermore, there is no shareholders agreement that might give Mills the right to have influence over the management of such investee. Based on these factors, the Company concluded that it does not have significant influence over the investee and will keep the investment recorded at the cost of acquisition.

In May of 2011 Mills received R\$ 2,035 (net of taxes) by way of interest on capital invested and dividends relating to its investment in Rohr. Such amounts were recorded as reducing the amount of the investment, since they were received right after acquisition of the shares in the investee.

In December 2011 the Company received R\$ 573 (net of taxes) by way of interest on capital relating to the year 2007. Such amount was recorded as reducing the amount of the investment, since they involved dividends arising from earnings or reserves already existing as the date of the purchase of shares. In addition, Mills received extraordinary dividends in the amount of R\$ 1,346 relating to the year 2011, which were recorded as revenue in the income statement.

Also in the fourth quarter of 2011 there was a rise in the stake held in Rohr S.A. Estruturas Tubulares (Rohr) from 25% to 27.47%, resulting from the repurchase by Rohr of 9% of its shares held as treasury stock and which will be cancelled or distributed proportionally to its shareholders.

b) Impairment

During the year the Company reviewed the recoverable amount of the investment made in Rohr through an appraisal report prepared by a specialized firm. The recoverable amount of this asset was determined based on economic projections for determination of the market value of Rohr through the income approach by means of discounted cash flow projections, for purposes of providing grounds the amount paid. The discount rate used to measure the recoverable amount was around 12% per annum. Management believes that any type of reasonably possible change in the key premises on which this recoverable amount is base would not take into account the carrying value of the investment exceeding its recoverable amount.

11. PROPERTY, PLANT AND EQUIPMENT (PP&E)

	Equipment for rental and operational use	Leasing	Equipment for rental in progress	Total rental equipment	Lease-hold improvements	Buildings and lands	Computers and peripherals	Vehicles	Installations	Furniture and fixtures	Construction in progress	Total PP&E for Co. use	Total PP&E
Gross cost of PP&E													
Balances at December 31, 2009	285,259	90,155	9,187	384,601	4,589	8,433	4,878	774	584	3,571	653	23,482	408,122
Acquisitions	162,956	4,147	147,707	314,810	2,340		1,974	472	505	1,102	4,817	11,210	328,773
Write-offs (derecognition)	(9,039)	(430)		(9,469)	(52)		(12)	(349)		(1)		(414)	(9,886)
Transfers	92,150	7,010	(99,199)	(39)	33							33	(6,139)
Balances at December 31, 2010	531,326	100,882	57,695	689,903	6,910	8,433	6,840	897	1,089	4,672	5,470	34,311	729,285
Accumulated depreciation													
Balances at December 31, 2009	(109,581)	(13,847)		(123,428)	(1,358)	(674)	(3,406)	(328)	(469)	(2,432)		(8,667)	(132,705)
Depreciation	(35,128)	(9,778)		(44,906)	(512)	(100)	(630)	(214)	(32)	(213)		(1,701)	(46,801)
Write-offs (derecognition)	5,286	65		5,351	52		2	251		1		306	5,949
Transfers	5			5									5
Balance at December 31, 2010	(139,418)	(23,560)		(162,978)	(1,818)	(774)	(4,034)	(291)	(501)	(2,644)	-	(10,062)	(173,768)
Annual depreciation rate - %	10	10			10	4	20	20	10	10			
Summary of net PP&E													
Balances at December 31, 2009	175,678	76,308	9,187	261,173	3,231	7,759	1,472	446	115	1,139	653	14,815	275,116
Balances at December 31, 2010	391,908	77,322	57,695	526,925	5,092	7,659	2,806	606	588	2,028	5,470	24,249	555,517
Gross cost of PP&E													
Balances at December 31, 2010	632,208		57,695	689,903	6,910	8,433	6,840	897	1,089	4,672		5,470	34,311
Acquisition of GP Sul for upstream merger	2,751		-	2,751	-	-	(0)	-	-	-	6	-	6
Acquisitions	234,580		180,814	415,394	3,043	2,616	1,700	269	108	1,467		6,126	15,339
Write-offs (derecognition)	(19,135)		-	(19,035)	-	-	(14)	(215)	-	-		-	(229)
Adjustment for Pis and Cofins credit	(29,519)		-	(29,519)	-	-	-	-	-	-		-	-
Transfers	181,006		(181,006)										
Balances at December 31, 2011	1,001,891		57,503	1,059,394	9,953	11,049	8,526	951	1,197	6,145		11,596	49,440
Accumulated depreciation													
Balances at December 31, 2010	(162,978)		-	(162,978)	(1,818)	(774)	(4,034)	(291)	(501)	(2,644)		-	(10,062)
Depreciation	(73,033)		-	(73,033)	(802)	(110)	(971)	(189)	(68)	-336		-	(2,408)
Write-offs (derecognition)	12,462		-	12,462	-	-	6	156	-	-		-	162
Balance at December 31, 2011	(223,549)		-	(223,549)	(2,620)	(884)	(4,999)	(324)	(569)	(2,980)		-	(12,308)
Annual depreciation rate - %	10				10	4	20	20	10	10			
Summary of net PP&E													
Balances at December 31, 2010	469,230		57,695	526,925	5,092	7,659	2,806	606	588	2,028		5,470	24,249
Balances at December 31, 2011	778,342		57,503	835,845	7,333	10,165	3,527	627	628	3,165		11,596	37,031

The 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.

Below we highlight the principal acquisitions in the year by grouping:

	<u>R\$</u>
Props	126,887
Platforms	113,026
Reusable concrete forms	71,717
Suspended scaffolding and access structures	55,522
Manipulators	43,903
Other equipment	<u>19,668</u>
Total acquisitions	<u>430,723</u>

As of December 31, 2011, depreciation for the period, allocated to the cost of production and services rendered and to general and administrative expenses, amounts to R\$ 73,033 and R\$ 2,476 (December 31, 2010 - R\$ 44,898 and R\$ 1,717), respectively.

Certain items of the Company's PP&E have been pledged in order to guarantee borrowing and financing operations (Note 13).

PP&E is recognized at historical cost, less accumulated depreciation. The historical cost includes the disbursements directly attributable to the acquisition of the items and also may include transfers from equity of any gains/losses on cash flow hedges classified as referring to the purchase of property, plant and equipment in foreign currency.

Review of estimated useful life

For purposes of this analysis, based on an appraisal conducted by technical specialists, the Company's Management issued an appraisal report dated December 29, 2011, approved at a meeting of the Executive Officers Committee. In 2010, Mills engaged a firm of independent appraisal experts who issued an appraisal report dated February 4, 2011. In drawing up their respective reports, the technical specialists and independent appraisers considered the Company's operational planning for the forthcoming years, internal precedents such as the level of maintenance and use of the items, external elements for comparison such as available technologies, manufacturers' recommendations and technical manuals, and also normal service lives of the assets. There has been no modification in the remaining estimated useful lives of the items of the Company's PP&E in the rental group in relation to that calculated in the February 2011 report and which are in line with the depreciation rates used by the Company. Therefore, there was no alteration in the depreciation rate for the year 2011.

Mills considers that there have been no events or changes in circumstances that would indicate that the carrying value of such assets may be impaired.

12. INTANGIBLE ASSETS

	<u>Software</u>	<u>Trademarks and patents</u>	<u>Goodwill on investments</u>	<u>Total</u>
Gross cost of intangible assets				
Balances at December 31, 2010	<u>6,075</u>	<u>63</u>	<u>42,317</u>	<u>48,455</u>
Goodwill - GP Sul	-	-	1,977	1,977
Acquisition	2,611	-	-	2,611
Write-off (derecognition)	(1)	-	-	(1)
Reclassification	<u>(315)</u>	<u>-</u>	<u>-</u>	<u>(315)</u>
Balances at December 31, 2011	<u>8,370</u>	<u>63</u>	<u>44,294</u>	<u>52,727</u>
Accumulated amortization				
Balances at December 31, 2010	<u>(2,318)</u>	<u>(10)</u>	<u>(4,232)</u>	<u>(6,560)</u>
Amortization	(679)	-	-	(679)
Write-offs (derecognition)	-	-	-	-
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balances at December 31, 2011	<u>(2,997)</u>	<u>(10)</u>	<u>(4,232)</u>	<u>(7,239)</u>
Annual amortization rates - %	20	10		
<u>Summary of net intangible assets</u>				
Balances at December 31, 2010	3,757	53	38,085	41,895
Balances at December 31, 2011	5,373	53	40,062	45,488

Provision for impairment of goodwill

The goodwill arises from the acquisition of Jahu in 2008 and the acquisition of GP Sul in 2011 (Note 1), with both being considered as business segments and cash generating units (CGU) where the entire goodwill is allocated.

The recoverable amount of the Jahu CGU was determined based on the actual cash flow for this segment in 2011, before income tax and social contribution, projected for a 10-year period, considering a discount rate around 12% p.a. and without considering any growth rate. Studies conducted by Management did not identify any need for recognition of a provision for impairment of this goodwill.

The recoverable amount of the GP Sul CGU was determined based on a report on market value issued by a specialized appraisal firm in August 2011.

During the year the Company reviewed the recoverable amount of the goodwill allocated to GP Sul through an appraisal report prepared by a specialized firm. The recoverable amount of this asset was determined based on economic projections for determination of the market value of GP Sul through the income approach by means of discounted cash flow projections, for purposes of providing grounds the amount paid. The discount rate used to measure the recoverable amount was around 12% per annum.

Management believes that any type of reasonably possible change in the key premises on which this recoverable amount is base would not take into account the carrying value of the investment exceeding its recoverable amount.

13. BORROWINGS, FINANCINGS AND FINANCE LEASING

Borrowings are contracted by Mills for purchase of equipment and are being indexed at the Certificate of Interbank Deposit (CDI) rate or at the Long-Term Interest Rate (TJLP).

The borrowings indexed to the CDI rate also bear additional interest charges of between 1.1% (one and one tenths per cent) and 4.5% (four and a half per cent) per year, with amortization of the principal and interest on a monthly basis.

The financings for rental equipment have been contracted at TJLP charges plus additional annual interest of 0.2% (two tenths of one per cent) to 7.0% (seven per cent), with amortization on a monthly basis through June of 2021.

Promissory Notes

On December 7, 2011 the Companhia issued a single series of 3 (three) commercial promissory notes with unit face value of R\$ 9,000, for a total amount of R\$ 27,000 falling due on December 1, 2012. Remuneration interest charges will fall due corresponding to 100% of the accumulated variation in the average daily Domestic Demand (DI) rates, plus 1.10% per annum. Remuneration will be fully paid upon the maturity date.

The Company's borrowings, financings and finance leases are broken down as follows:

	<u>2011</u>	<u>2010</u>
Current liabilities:		
Borrowings and financings	39,214	19,034
Finance lease obligations	<u>26,068</u>	<u>27,664</u>
	<u>65,282</u>	<u>46,698</u>
Noncurrent liabilities:		
Bank borrowings	45,019	40,645
Finance lease obligations	<u>26,091</u>	<u>45,280</u>
Total	<u>71,110</u>	<u>85,925</u>

Borrowings and financings

	<u>Current liabilities</u>	
	<u>2011</u>	<u>2010</u>
Financings from financial institutions:		
Indexed to the CDI rate plus annual interest of 1.1% to 4.5%	35,553	17,030
Indexed to the TJLP rate plus annual interest of 0.2% to 7.0%	<u>3,661</u>	<u>2,004</u>
	<u>39,214</u>	<u>19,034</u>
	<u>Noncurrent liabilities</u>	
	<u>2011</u>	<u>2010</u>
Financings from financial institutions		
Indexed to the CDI rate plus annual interest of 1.1% to 4.5%	26,545	24,878
Indexed to the TJLP rate plus annual interest of 0.2% to 7.0%	<u>18,474</u>	<u>15,767</u>
	<u>45,019</u>	<u>40,645</u>

The financial institutions with which the Company has borrowing and financing operations underway as at December 31, 2011 are as follows:

- Santander
- Banco do Brasil
- Banco Fibra
- Bradesco
- Itaú Unibanco

On May 27, 2011 the Company signed a borrowing agreement with the Nassau Branch of Banco Itaú BBA S.A in the total amount of US\$ 15.8 million (equivalent to R\$ 25.4 million). Settlement of the borrowing will be settled in a single installment on May 28, 2013 and payment of interest will be made semi-annually. In order to annul the risk of exchange variation on this borrowing, on the same date as the borrowing was contracted, a swap was contracted with the same bank in the amount of R\$ 25.4 million for all the obligations (principal and interest) to be fully converted into local currency and carried out on the same dates as the respective maturities.

The agreement includes the following financial covenants:

- (i) The financial ratio resulting from the quotient of the division of Net Indebtedness by the EBITDA has to be equal to or less than 3 (three) times; and
- (ii) The financial ratio resulting from the quotient of the division of EBITDA by the Net Financial Expenses has to be equal to or greater than 2 (two) times.

Accordingly, the financial instruments and respective charges are considered in the Company's balance sheet and income statement as a single financial instrument, thus reflecting in the most appropriate manner the amounts and indication of the future cash flows, as well as the risks to which such cash flows will be exposed.

The following is a breakdown of the contractual guarantees posted for the borrowings and financings outstanding:

	<u>2011</u>	<u>2010</u>
Guarantees posted		
Pledge of duplicate trade bills		1,416
Receivables	3,684	6,683
Pledge of assets	2,106	2,106
Chattel mortgages (*)	<u>121,302</u>	<u>121,696</u>
Total tangible guarantees	<u>127,092</u>	<u>131,901</u>
Promissory notes	91,751	96,891

(*) Refer to equipment acquired through the Machinery and Equipment Finance Program (FINAME) of the Brazilian Development Bank – BNDES and under lease agreements.

The promissory notes are enforceable guarantees and serve as additional guarantees in relation to the loans and financing operations contracted with the financial institutions.

The maturities of the non-current portions of the borrowing and financing operations are broken down as follows as of December 31, 2011:

2013	29,984
2014	3,394
2015	2,436
2016	2,116
2017	2,116
2018 to 2021	<u>4,973</u>
	<u>45,019</u>

Covenants

The financing agreement signed with Banco Itaú establishes limits for determined financial ratios linked to the Company's capacity to take on debt and pay interest charges, as follows:

- (1) The financial ratio resulting from the quotient of the division of Net Indebtedness by the EBITDA has to be equal to or less than 3 (three) times; and
- (2) The financial ratio resulting from the quotient of the division of EBITDA by the Net Financial Expenses has to be equal to or greater than 2 (two) times.

Upon the closing of the financial statements for the year ended December 31, 2011 Mills was in compliance with all such ratios.

Finance leases

These operations basically refer to agreements for purchase of PP&E for rental with terms of between 36 and 60 months, with maturities through the year 2015 and indexed to the CDI rate plus annual interest of 1.0% to 4.5%. These obligations are guaranteed by the pledge of the leased assets themselves. Mills is not presenting the cash flows of the undiscounted payment of the debt, since the payments are calculated on a floating rate basis as per fluctuation in the CDI.

	<u>2011</u>	<u>2010</u>
2011	-	27,664
2012	26,068	22,122
2013	18,490	16,227
2014	7,386	6,731
2015	<u>215</u>	<u>200</u>
Total minimum lease payments	52,159	72,944
Present value of total minimum lease payments	52,159	72,944
Less: short-term portion	(26,068)	<u>27,664</u>
Short-term portion	<u>26,091</u>	<u>45,280</u>

There are no significant differences between the present value of the 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 such term and conditions as the parties agree upon.

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

14. DEBENTURES

On April 8, 2011 approval was granted for issue by the Company of a total of 27 thousand simple non-stock-convertible debentures in the total amount of R\$ 270,000 and unit face value of R\$ 10.00 (ten Reais). These debentures were issued on April 18, 2011 and fall due on April 18, 2016, with remuneration equivalent to 112.5% of the CDI rate and semi-annual payments of interest and amortization in 3 (three) consecutive installments, with the first falling due on April 18, 2014. The transaction costs associated with this issue, in the amount of R\$ 2,358, are being recognized as Company funding expenses, in accordance with the contractual terms of the issue. As at December 31, 2011 the balance of the debentures, net of the transactions costs, is broken down to R\$ 6,598 under current liabilities and R\$ 270,000 under noncurrent liabilities (R\$ 6,126 and R\$ 268,428, net of transaction costs, respectively).

Covenants

The deeds for issue of the debentures call for maintenance of indebtedness ratios and interest cover with pre-set parameters, as follows:

- (1) The financial ratio resulting from the quotient of the division of Net Indebtedness by the EBITDA has to be equal to or less than 3 (three) times; and
- (2) The financial ratio resulting from the quotient of the division of EBITDA by the Net Financial Expenses has to be equal to or greater than 2 (two) times.

The Company was in compliance with all such ratios as at December 31, 2011.

15. RELATED PARTIES

a) Transactions and balances

There were no loans outstanding between Mills Estruturas e Serviços de Engenharia S.A. and any of its administrators during the year 2011.

As at December 31, 2011 the Company had agreements for performance of consulting services with certain members of its Board of Directors, generating expenses of R\$ 60 in the year (R\$ 295 in the year ended December 31, 2010).

b) Remuneration of Management

The amounts relating to remuneration of the members of the Company's Management are broken down as follows:

	<u>2011</u>	<u>2010</u>
Salaries and payroll charges – Executive Officers	4,481	3,981
Fees paid to Board Members	1,301	808
Profit sharing	524	1,859
Share-based payments	<u>1,122</u>	<u>354</u>
Total	<u>7,428</u>	<u>7,002</u>

16. EMPLOYEE BENEFITS

a) Employee profit and results sharing (PLR)

The provision for profit sharing by Mills employees and executives is set up under the accrual accounting method, being recognized as an expense for the period in question. Determination of the amount, which is paid in the year subsequent to the one in which the provision is set up, considers the program of targets established together with the employees union through a collective bargaining agreement, in accordance with both Law No. 10.101/00 and the Company's Bylaws.

The amount of the profit and results sharing distributed is 25% of the Economic Value Added – EVA, which is calculated based on the Company's operating profit minus or plus nonrecurring results, and less taxes and remuneration of capital invested. The metrics for this calculation are approved by Mills Management.

Recognition of such PLR is recognized over the course of the year and paid out in the following year. The amount recorded under current liabilities and income at December 31, 2011 is R\$ 7,917 (December 31, 2010 - R\$ 17,504).

b) Stock option plans

Mills has stock option plans approved by the General Meeting of Stockholders, in order to integrate its executives into the process of Company development over the medium- and long-term term. These plans are administered by the Company and approval of the options granted is sanctioned by the Board of Directors.

Description of the plans

- 2002 Plan

This plan was approved at the Extraordinary General Meeting (EGM) of the Stockholders held on August 1, 2002, having been granted on that same date and exercised on August 31, 2002. It consists of a mechanism for buying common shares of the Company's capital stock.

A total of 612,157 thousand shares of the then Mills Andaimes Tubulares do Brasil S.A (MAT) were acquired [MAT was the former Group holding company that was merged upstream by Mills Estruturas e Serviços de Engenharia S.A (ME) on January 30, 2009], equivalent as at December 31, 2009 to 3,920 shares of ME at the strike price of R\$ 2.2632 per thousand shares. The corresponding amount was fully paid up and the 3-year lock-up for performance of the service has already been fulfilled.

- Special Plans - Top Mills and Special CEO Plan

These special plans were approved by the Board of Directors on November 27, 2007 and ratified by the EGM held on May 28, 2008. In all, between January 1, 2008 and January 1, 2009 a total of 140,825 thousand options were granted to purchase shares of the former company MAT, corresponding as at December 31, 2009 to 901 thousand ME options.

These options were converted into shares at the price of R\$ 12.0294 per thousand, restated according to the Brazilian Comprehensive Consumer Price Index (IPCA) between January 2008 and the exercise date.

In return, the beneficiaries are obligated to perform services for the Company for a period of 3 (three) years after the date of the public offer.

The special plan known as Top Mills took effect on January 1, 2008 and is scheduled for extinction by July 10, 2015 or at any other time by decision of the EGM.

The Special CEO plan took effect on November 1, 2008 and is scheduled to be extinguished by July 10, 2012 or at any other time by decision of the EGM.

- Ex-CEO Plan

Under this plan, a total of 24,000 thousand options of the former MAT were granted on May 1, 2008, corresponding as at December 31, 2009 to 154 thousand ME options. This plan is equal to the special Top Mills and CEO plans described earlier, including as regards the exercise price, except for the fact that there is no lock-up period. The plan has already been exercised and was capitalized on March 12, 2010, corresponding to 154 thousand shares.

- Mills Rental Executives Plan

This plan was granted on December 29, 2008 and also involved options for purchase of shares of capital stock of the former MAT, but this time for the principal executives of the Rental Division, which began its activities in January 2008. Exercise of the options is conditioned to attaining the division's EBITDA targets.

In the first stage of the plan, options were distributed equivalent to US\$ 387 thousand (three hundred and eighty-seven thousand United States Dollars), conditioned to the division reaching EBITDA of R\$ 11 million. In the second stage, options were distributed equivalent to US\$ 1,162 thousand (one million, one hundred and sixty-two thousand United States Dollars), conditioned to the division reaching EBITDA of R\$ 22 million. The number of shares corresponding to these amounts was obtained by converting the above amounts to Reais at the year-end closing rate where the target was reached and dividing the amount in Reais by the amount per share corresponding to valuation of Mills at 6.6 times the EBITDA, less the net debt for the same year in which the target was reached. A small amount is added to make the gross-up calculation corresponding to withholding income tax (IRRF) at the rate of 15%.

The exercise price of these options is R\$ 3.95 per thousand, updated by the IPCA from January 2007 through the exercise date. When the plan was granted, it was projected that the first target would be reached on December 31, 2008 and the second on December 31, 2009, resulting in the granting of 137,031 thousand options for the former MAT, corresponding at December 31, 2009 to 438 thousand options for ME stock. The first target was in fact reached on December 31, 2008, having resulted in the issue and purchase of 199,853 ME shares, through increase in the capital stock as approved at the EGM held on October 1, 2009, in the amount of R\$ 134 thousand. The second target was also achieved and the options were exercised.

The special Mills Rental Division Executives Plan took effect on January 1, 2008 and will be extinguished on December 31, 2013 or at any other time by decision of the EGM.

- 2010 Stock Purchase Option Plan

At the EGM held on February 8, 2010 Stockholders approved the Option Plan for purchase of shares issued by the Company. Beneficiaries of this new plan may be administrators and other employees holding positions of responsibility at the Company or at companies under the latter's control. This plan is administered by the Board of Directors, which may impose terms and/or conditions for exercise of the option, as well as restrictions on the transfer of shares acquired through exercise of the options. The options for purchases of shares granted under the new plan may grant rights for acquisition of up to 5% (five per cent) of the Company's capital stock. Furthermore, the plan involves a goal for purchase of shares in an amount that does not exceed each year 1% (one per cent) of the shares of the capital stock as at the plan approval date.

The price of the common shares to be acquired by the beneficiaries as a result of exercising the options is to be set by the Board of Directors based on the average quotation at the São Paulo Stock Exchange (BM&F BOVESPA), weighted by trading for the month or in the two months prior to the grant, restated for inflation according to the IPCA, less dividends and interest on capital per share paid by Mills as from the grant date. Exceptionally, upon the first grant, the exercise price for the options may be based on the issue value of the shares under the offer, restated by the IPCA, less dividends and interest on capital per share paid as from the grant date. The options granted under the terms of this plan are subject to a grace period of up to 72 (seventy-two) months for conversion of the options into shares. A total of 1,432 thousand stock options were granted on May 31, 2010.

The purchase options remain in effect for a period of 6 (six) full years, counting from the contract date of May 31, 2010, that is to say, through May 31, 2016.

On July 5, 2010 the second grant of stock options took place with an exercise price as per the first public distribution of shares, that is R\$ 11.50, restated according to the IPCA as from that date through the purchase option exercise date, less dividends and interest on paid by Mills as from the grant date. The second grant stock options of this plan are subject to a grace period of up to 72 (seventy-two) months for conversion into shares. A total of 43 thousand stock options were granted.

The purchase options remain in effect for a period of 6 (six) full years counting from July 5, 2010, that is to say through July 5, 2016.

- 2011 Stock Purchase Option Plan

At the EGM held on March 25, 2011 Stockholders approved the Option Plan for purchase of shares issued by the Company in 2011. Beneficiaries of this new plan may be administrators and other employees holding positions of responsibility at the Company or at companies under the latter's control. This plan is administered by the Mills Board of Directors, which may impose terms and/or conditions for exercise of the option, as well as restrictions on the transfer of shares acquired through exercise of the options. The options for purchases of shares granted under the new plan may grant rights for acquisition of up to 5% (five per cent) of the Company's capital stock. Furthermore, the plan involves a goal for purchase of shares in an amount that does not exceed each year 1% (one per cent) of the shares of the capital stock as of the plan approval date.

The price of the common shares to be acquired by the beneficiary as a result of the exercise of the options, as set by the Board of Directors upon institution of the program, is equal to the average price of the shares purchased according to the brokerage note, monetarily restated according to the IPCA as from the signing date of the option contract through to the date the option is exercised, less the amount of the dividends and interest on capital invested per share paid by the Company as from the grant date.

The options granted on the terms of this plan will be subject to a Grace period of up to 72 (seventy-two) months for conversion of the options into shares. A total of 1,184 thousand stock options were granted on April 16, 2011.

The purchase options will remain in effect for a period of 6 (six) full years counting from the contract signing date of April 16, 2011.

- Pricing and recognition of the plans

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

In relation to the 2002 Plan, as this involves a simple mechanism for purchase of common shares, the already exercised options are fully considered as equity instruments and recognized in the capital reserve account under stockholders' equity.

For the other plans granted through 2009 Mills classified them as compound instruments since they include a component of debt (right/possibility of receiving payment in cash upon non-occurrence of the public offer) and a component of capital (right/possibility of receiving payment in the form of an equity instrument should the public offer take place), in which the choice of settlement is beyond the control of both the Company and the beneficiary. For pricing of the fair value of the debt portion, consideration was given to how much the Company would disburse at present value according to the EBITDA multiple described above, weighted by the probability of the occurrence of the stock IPO, with the resulting value being recognized under long-term liabilities. In fact the IPO took place on April 14, 2010, such that there is no debt portion as from that date.

The plans granted as from the year 2010 have been classified as equity instruments. The weighted average fair values of the options granted during the year 2010 were determined based on the Black-Scholes appraisal model, in the amount of R\$ 3.86 (1st grant) and R\$ 5.49 (2nd grant) per option. The significant data included in the model was as follows: weighted average price per share of R\$ 11.95 (1st grant) and R\$ 14.10 (2nd grant) on the grant date, exercise price of R\$ 11.50 (1st and 2nd grants), volatility of 31% measured by the Company's historical EBTIDA, dividend yields of 1.52% (1st grant) and 1.28% (2nd grant), expected life of the option corresponding to 4 (four) years and annual risk-free interest rates of 6.60% and 6.37%, respectively.

The weighted average fair values of the options granted in 2011 have been determined based on the Black-Scholes appraisal model, in the amount of R\$ 6.57 per option. The significant data included in the model is as follows: weighted average price per share of R\$ 21.08 on the grant date, exercise price of R\$ 19.28, volatility of 35.79% measured by historical behavior of the Company's share price, dividend yield of 1.73%, expected life of the option corresponding to 4 (four) years and annual risk-free interest rates of 6.53%.

The equity portion is priced only upon the grant and has not undergone any fair value re-measurements as at each reporting sheet date. The equity and debt portions are appropriated on a plan-to-plan basis, considering their respective lock-up periods (i.e. the terms on which the shares are blocked for trading), based on Management's best estimate regarding the final date thereof.

The table below shows the accumulated balances of the plans in each year in the equity accounts and the effects on income for the years:

	<u>2011</u>	<u>2010</u>
<u>2002 Plan</u>		
Capital reserve	1,446	1,446
Number of shares (thousands)	3,920	3,920
<u>Top Mills, Special CEO and Ex-CEO Plans</u>		
Capital reserve	1,021	766
Number of options to be exercised (thousands)	143	190
Number of shares (thousands)	912	865
<u>Mills Rental Executives Plan</u>		
Capital reserve	3,959	3,865
Number of options to be exercised (thousands)	-	65
Number of shares (thousands)	391	372
<u>2010 Plan</u>		
Capital reserve	2,236	821
Number of options to be exercised (thousands)	1,281	1,475
Number of shares (thousands)	194	
<u>2011 Plan</u>		
Capital reserve	1,360	-
Number of options to be exercised (thousands)	1,184	-
Total recognized as equity (accumulated)	10,022	6,898
Annual effect on income	(3,124)	(586)

17. INCOME TAX AND SOCIAL CONTRIBUTION

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

Reconciliation between the Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) at the combined statutory and effective rates for the two years in question is broken down as follows:

	<u>2011</u>	<u>2010</u>
Income before IRPJ and CSLL	130,127	141,830
Statutory combined rate of IRPJ and CSLL	<u>34%</u>	<u>34%</u>
IRPJ and CSLL at combined statutory rate	(44,243)	(48,222)
Non-deductible provisions*– permanent differences	(1,771)	(817)
Declared interest on capital invested	8,296	8,636
Other items	<u>(232)</u>	<u>1,856</u>
Total current and deferred IRPJ and CSLL	(37,950)	(38,547)
Effective rate	29%	27%
Current portion	(35,865)	(36,565)
Deferred portion	(2,085)	(1,982)

* The non-deductible provisions are comprised of expenses on stock options, gifts and debt forgiveness.

b) IRPJ and CSLL recognized in other comprehensive income

The deferred IRPJ and CSLL recognized in other comprehensive income is a result of the provision for gains/losses on cash flow hedge instruments transferred to the opening balances of the hedged items. The total IRPJ and CSLL recognized in other comprehensive income in December 2011 is R\$ 1,083.

c) Breakdown of deferred IRPJ and CSLL is as follows:

<u>Nature</u>	<u>2011</u>	<u>2010</u>
Itapoã goodwill (*)	2,202	3,849
Jahu goodwill (*)	(8,633)	(5,755)
GP Sul goodwill (*)	(56)	-
Present value adjustment	160	212
Provision for impairment losses on trade receivables	4,370	1,241
Finance leases	3,351	3,424
Provisions for tax, civil and labor risks and profit sharing	5,457	4,319
Revenue from updating of deposits in court	(762)	(756)
Swap derivatives	(1,083)	1,523
Funding cost of debentures	(695)	-
Other provisions	<u>577</u>	<u>-</u>
Total deferred IRPJ and CSLL assets and liabilities	<u>4,888</u>	<u>8,057</u>

(*) The IRPJ and CSLL tax credits and charges are comprised of the benefits of corporate reorganization operations, involving the upstream mergers of Itapoã, Jahu and GP Sul, relating to the temporary difference for non-amortization of the goodwill generated upon acquisition. As at December 31, 2011 the balance of deferred IRPJ and CSLL relating to the goodwill generated upon acquisitions of Jahu and GP Sul is shown under liabilities, since Management reappraised the realization thereof and concluded that this will take place in different periods than the amounts of the assets.

The grounds and expectations for realization of the deferred IRPJ and CSLL are set out below:

<u>Nature</u>	<u>Grounds for realization</u>
Provision for tax, civil and labor risks	Fiscal realization of loss
Provision for losses due to impairment of trade receivables	Filing of suits and overdue credits
Finance leases	Realization of straight-line depreciation of the assets over the respective terms
Present value adjustment	Fiscal realization of loss/gain
Other provisions	Payments
Itapoã goodwill	Fiscal amortization
Jahu/GP Sul goodwill	Sale/impairment of assets
Updating of deposits in court	Release of deposits made
Debentures	Amortization of funding cost
Derivatives	Depreciation

- d) The changes in the deferred IRPJ and CSLL during the year, without taking into consideration the offset of the balances, have been as follows:

	<u>Itapoã goodwill</u>	<u>Present value adjustment</u>	<u>Other provisions</u>	<u>Impairment of trade receivables</u>	<u>Finance leases</u>	<u>Provisions for tax, civil and labor risks</u>	<u>Swap derivatives</u>	<u>GP Sul goodwill</u>	<u>Jahu goodwill</u>	<u>Updating of deposits in court</u>	<u>Debentures</u>
Balances at 12/31/10	3,849	212		1,241	3,424	4,319	1,523	-	(5,755)	(756)	
Additions	-	-	577	3,129	-	1,138	-	(56)	(2,878)	-	(695)
Write-offs	(1,647)	(52)	-	-	(73)	-	(2,606)	-	-	(6)	-
Balances at 12/31/11	<u>2,202</u>	<u>160</u>	<u>577</u>	<u>4,370</u>	<u>3,351</u>	<u>5,457</u>	<u>(1,083)</u>	<u>(56)</u>	<u>(8,633)</u>	<u>(762)</u>	<u>(695)</u>

The following are expectations for realization of the deferred income tax and social contribution as at December 31, 2011:

	<u>Deferred IRPJ/CSLL assets</u>	<u>Deferred IRPJ/CSLL liabilities</u>
2012	4,169	(377)
2013	3,236	(377)
2014	2,327	(377)
2015	2,327	(376)
2016	2,338	(276)
2017 onwards	<u>1,720</u>	<u>(9,446)</u>
Total	<u>16,117</u>	<u>(11,229)</u>

Transition Taxation System

The Transition Taxation System (RTT) will remain in effect until such time as laws take effect in Brazil to govern the tax effects of the new accounting practices introduced, with a view to tax neutrality.

The Company elected to adopt the RTT in 2008. As a consequence, for purposes of calculating income tax and social contribution on net income for the years ended December 31, 2009 and 2008 the Company used the prerogatives defined in the RTT, which in 2010 became mandatory.

18. PROVISIONS FOR TAX, CIVIL AND LABOR RISKS AND DEPOSITS IN COURT

a) Breakdown of the provisions for tax, civil and labor risks

The Company has recorded the following liabilities related to provisions as at the respective reporting dates:

		<u>2011</u>	<u>2010</u>
National Social Security Institute - INSS	(i)	233	209
Labor lawsuits	(ii)	1,396	1,672
IRPJ/CSLL- Jahu	(iii)	5,289	4,975
Civil liability claims	(iv)	440	430
Municipal service tax (ISS) on Jahu rentals	(v)	187	-
Accident prevention factor - FAP	(vi)	2,582	2,112
SAT rate differential	(vii)	713	561
IRPJ taxes and Cofins/Pis contributions	(viii)	898	263
Other taxes and contributions provided for		<u>1,096</u>	<u>917</u>
		<u>12,834</u>	<u>11,139</u>

i) Changes in the provisions for tax, civil and labor risks

	Changes in contingencies									
	<u>INSS</u>	<u>Labor lawsuits</u>	<u>IRPJ/CSLL Jahu</u>	<u>ISS on Jahu rentals</u>	<u>Civil liability claims</u>	<u>FAP</u>	<u>SAT</u>	<u>IRPJ/Pis/Cofins</u>	<u>Other</u>	<u>Total</u>
Dec. 31, 2010	209	1,672	4,975	-	430	2,112	561	263	917	11,139
Additions	-	251	-	187	306	233	131	606	244	1,958
Monetary updating	24	-	314	-	-	237	53	59	8	695
Portion used	-	(527)	-	-	(296)	-	(32)	(30)	(73)	(958)
Dec. 31, 2011	<u>233</u>	<u>1,396</u>	<u>5,289</u>	<u>187</u>	<u>440</u>	<u>2,582</u>	<u>713</u>	<u>898</u>	<u>1,096</u>	<u>12,834</u>

b) Breakdown of deposits in court

		<u>2011</u>	<u>2010</u>
National Social Security Institute - INSS	(i)	674	674
Labor lawsuits	(ii)	1,413	1,109
ISS on Jahu rentals	(v)	4,429	4,429
Other taxes and contributions in dispute		<u>1,150</u>	<u>1,116</u>
		<u>7,666</u>	<u>7,328</u>

c) Nature of the provisions for tax, civil and labor risks

The Company is party to lawsuits and administrative cases involving issues of a tax, civil and labor nature that were filed in the normal course of business. It is defending its interests both at the administrative and court levels. When applicable, these cases are covered by deposits in court.

Based on the opinion of its legal counsel, Management believes that the appropriate legal measures and steps already taken in each situation are sufficient to cover any losses and preserve the Company's assets and equity. Such measures and steps are periodically reappraised.

The main provisions for tax, civil and labor risks can be summarized as follows:

(i) National Social Security Institute – INSS

In 2001 and 2005 the Company was served assessment notices (NFLD's) for Social Security contributions (INSS) allegedly unpaid. Based on the position of its external legal counsel, Management has maintained a provision for these assessments in the amount of R\$ 233 as at December 31, 2011 (December 31, 2010 - R\$209).

Furthermore, given the change in the forecast for the outcome of these cases caused by a ruling at the first appeal level published on November 30, 2009, in relation to a discussion involving arbitration of part of NFLD No. 35.102.800-5, which covered a debt owed by way of additional contribution to the Working Accident Insurance (SAT) intended to finance special retirement, Mills decided to include this debt in the special installment payment plan under Law No. 11.941/2009.

(ii) Labor lawsuits

The Company has been defending its interests in various labor lawsuits. Its chances of success are considered favorable in most of these cases and, based on the position of external legal counsel, a provision is maintained only for those cases ranked as probable losses.

(iii) Jahu IRPJ/CSLL

Before it was merged upstream by Mills, Jahu was served notice for depreciating its assets in 5 (five) years and also for non-deductibility of expenses incurred on service providers, as well as IRRF on amounts paid to the latter. Jahu had a technical report that supported such 5-year depreciation and, based on this, the attorneys handling this portion of the assessment case ranked the chances of loss as remote. The other amounts included in the assessment notice, in the updated amount of R\$ 5,289 as at December 31, 2011 (R\$ 4,975 as at December 31, 2010) have been provided for, since chances of loss are ranked as probable.

(iv) Civil liability claims

The Company is party to certain suits filed against it relating to civil liability and indemnity issues. Based on the opinion of its external legal counsel, Management set up a provision in the amount of R\$ 440 as at December 31, 2011 (R\$430 as at December 31, 2010) for losses ranked as probable.

(v) ISS on rentals

In October 2001 the Company filed suit in the various cities where it operates, with a view to recovering municipal service taxes (ISS) paid over since 1991 on the rental of its chattel goods. The suits are still underway, awaiting court decisions. After the enactment of Complementary Law No. 116/2003 in August, 2003, Mills interrupted payment of the ISS on such rentals, although it continued treating the assignment of its tubular scaffolding and other structures for temporary use as taxable for ISS purposes.

By the same token, Jahu filed suits questioning the levying of ISS on rentals of its chattel and made the respective deposits in court, even after enactment of Law No. 116/2003. The Company set up a provision for loss in the amount of R\$187, since the chances of loss were considered probable in the City of Niterói (RJ). For the other cities, no provisions have been set up in relation to such deposits, given that chances of success in these cases are ranked as possible.

(vi) FAP – Accident prevention factor

After disclosure by the federal government of the FAP index, which is the multiplier of the contribution to finance benefits granted due to the degree of incidence of working disability resulting from work environmental risks (RAT) applicable to 2010, the Company filed an administrative challenge and appeal questioning the criteria used for determination thereof. Mills filed for a writ of mandamus to suspend the requirement for that portion of the RAT hike based on the FAB due to the administrative appeal, with the Company electing to make a deposit in court for the January 2010 accrual period in the amount of R\$ 168, in that the order was only granted in March of 2010.

In relation to the FAP disclosed for 2011, the Company did not file an administrative challenge, but rather a suit for writ of mandamus, questioning the legality and constitutionality of hiking the RAT based on the FAP. The writ was granted to overturn application of the FAP, but the government has managed to successfully appeal for now the effects of the writ, an appeal now awaiting judgment.

The unpaid amounts through December 31, 2011 correspond to R\$ 2,582 (R\$ 2,112 as at December 31, 2010).

(vii) SAT – Rate differential

The Company filed a common suit aimed at suspending the requirement to pay over INSS contributions and obtaining early relief in this respect, as well as to ensure it the right to pay over the Working Accident Insurance (SAT) based on the incidence of labor disability resulting from working environment risks at its administrative head offices (Mills Barra) and authorizing offset of overpaid amounts.

Mills pays over SAT at the rate of 1% (light risk) and makes deposit in court to recognize a provision for the contingency of the 2% rate differential.

The amounts provided in 2011 total R\$ 713 (December 31, 2010 – R\$ 561).

(viii) IRPJ/Cofins/Pis

These debts refer to administrative collection proceedings relating to the accrual period from January to April of 2004 with respect to Cofins and the year 1985 in relation to IRPJ and Pis.

The Company has recorded a provision for loss in the amount of R\$ 898 as at December 31, 2011 (R\$ 263 as at December 31, 2010), in view of the fact that the likelihood of success has been ranked as remote by external legal counsel.

d) Contingent assets

The Company has not recorded any contingent assets.

e) Causes considered as possible losses

Mills is party to suits of a tax, civil and labor nature involving risks that Management has ranked as possible losses, based on appraisals conducted by its external legal counsel, for which no provisions have been set up, as per the following breakdown and estimate:

Cases ranked as possible losses		<u>2011</u>	<u>2010</u>
Tax	(i)	13,743	11,501
Labor	(ii)	9,004	12,649
Civil	(iii)	2,349	772
Other cases	(iv)	<u>5,000</u>	<u>-</u>
		<u>30,096</u>	<u>24,922</u>

e.1) Nature of the cases ranked as possible losses

(i) Principal tax cases

(i.1) Jahu IRPJ/CSLL

Before it was merged upstream by Mills, Jahu was served notice for depreciating its assets at the rate of 1/60, based on a technical report. At the lower court level, the procedure was considered adequate, though nevertheless the case is still pending a decision at the appeal level. The updated amounts involved in this assessment notice, set at R\$ 3,965 as at December, 2011 (R\$ 3,938 as at December 31, 2010) have not been provided for, since chances of loss are ranked as possible.

(i.2) IRPJ owed by Mills Indústria e Comércio Ltda.

This case involves tax foreclosure proceedings relating to back taxes of the company Mills merged upstream previously named Mills Indústria e Comércio Ltda. The assessment notices in questions referred to the corporate income tax (IRPJ) and social contribution (CSLL) for fiscal years 1991 and 1992 and basically question the latter company's alleged omission of service revenues, the purported incorrect use of monetary restatement expenses, failure to add back to taxable income monetary restatement of revaluation reserve and alleged postponement of income tax for fiscal year 1992. The assessment notices were challenged and the Federal Revenue Judgment Bureau (DRJ) handed down an administrative decision revised the assessment, only upholding the alleged postponement of tax payments. Nonetheless, after termination of the administration proceedings and formal legalization of the collection proceedings, the DRJ's decision was not heeded by the higher-level tax authorities. Accordingly, Mills is challenging all of the assessments in court. The amounts involved in the tax foreclosure proceedings, updated to December 31, 2011, amount to R\$ 2,127 (December 31, 2010 - R\$ 2,087). Even though the amounts are not provided for, given that chances of loss are only ranked as possible, assets have been pledged to guarantee the amounts at stake should the court accept the government's foreclosure case.

(i.3) CSLL owed by Mills Formas (currently Mills Engenharia)

The former Mills Formas (currently Mills Engenharia) had expenses disallowed for contracts signed with several clients for services to be carried out by employees of Mills do Brasil (a Mills Group company merged upstream in 2007). The tax authorities believed that, since the services were performed by Mills do Brasil rather than by Mills Formas, the expenses relating to them should not be considered deductible for calculating taxable results for CSLL purposes at Mills Formas. The amounts comprising such foreclosure, updated through December 31, 2011, add up to R\$ 1,848 (December 31, 2010 – R\$ 1,832). Even though the amounts have not been provided has been submitted to guarantee the foreclosure in court.

(i.4) State Value-Added Tax on Circulation of Goods and Services (ICMS)

This set of cases involves tax foreclosures claiming alleged tax credits resulting from failure to pay over ICMS on rate differentials in the states of Bahia, Rio de Janeiro and São Paulo. It is likewise claimed by the state tax authorities that transfers of PP&E between Company branches are likewise subject to ICMS. The amounts of such foreclosures, updated to December 31, 2011, total R\$ 2,482 (December 31, 2010 – R\$ 412). The change came about due to the impossibility of estimating the value of some of the cases in 2010.

(i.5) Municipal Service Tax (ISS)

In administrative proceedings, the tax authorities of the City of Rio de Janeiro claimed that payment of the taxes owed by Mills was not being made pursuant to the monthly accrual principle. Updated to December 31, 2011, the amounts comprising such proceedings total R\$ 1,524 (December 31, 2010 – R\$ 1,388).

(i.6) Other amounts

The Company is defendant in other tax foreclosure cases relating to IPRJ, PIS, INSS and ISS, where chances of success are ranked as possible. For the year ended December 31, 2011 such tax foreclosures amounted to R\$ 1,797 (December 31, 2010 – R\$ 1,844).

(ii) Labor cases

Mills is further defending its interests in a series of labor cases. Chances of success are ranked as favorable for the Company and its subsidiaries in most of these cases and, based on the external legal counsel, the amounts involved in the cases ranked as possible successes, updated to December 31, 2011, add up to R\$ 9,004 (December 31, 2010 – R\$ 12,649).

(iii) Civil cases

The Company is also party to certain filed against it relating to civil liability and indemnity issues, where chances of success for Mills are ranked as possible. As at December 31, 2011, the amount of these cases was R\$ 2,349 (December 31, 2010 - R\$ 772).

(iv) Other cases

There is a police inquiry underway to investigate the crime of involuntary manslaughter involving a vehicle that resulted in the death of a Mills employee who was in a taxi driven by a party that provides services to the Company. Our legal consultant considers that the chance of the driver being prosecuted on criminal charges and being convicted of a crime are possible. If this happens, according to the consultant, this will have an impact on the labor lawsuit filed by the widow of the victim in the amount of R\$ 5,000.

19. TAX REFINANCING PROGRAM (REFIS)

In November of 2009 the Company signed on to the Special Installment Program (PAES) instituted by Federal Law No. 11.941/2009 and Provisory Measure No. 470/2009, with a view to equalizing and straightening out its tax liabilities through a special system for paying tax and social security obligations through a special installment plan.

The general terms for such installments can be summarized as follows:

- a) The installment period is 180 months.
- b) Reduction of 60% of the amounts relating to standard and late payment fines and 25% reduction of late payment interest.
- c) The following taxes and contributions were spread out into installment payments:
 - (i) PIS and COFINS (for the periods from April 2002 to May of 2004);
 - (ii) IRPJ (December 2003, January 2004 and April of 2004);
 - (iii) CSLL (November 2003, January 2004 and April 2004); and
 - (iv) INSS – Additional contribution to the SAT;

The amounts relating to the PIS/COFINS, IRPJ and CSLL had been offset with PIS and COFINS on rentals (from September 1993 to January 1999), referring to the leasing and assembly of the Company's own assets rented out to customers. The origin of these credits was based on a Federal Supreme Court (STF) decision that did not consider the rental of chattel goods as performance of services.

In light of the new jurisprudential orientation, as confirmed at the Superior Court of Justice (1st Section of the STJ – judgment of September 2009 on Special Appeal No. 929.521), which settled the understanding of the Brazilian court system regarding the incidence of COFINS on revenues accrued from operations involving the rental of chattel goods, the Company decided to sign on to the new Tax Refinancing Program (REFIS) in relation to the debts set out above.

Consolidation of all such debts occurred on June 29, 2011, pursuant to Joint Administrative Ruling issued by the PGFN/RFB No. 2/2011.

As a result of signing on to the REFIS program, Mills has undertaken to pay the installments without delays of more than three months, and has been making payments of the REFIS installments on the debt consolidated in June 2011.

- d) Upon making the preliminary step of consolidating the debts under the installment plan as of June 30, 2010, the Company decided to include an INSS debt in view of the change in the outlook of success of its suit from probable to remote, according to the viewpoint of its external legal counsel.

- e) Further during the preliminary stage of consolidating the debts under the installment plan, debts relating to PIS and COFINS were excluded, as they were considered no longer due owing to the statute of limitations.

	REFIS amounts	Changes	2010	Changes in 2011		2011
				Write-offs	Updates – SELIC rate	
PIS	1,923	(198)	1,725	(81)	212	1,856
COFINS	7,681	(1,880)	5,801	(765)	652	5,688
IRPJ	1,958	191	2,149	(104)	263	2,308
CSLL	232	23	255	(129)	26	152
INSS		828	828	(37)	77	868
	11,794	(1,036)	<u>10,758</u>	(1,116)	1,230	<u>10,872</u>
Current			717			353
Noncurrent			<u>10,041</u>			<u>10,519</u>

20. STOCKHOLDERS' EQUITY

a) Subscribed capital

The Company's fully subscribed and paid-in capital stock as at December 31, 2011 is represented by the amount of R\$ 527,587 (December 31, 2010 - R\$ 525,123), divided 125,657 thousand (one hundred and twenty-five million, six hundred and fifty-seven thousand) common registered shares without par value (December 31, 2010 –125,495 thousand). Each common share corresponds to the right to one vote in decisions made by the stockholders.

As permitted under the Mills Bylaws, the Board of Directors may increase the capital stock up to the limit of 200,000 thousand (two hundred million) shares.

a.1) Issue of shares

At meetings of the Company's Board of Directors meetings held July 27 and October 24, 2011, approval was granted to issue of 128,287 and 65,642 shares, for total capital increases in the amount of R\$ 1,549 and R\$ 790, respectively, based on exercise by beneficiaries of the stock purchase options granted under the 2010 Stock Purchase Option Plan. The shares issued were fully subscribed and paid in by the respective beneficiaries.

At another Board meeting held September 23, 2011, approval was granted to issue of 66,626 shares, for a total capital increase in the amount of R\$ 125, based on exercise by beneficiaries of the stock purchase options granted under the special plans known as Top Mills and Mills Rental Executives.

a.2) Treasury stock

Mills repurchased 99,140 shares of preferred stock that it issued, acquired from a stockholder that exercised its withdrawal rights, for cancellation. The total amount paid upon acquisition of such shares, net of income tax and social contribution, was R\$ 535, having been deducted from the capital reserve under stockholders' equity. On September 23, 2011 approval was granted by the Board to a motion to cancel all the shares, as per sub-item (o) of the Mills Bylaws.

By virtue of such events, the Company's capital stock became \$ 527,587), divided into 125,657 thousand (one hundred and twenty-five million, six hundred and fifty-seven thousand) common register shares without par value.

The following chart breaks down the Company's ownership structure as at the reporting dates:

Stockholders	2011		2010	
	Quantity of shares (thousands)	Percentage	Quantity of shares (thousands)	Percentage
Nacht Participações S.A. (*)	27,422	21.82%	48,983	39.03%
Jeroboam Investments LLC (*)	19,233	15.31%	-	-
Capital Group International Inc.	7,032	5.60%	7,032	5.60%
FMR LLC	6,587	5.24%	6,587	5.25%
Other stockholders	<u>65,383</u>	<u>52.03%</u>	<u>62,893</u>	<u>50.12%</u>
	<u>125,657</u>	<u>100.00%</u>	<u>125,495</u>	<u>100.00%</u>

(*) The Company's principal stockholder, Nacht Participações S.A. (Nacht) reduced its share of the Company's capital at the EGM held on February 17, 2011. After capitalization of a portion of the retained earnings and the legal reserve, there was a reduction in Nacht's equity interest in the Company. As a consequence of the reduction in its equity interest, Nacht's share of the total and voting capital in Mills was reduced by 17.2%, from 39.03% to 21.83%, while stockholders Jeroboam Investments LLC (Jeroboam), Andres Cristian Nacht (Cristian Nacht) and Jytte Kjellerup Nacht began holding direct equity interests of 15.33%, 1.4% and 0.5% in Mills, respectively.

b) Earnings reserves

b.1) Legal reserve

The legal reserve is set up each year by appropriating 5% (five per cent) of the net income for the year, until such time as it reaches 20% (twenty per cent) of the capital stock. The purpose of the legal reserve is to ensure the integrity of the capital and it may only be used to offset losses and increase capital.

b.2) Expansion reserve

The purpose of the expansion reserve is to assure funds to finance additional investments of fixed and working capital and to expand corporate activities. As per the Company's Bylaws, the maximum limit of the expansion reserve is 80% (eight per cent) of the total amount of the subscribed capital stock.

b.3) Special reserve

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

c) Other reserves

c.1) Capital reserve

The capital reserve contains the transaction costs incurred in funding for the Company's capital, in the amount of R\$ 15,068 net of taxes, relating to the distribution of shares under the IPO and reserve for stock options in the amount of R\$ 10,022 relating to the stock option plans for Mills employees and the cost of the shares of treasury stock cancelled in the amount of R\$ 535, for a total capital reserve of R\$ 5,581 as at December 31, 2011 (R\$ 6,989 as at December 31, 2010).

c.2) Earnings retention reserve

This reserves refers to the remaining balance of retained earnings, in order to fund the business growth project established in the Company's investment plan, as per the capital budget proposed by Management and to be decided upon by the General Meeting of Stockholders, pursuant to Article 196 of the Brazilian Corporation Law.

c.3) Equity appraisal adjustment- cash flow hedge

The cash flow hedge contains the effective part of the cash flow hedges through the reporting date, in the amount of R\$ 2,102, net of taxes. Until June of 2010 the gains or losses on such operations were recognized under income, as the Company had not yet prepared the documentation required for hedge accounting purposes.

For the year ended December 31, 2011, the Company posted income for the year in the amount of R\$ 92,177. As proposed by Management, subject to the approval of the Annual General Meeting (AGO) of stockholders, the balance of the income for the year, added to realization of the special goodwill reserve in the amount of R\$ 1,520, is to be appropriated as follows: (i) setting up of the legal reserve in the amount of R\$ 4,609; (ii) retention of earnings in the amount of R\$ 63,741; and (iii) mandatory minimum annual dividend of R\$ 25,347, to which interest on capital invested, as declared in the year 2011, in the amount of R\$ 20,946, will be imputed, net of withholding income tax (IRRF) in the amount of R\$ 3,454.

21. PROPOSED DIVIDENDS AND INTEREST ON CAPITAL INVESTED

Under the Company's Bylaws, stockholders are guaranteed a mandatory minimum annual dividend corresponding to 25% (twenty-five percent) of the net income for the year, calculated in the manner provided by the Brazilian Corporation Law. Mills may carry out other distributions as profits and reserves become available. All these distributions may be carried out in the form of dividends or interest on capital invested, less income tax.

As part of the mandatory minimum annual dividend, on September 28 and December 21, 2011, the Company credited to its stockholders interest on capital invested in the respective amounts of R\$ 22,000 and R\$ 2,400 (R\$ 18,879 and R\$ 2,066, net of IRRF in the amounts of R\$ 3,121 and R\$ 334, respectively). Such interest corresponded to R\$ 0.15 (fifteen centavos) and R\$ 0.01 (one centavo) per share, respectively).

According to Article 9 of Law No. 9.249/1995, in calculating its taxable income, a company may deduct interest paid or credited individually to owners, partners or stockholders by way of interest on capital invested, calculated on a daily prorated daily basis according to the TJLP rate. The amount credited by Mills by way of interest on capital invested is within the legal limit for deductibility.

The proposed dividends set out in the Company's financial statements are subject to the approval of the AGO. They have been calculated in the manner provided by the above law, especially Articles 196 and 197 thereof, and are set out as follows:

	<u>2011</u>	<u>2010</u>
Net income for the year	92,177	103,283
Setting up of legal reserve - 5%	<u>(4,609)</u>	<u>(5,164)</u>
Basis for calculation of dividends	<u>87,568</u>	<u>98,119</u>
Mandatory minimum annual dividends - 25% (net of taxes)	<u>21,892</u>	<u>24,530</u>
Proposal for payment of interest on capital invested in the following year	24,400	25,400
Withholding income tax (IRRF) - 14% (*)	<u>(3,455)</u>	<u>(3,582)</u>
Proposal for payment of interest on capital invested in the following year, net of taxes	20,945	21,818
Proposal for payment of dividends in the following year	<u>947</u>	<u>2,712</u>
Total net dividends proposed for payment	21,892	24,530
Total dividends (grossed up with IRRF) proposed for payment	<u>25,346</u>	<u>28,112</u>
Percentage of IRRF-grossed-up dividends out of net income for the year	28.95%	28.65%

(*) Rate of 15%, excluding the shareholders free of withholding tax.

The amount recorded in current liabilities as at December 31, 2011 is R\$ 21,892 (December 31, 2010 - R\$ 24,530).

22. EARNINGS PER SHARE (EPS)

a) Basic EPS

The basic earnings per share are calculated by dividing the profit attributable to the Company's stockholders (owners) by the weighted average number of common shares issued during the year.

	<u>2011</u>	<u>2010</u>
Earnings attributable to Company owners	<u>92,177</u>	<u>103,283</u>
Average weighted number of common shares issued (thousands)	<u>125,565</u>	<u>125,495</u>
Basic EPS (Reais and centavos)	<u>R\$0.73</u>	<u>R\$0.82</u>

b) Diluted EPS

The diluted earnings per share are calculated through adjustment of the average weighted number of common shares in circulation, to presume conversion of all the diluted potential common shares. Mills has one category of diluted potential common shares: stock purchase options. For the stock purchase options, a calculation is made to determine the number of shares that could 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 stock purchase options in circulation. The quantity of shares calculated as described above is compared with the number of shares issued, presuming exercise of the stock purchase options.

	<u>2011</u>	<u>2010</u>
Net income used to determined diluted EPS per share	<u>92,177</u>	<u>103,283</u>
Average weighted number of common shares issued (thousands)	125,565	125,495
Adjustments for:		
Stock purchase options (thousands)	<u>2,608</u>	<u>1,729</u>
Average weighted number of common shares used to calculate diluted EPS (thousands)	<u>128,173</u>	<u>127,224</u>
Diluted EPS (Reais and centavos)	R\$0.72	R\$0.81

23. NET SALES AND SERVICE REVENUES

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

	<u>2011</u>	<u>2010</u>
Rentals	526,861	394,034
Sales	44,924	44,530
Technical Assistance	182,254	173,074
Indemnities and recoveries	31,256	21,362
Taxes on sales and services	(64,856)	(54,662)
Cancellations and discounts	<u>(42,847)</u>	<u>(28,454)</u>
	<u>677,592</u>	<u>549,884</u>

24. COST OF PRODUCTS AND SERVICES SOLD AND GENERAL AND ADMINISTRATIVE EXPENSES (BY NATURE)

The costs refer mainly to: expenses on personnel for assembly and dismantling of the Company's rented assets, when such assembly is carried out by Mills itself; the equipment sub-leased from third parties when the Company's inventories are insufficient to meet demand; freight charges for transportation of equipment between branches and occasionally to customers; and expenses on supplies consumed in the projects, from individual protective equipment (IPE) to wood, paints and insulation.

The G&A expenses refer to management of each contract by Mills, encompassing the project teams and engineers in the commercial area, which correspond basically to salaries, payroll charges and benefits, with the rest relating to travel, representation and communications expenses, as well as the overhead of the administrative areas.

Nature	12/31/2011			12/31/2010		
	Direct project and rental costs	G&A expenses	Total	Direct project and rental costs	G&A expenses	Total
Company personnel	(162,328)	(89,924)	(252,253)	(122,256)	(79,961)	(202,217)
Outsourced personnel	(6,973)	(17,415)	(24,388)	(5,090)	(14,977)	(20,067)
Freight charges	(13,399)	(605)	(14,003)	(12,350)	(367)	(12,717)
Construction, maintenance and repair supplies	(35,246)	(4,094)	(39,341)	(24,346)	(6,150)	(30,496)
Equipment and other rentals	(9,984)	(9,458)	(19,442)	(11,262)	(5,399)	(16,661)
Travel expenses	(8,598)	(11,427)	(20,025)	(6,188)	(8,518)	(14,706)
Depreciation	(73,033)	(2,476)	(75,509)	(44,898)	(1,717)	(46,615)
Amortization of intangible assets	-	(679)	(679)	-	(445)	(445)
Write-offs (derecognition) of assets	(4,559)	-	(4,559)	(4,031)	-	(4,031)
Allowance for doubtful debts	-	(11,353)	(11,353)	-	(1,504)	(1,504)
Stock option plans	-	(3,124)	(3,124)	-	(586)	(586)
Updating of provisions	-	(1,695)	(1,695)	-	2,609	2,609
Profit and results sharing	-	(7,917)	(7,917)	-	(17,504)	(17,504)
Other costs and expenses	<u>(26,302)</u>	<u>(15,034)</u>	<u>(41,336)</u>	<u>(24,377)</u>	<u>(13,104)</u>	<u>(37,481)</u>
	<u>(340,422)</u>	<u>(175,202)</u>	<u>(515,624)</u>	<u>(254,798)</u>	<u>(147,623)</u>	<u>(402,421)</u>

25. FINANCE INCOME (EXPENSES)

a) Finance income

	<u>2011</u>	<u>2010</u>
Revenues from dividends	1,346	
Interest revenues on delinquent invoices	1,137	815
Yields from investments in marketable securities	11,288	17,329
Discounts obtained	200	454
Exchange and monetary variation assets	730	69
Other finance income	<u>13</u>	<u>6</u>
	<u>14,714</u>	<u>18,673</u>

b) Finance expenses

	<u>2011</u>	<u>2010</u>
Interest on borrowings	(7,311)	(10,693)
Monetary variation liabilities	(1,467)	(1,097)
Interest on finance leases	(8,796)	(9,841)
Interest on debentures	(24,453)	-
Bank charges	(2,770)	(613)
Financial operations tax - IOF	(371)	(477)
Net result of swap operations	(37)	(514)
Present value adjustment	150	359
Other	<u>(1,500)</u>	<u>(1,430)</u>
	<u>(46,555)</u>	<u>(24,306)</u>

26. INCOME PER BUSINESS SEGMENT

The information per operating segment is being presented in accordance with CPC 22 - Segment Information (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 principal information used by Management to evaluate the performance of each segment is broken down as follows: total PP&E, since such assets are what generate the Company's revenues; and net income and EBITDA of each segment, in order to evaluate the return on investments. The information on liabilities per segment is not being reported, since it is not used by the Company's administrators in managing the segments. Management also does not use analyses by geographic area in order to manage its businesses.

The Mills business segments involve completely distinct activities, as described below, such that their assets are specific for each segment. The assets have been allocated into each reportable segment according to the nature of each item.

The Company's operations are segmented according to the model for organization and management approved by the Board of Directors, containing the following divisions:

Construction Division

This division supplies specific engineering and equipment solutions, specifically in relation to concreting forms and props intended for the construction of large-sized structures, as well as planning, design, technical supervision, equipment and correlated services.

Jahu Division

Jahu supplies concreting forms, props and scaffolding within the scope of the performance of services involving specialized engineering solutions for civil construction, with emphasis on the residential and commercial construction sector, supplying planning, design, technical supervision, equipment and related services.

Industrial Services Division

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

Rental Division

This division supplies motorized access equipment (aerial working platforms) and telescopic manipulators for elevation of personnel and transportation of loads at considerable heights.

The accounting policies for the business segments are the same as described in the summary of significant accounting policies. Mills evaluates the performance per segment based on P&L and EBITDA. No individual customer accounted for more than 10% of the Company's income in 2011 and 2010.

.

Income statement per business segment

	Construction		Jahu		Industrial Services		Rental		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net revenues	131,638	154,270	155,761	105,151	214,782	195,390	175,410	95,067	-	-	677,591	549,881
(-) Costs and expenses	(73,817)	(80,697)	(89,783)	(61,277)	(194,055)	(169,276)	(81,781)	(44,111)	-	-	(439,436)	(355,361)
(-) Depreciation	(20,932)	(16,824)	(16,499)	(6,847)	(10,529)	(7,832)	(28,228)	(15,557)	-	-	(76,188)	(47,060)
Operating profit	<u>36,891</u>	<u>56,749</u>	<u>49,479</u>	<u>37,027</u>	<u>10,198</u>	<u>18,282</u>	<u>65,401</u>	<u>35,399</u>	-	-	<u>161,964</u>	<u>147,461</u>
Finance income	3,931	6,572	3,100	4,201	2,180	3,410	4,150	4,480	1,340	-	14,711	18,671
Finance cost	(13,158)	(8,558)	(10,958)	(5,471)	(7,817)	(4,438)	(14,622)	(5,839)	-	-	(46,555)	(24,306)
Pretax income	27,664	54,762	41,621	35,751	4,563	17,262	54,929	34,041	1,340	-	130,127	141,836
(-) IRPJ/CSLL	<u>(7,599)</u>	<u>(14,883)</u>	<u>(13,439)</u>	<u>(9,718)</u>	<u>(1,357)</u>	<u>(4,691)</u>	<u>(15,555)</u>	<u>(9,255)</u>	-	-	<u>(37,950)</u>	<u>(38,547)</u>
Net Income	<u>20,065</u>	<u>39,879</u>	<u>28,182</u>	<u>26,033</u>	<u>3,206</u>	<u>12,571</u>	<u>39,374</u>	<u>24,786</u>	<u>1,340</u>	-	<u>92,177</u>	<u>103,289</u>
EBITDA (*)	<u>57,821</u>	<u>73,571</u>	<u>65,971</u>	<u>43,871</u>	<u>20,721</u>	<u>26,120</u>	<u>93,621</u>	<u>50,950</u>	-	-	<u>238,151</u>	<u>194,521</u>

(*) Earnings before interest, taxes, depreciation and amortization (EBITDA): This is a non-accounting measurement prepared by the Company's Management pursuant to the provisions contained in CVM Circular No. 01/2007, when applicable. EBITDA is calculated based on the operating profit before net financial results, the effects of depreciation of PP&E for Company use and rental equipment and amortization of intangible assets. EBITDA is not a measurement recognized by either accounting practices adopted in Brazil (BR GAAP) or IFRS, does not have a standard meaning and may not be comparable with measurements using similar titles supplied by other companies. EBITDA should not be considered on an isolated basis -- or as a substitute for net income or operating profit -- as indicators of operating performance of cash flows or to measure liquidity or debt payment capacity. Information not reviewed by independent auditors.

Assets per business segment

	Construction		Jahu		Industrial Services		Rental		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
PP&E	193,131	166,100	287,491	125,390	79,900	70,551	312,341	189,111	-	-	872,886	551,171
Other assets	<u>59,761</u>	<u>108,791</u>	<u>102,601</u>	<u>107,241</u>	<u>92,951</u>	<u>79,241</u>	<u>73,001</u>	<u>77,621</u>	<u>87,391</u>	-	<u>415,717</u>	<u>372,911</u>
Total assets	<u>252,901</u>	<u>274,901</u>	<u>390,101</u>	<u>232,641</u>	<u>172,851</u>	<u>149,801</u>	<u>385,341</u>	<u>266,741</u>	<u>87,391</u>	-	<u>1,288,601</u>	<u>924,091</u>

27. FINANCIAL INSTRUMENTS

27.1. Categories of financial instruments

The classification of the Company's financial instruments, per category, can be summarized as shown in the table below:

	Carrying value	
	<u>2011</u>	<u>2010</u>
Borrowings and receivables:		
Cash and cash equivalents	35,179	6,192
Trade receivables	141,750	125,917
Deposits in court	7,666	7,328
Financial assets measured at cost:		
Minority equity interest – Rohr	87,392	-
Available for sale:		
Marketable securities	-	136,146
Financial liabilities measured at amortized cost:		
Borrowings at floating rates	57,023	59,679
Finance leases	52,159	72,944
Debentures	274,554	-
Promissory notes	27,210	-
Trade payables (suppliers)	35,898	32,743
Financial liabilities at fair value:		
Derivatives	-	7,003
Financial assets at fair value:		
Derivatives	2,841	-
Equity instruments:		
Stock option plans	10,022	6,898

27.2. Fair value of financial instruments

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

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

- Quoted (unadjusted) prices on active markets for identical assets and liabilities - Level 1.
- Information besides the quote prices included in level 1 that are adopted by the market for the asset or liability, either directly (that is, as prices) or indirectly (that is, derivatives from the prices) - Level 2.

The Company has no financial instruments measured according to their fair values that are classified as Level 3, that is, obtained by means of appraisal techniques that include variables for the asset or liability but which are not based on data observable on the market.

The following table shows the Company's assets and liabilities measured at their fair values as at December 31, 2011:

	Level 1		Level 2		Total balance	
	2011	2010	2011	2010	2011	2010
Assets						
Financial assets available for sale:						
Marketable securities	<u>34,449</u>	<u>136,146</u>		-	<u>34,449</u>	<u>136,146</u>
Financial asset derivatives used for hedge purposes			2,841		2,841	
Total Assets	<u>34,449</u>	<u>136,146</u>	<u>2,841</u>	<u>-</u>	<u>37,290</u>	<u>136,146</u>
Financial liabilities						
Debentures			281,247		281,247	
Promissory notes			27,209		27,209	
Financial liability derivatives used for hedge purposes				<u>7,003</u>		<u>7,003</u>
Total Liabilities			308,456	<u>7,003</u>	308,456	<u>7,003</u>

a) Fair value of marketable securities

Marketable securities available for sale are those investments made with leading financial institutions that are indexed to the variation in the CDI rate. Considering that the CDI rate already reflects the interbank market position, it is presumed that the values of the marketable securities approximate their fair values.

b) Fair value of trade receivables

The fair value of trade receivables and other credits is estimated according to the present value of future cash flows, discounted at the market interest rate calculated as of the reporting date.

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

c) Fair value of borrowings and financings

In these cases, the fair value, which is determined for disclosure purposes, is calculated based on the present value of the principal and future cash flows, discounted at the market interest rate calculated as of the reporting date. For finance leases, the interest rate is calculated by reference to similar lease agreements.

Company Management considers that the fair values of borrowings and financings, recognized in the financial statements at their carrying values, are substantially similar to their market values.

No such calculations have been made with respect to the fair value of the borrowings obtained from BNDES, since this type of financing does not feature any notable fair value calculation. This is because BNDES charges different rates for companies that take out loans from it.

Borrowings and financings

Debt	Index	Fair value		Carrying value	
		2011	2010	2011	2010
BNDES	TJLP	22,611	17,408	22,134	17,771
Working capital	CDI	35,374	41,594	34,889	41,908
Leasing	CDI	52,612	72,517	52,159	72,944
Debentures	CDI	281,247	-	276,598	-
Promissory notes		27,209	-	27,209	-

d) Fair value of share-based payments

The fair value of the employee stock options and rights to valuation of Company shares are measured according to the Black-Scholes formula. Variations in measurement include price of the shares at the measurement date, the exercise price of the respective instrument, the expected volatility (based on the historical weighted average volatility, adjusted for expected changes due to information that becomes publicly available), the average weighted life of the instruments (based on historical experience and the general behavior of the option holders), dividends expected and risk-free interest rate (based on government bonds). Service terms and performance terms outside the market, which are inherent in the transactions, are not taken into account in calculating the fair value.

e) Derivatives

The fair value of term exchange agreements is calculated at present value, through use of market rates, which are accrued as of each accrual date.

The fair value of agreements for interest rate swaps is based on quotations obtained from brokerage firms. Such quotations are tested as to their reasonableness through discounting the estimated future cash flows based on the terms and maturity of each agreement 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 counterparty when appropriate.

27.3. Derivative financial instruments for hedging purposes

a) Policy of contracting operations involving derivatives

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

The Company believes that the management of such risks is fundamental to support its growth strategy without potential financial losses reducing its operating results, given that Mills does not wish to obtain financial gains through the use of derivative financial instruments. Administration of foreign currency risks is carried out by the Financial Manager and Financial Department under the direction of the CFO, who together evaluate possible exposures to risks and establish directives to measure, monitor and manage the risk related to the Company's activities.

Based on this objective, the Company contracts operations involving derivatives, normally NDF (non-deliverable forwards) with leading financial institutions (with credit ratings of brAAA on a national scale, Standard & Poor's or similar rating agencies), in order to guarantee the commercial value agreed upon at the time of ordering the goods to be imported. Likewise, swap agreements or NDF contracts are entered into to guarantee the flow of payments (amortization of principal and interest) for foreign currency financings. Under the Mills Bylaws, any agreement or assumption of obligation in amounts of more than R\$ 10,000 (ten million Reais) has to be approved by the Board of Directors, unless scheduled in the Business Plan. For amounts under R\$ 100 (one hundred thousand Reais) for periods of less than 90 (ninety) days, it is not necessary to contract hedge operations. Other commitments are to be hedged against exchange exposure.

The swap and NDF operations are carried out to convert into Reais the future financial commitments in foreign currency. When it contracts such operations, Mills minimizes the exchange risk, equaling both the amount of the commitment and the period of exposure. The cost of contracting the derivative is pegged to the interest rate, normally the percentage of the CDI rate. The swap and NDF operations with maturities shorter or longer than the final maturity of the commitments may, over the course of time, be renegotiated so that the final maturities match or approximate the final maturity of the commitment. Accordingly, on the settlement date, the result of the swap and NDF may offset part of the impact of the exchange variation of the foreign currency in relation to the Real, thus contributing to stabilizing cash flows.

Since derivatives are involved, calculation of the monthly position is carried out using the fair value methodology, and they are appraised by calculating their present value through the use of market rates that are impacted on the dates of each calculation. This widely employed methodology may feature monthly distortions in relation to the curve of the derivative contracted. Even so, the Company believes that this methodology is the best one to be applied, since it measures the financial risk in the event early settlement of the derivative is required.

The monitoring of the commitments assumed and the monthly appraisal of the fair value of the derivatives permits Management to keep track of the financial results and the impact on cash flows, as well as to guarantee that the initially planned objectives are achieved. Calculation of the fair value of the positions is made available each month for managerial tracking purposes.

The derivative financial instruments contracted by the Company are intended to hedge its operations for importing equipment, in the interval between the time the orders are placed and the corresponding physical receipt in Brazil, against risks of fluctuations in exchange rates. Such instruments are not used for speculative purposes.

- b) The derivative financial instruments can be summarized as follows:

<u>Type</u>	2011		
	<u>Notional amount</u>	<u>Fair value</u>	<u>Amounts receivable/ payable</u>
NDF - US\$ term purchase - Contracted rates of 1.64 to 1.94 (USD)	67,958	2,842	2,842
NDF - Euro term purchase – Contracted rate of €2,22	<u>206</u>	<u>(1)</u>	<u>(1)</u>
	<u>68,164</u>	<u>2,841</u>	<u>2,841</u>
<u>Type</u>	2010		
	<u>Notional amount</u>	<u>Fair value</u>	<u>Amounts receivable/ payable</u>
NDF - US\$ term purchase - Contracted rates of 1.64 to 1.94 (USD)	134,712	(7,003)	(7,003)
NDF - Euro term purchase – Contracted rate of €2,22	<u>238</u>	<u>-</u>	<u>-</u>
	<u>134,950</u>	<u>(7,003)</u>	<u>(7,003)</u>

- c) Methodology for calculating the fair value of the derivatives

The derivatives are appraised at present value at the market rate as at the base date for the future flow calculation through application of the contractual rates through maturity. For contracts without a limiter or double index, consideration has also been given to the option embedded in the swap contract.

- d) Methodology for calculating the effectiveness of hedges

The Company's swap operations are carried out in order to hedge against fluctuations in foreign currency on its importation of machinery and equipment. These operations are recognized using hedge accounting.

Mills Management proves the effectiveness of these instruments using the Dollar offset methodology, which is commonly used by participants in the derivatives market. Such methodology consists of comparing the present value, net of futures exposures in foreign currency, of commitments assumed by the Company with respect to derivatives contracted for such exchange hedges.

As at December 31, 2011 there was no inefficiency recognized in results as a result of the Company's hedge operations.

e) Gains and losses for the year

Since Mills proves the effectiveness of the hedge accounting swap operations carried out, the losses and gains verified on these derivative operations are recognized with a contra entry of the hedged PP&E assets (equipment) as part of the initial cost of the assets at the same time as the asset is recorded. As at December 31, 2011 the amount of R\$ 322 was transferred from Stockholders' Equity and deducted in the initial cost of the equipment.

The provision for un-materialized losses is recognized under other liabilities in the balance sheet with a contract entry in the caption entitled Valuation adjustments to equity under Stockholders' Equity.

As at December 31., 2011, the total unrealized gains on currency futures gains, recognized under Other Comprehensive Income, accumulated under Stockholders' Equity and related to such future purchases scheduled, amounted to R\$ 2,102 (unrealized losses of R\$ 7,003 as at December 31, 2010). The forecast is that the purchases will occur in 2012, when the amount then deferred under Equity will be included in the carrying value of the imported equipment.

f) Embedded derivatives

All contracts with potential clauses for derivative instruments or marketable securities to be carried out are appraised by the Company's Financial Management together with the Legal Department's team prior to signing, so that there is orientation regarding any effectiveness testing, establishment of accounting practices to be adopted and the fair value calculation methodology.

Mills currently is not party to any outstanding contracts involving embedded derivatives.

g) Value and type of margins posted in guarantee

The current foreign currency derivative operations do not require deposit of any guarantee margins.

28. INSURANCE

It is the policy of Mills to constantly monitor the risks inherent in its operations. On account of this, Management has taken out insurance policies to cover civil liability risks, amounting as at December 31, 2011 to R\$ 29,000 (R\$24,000 as at December 31, 2010).

29. TRANSACTIONS NOT INVOLVING CASH

In the year ended December 31, 2011 the Company declared dividends and interest on capital invested in the amount of R\$ 21,892, net of income tax.

After acquisition of the Company's subsidiary GP Sul, the latter was merged upstream and the amount of the investment allocated as disclosed in Note 1 (R\$ 2,755 increase in PP&E and R\$ 1,977 goodwill). Such amounts do not involve cash.

During the year 2011 the Company purchased on a term basis R\$ 23,410 equipment as part of its investing activities that do not involve cash. Accordingly, this investment is not reflected in the cash flow statement.

30. SUBSEQUENT EVENTS

At a meeting held on January 24, 2012 the Company's Board of Directors approved increasing the capital stock through issue of 32,583 (thirty-two thousand, five hundred and eighty-three) common register shares without par value, within the limit of the authorized capital. The per-share issue price was R\$ 12.23 (twelve Reais and twenty-three centavos), for a total amount of R\$ 398 (three hundred and ninety-eight thousand Reais), owing to exercise by beneficiaries of the stock purchase options granted under the 2010 Stock Option Program.
