

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

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

*Financial Statements in Accordance with  
Accounting Practices Adopted in Brazil  
and IFRS at December 31, 2012 and  
Independent Auditor's Report*

Deloitte Touche Tohmatsu Auditores Independentes

(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, 2012, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit, conducted 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, 2012, 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, 2012, 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.

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

Rio de Janeiro, March 4, 2013

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Antônio Carlos Brandão de Sousa  
Engagement Partner

## **OPINION OF THE FISCAL COUNCIL**

The Fiscal Council of Mills Estruturas e Serviços de Engenharia S.A. (the “Company”), in the exercise of its legal and statutory functions, in the meeting held on March 4, 2013, examined (i) the Management Report and the Company’s Financial Statements relating to the fiscal year of 2012, as well as the opinion of the Company’s independent auditors, Deloitte Touche Tomahatsu Auditores Independentes, presented with no qualification and unanimously resolved in favor of the items previously mentioned, with no qualification.

Rio de Janeiro March 4, 2013.

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 2012.

Rio de Janeiro March 4, 2013.

**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 2012.

Rio de Janeiro March 4, 2013.

**2013 CAPITAL BUDGET  
(all amounts presented in R\$)**

<b>1</b>	<b><i>Sources of funding</i></b>	<b>R\$345,056,024.61</b>
	Profit reserve from the 2010 fiscal year	R\$103,680,234.67
	Cash generation and funding	R\$241,375,789.94
<b>2</b>	<b><i>Use of funds</i></b>	<b>R\$345,056,024.61</b>
	Investments in expansion (acquisition of equipment)	R\$296,484,563.61
	Investments in facilities and information technology to aid in expansion	R\$48,571,461.00
<b>3</b>	<b><i>Term</i></b>	<b>1 year</b>

## Mills: Earnings grow 64% in 2012

### Message from the CEO

2012 was a very special year for Mills, not only for the excellent results we obtained, but also because we celebrated our 60<sup>th</sup> birthday – and that is, without a doubt, something that very few companies in Brazil were able to achieve.

In 2012 Mills maintained its strong growth trend with rates above 30% in the Heavy Construction, Jahu and Rental segments, despite the weak performance of the Brazilian economy, showing the penetration potential of our services to increase productivity in the civil construction industry, such as Heavy Construction and Jahu, and in several other industries, such as Rental.

The infrastructure market returned to a growth trend in 2012. We participated in the construction of 11 of the 12 stadiums which will host the 2014 World Cup and, currently are involved in urban mobility projects – such as subways, monorails and BRTs, and airports in several cities. In addition, we sealed important contracts such as the *Belo Monte*, *Colíder* and *Teles Pires* hydroelectric plants, and introduced new technologies - the aluminum shoring Alumills and the Modular System for concrete structures with complex geometries, such as tunnels.

In Jahu, we consolidated our geographic expansion, introduced new equipment, which provides higher productivity and promotes industrialization of construction sites. Moreover, we strengthened our presence in the commercial market – in 2012 we worked on over 50 shopping-malls throughout Brazil.

In the Industrial Services segment we are working at reviewing our strategy, and adapting to new market needs and opportunities. We are seeking to expand the services we provide and to introduce new services, targeting the offshore market of the oil and gas industry.

In Rental we maintained our leadership status and won the IAPA award (IAPA Awards), for the rental company of the year category - which is considered to be the Oscar for this business segment. We ended 2012 among the 50 largest rental companies in the world and will continue our expansion with the opening of new branches in 2013.

The year 2012 has been of great results for Mills and we have excellent prospects. The market continues with growing demand and we have an increasingly solid and profitable company. We completed 60 years in the market, but we are also preparing for the next 60: we will continue our growth strategy with the expansion of our branches, cash generation, and training of technical and commercial team, in addition to the continuous search for new technologies to be employed in Brazil. We will continue to fulfill our Purpose: to be a leader, reliable, profitable and transparent, above all.

I would like to thank our collaborators and suppliers for the excellent year and their dedication, and our clients and shareholders for their trust.

Ramon Vazquez, Mills' CEO

### Financial Performance 2012<sup>1</sup>

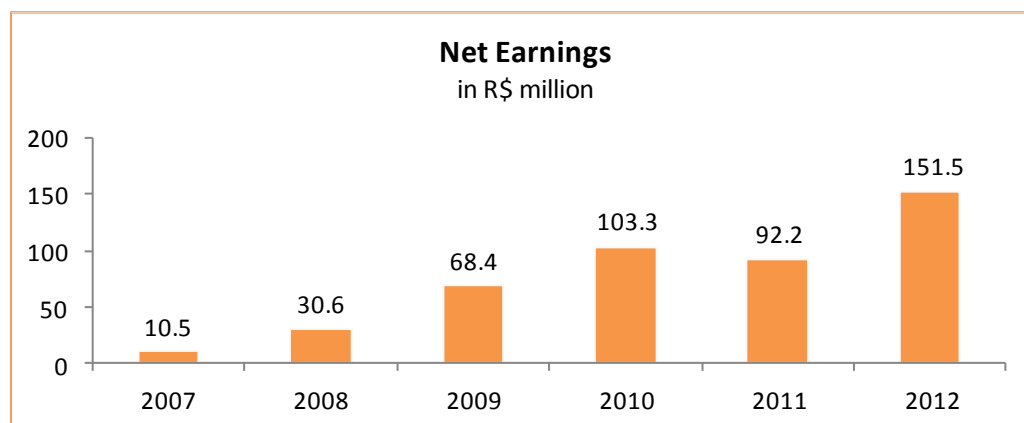
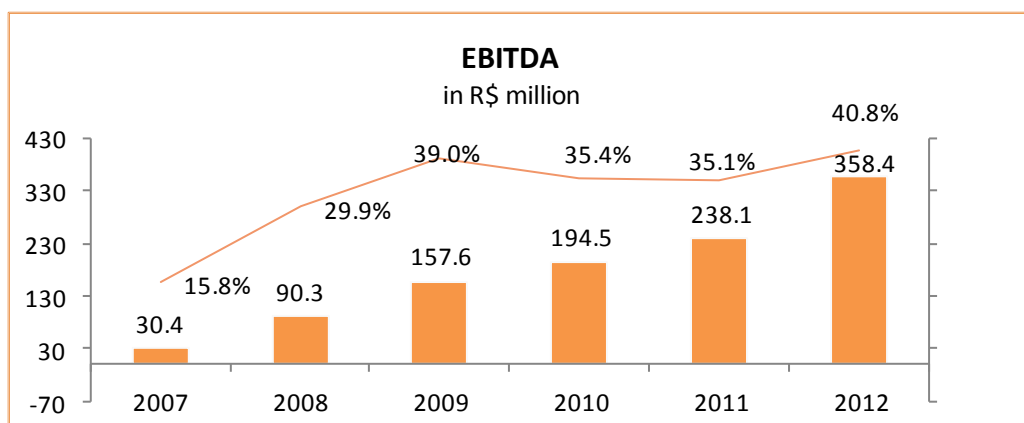
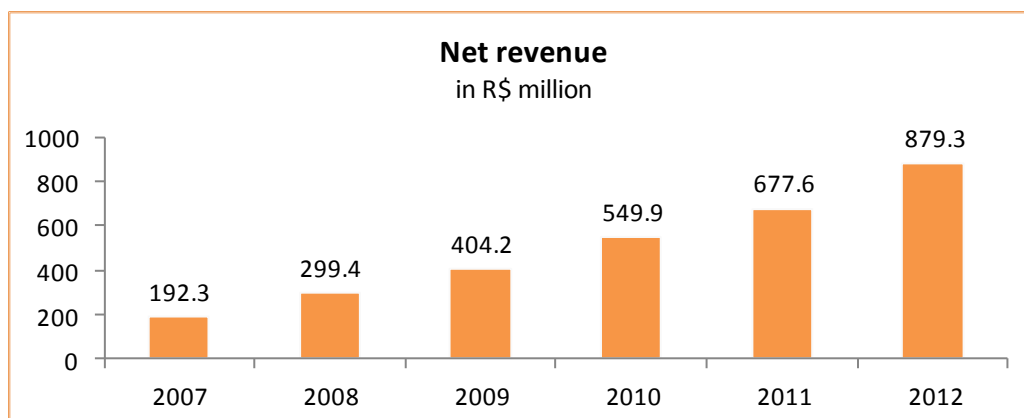
In 2012 Mills Estruturas e Serviços de Engenharia S.A. (Mills) presented record net revenues, EBITDA and net earnings, together with growth in profitability for the period related to 2011.

Net revenues reached R\$ 879.3 million in 2012, with the branches opened in the last three years contributing with 38.0% of this amount. Cash generation, as measured by EBITDA, reached R\$ 358.4 million in 2012, with 50.5% growth over 2011, and net earnings totaled R\$ 151.5 million, with 64.4% growth over the last year.

The EBITDA margin expanded from 35.1% in 2011 to 40.8% in 2012, while the return on invested capital (ROIC) reached 14.7% in 2012, against 12.3% in 2011.

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



## Debt Indicators

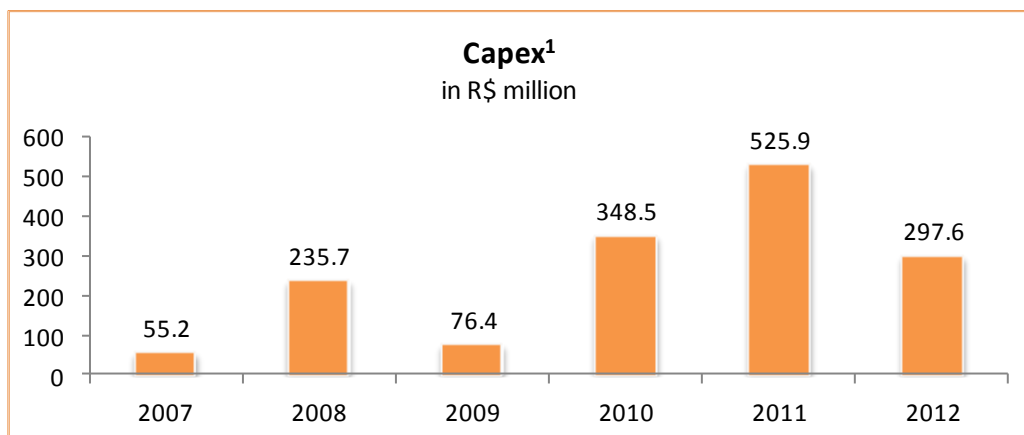
As of December 31, 2012, Mills' total debt was R\$ 622.5 million, with an average maturity of 3.0 years. At the end of 2012 our net debt position was R\$ 418.6 million. Our debt is 9% short-term and 91% long-term. In terms of currency, 100% of Mills' debt is in Brazilian reais.

In 2012, we raised R\$ 270 million through our second issuance of non-convertible debentures, in two series. The first series has a value of R\$ 160.9 million, a maturity of five years and interest rate equal to CDI (interbank interest rate) + 0.88%. The second series has a value of R\$ 109.1 million, a maturity of eight years and interest rate equal to IPCA (the official inflation index) + 5.50%. The net proceeds of this offering will be fully used to finance 2013 investments, general corporate purposes and payment of debts, allowing us to reduce the average cost of debt and increase the average maturity.

We ended the year with leverage, as measured by the net debt/LTM EBITDA ratio, of 1.2, while interest coverage, as measured by LTM EBITDA/LTM interest payments, was 7.6x.

## Capex

Mills invested R\$ 297.6 million in organic growth in 2012. The 2013 budget involves capital expenditures of R\$ 296 million in rental equipment, so as to continue to take advantage of the attractive opportunities of the markets in which we operate and in line with the goal to keep leverage around 1.0x. The issuance of non-convertible debentures in 2012 will ensure the financing of these investments, which could expand during 2013, depending on the development of demand in our markets and on our geographic expansion.



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

## Performance of the business segments

### Heavy Construction

The net revenue of Heavy Construction totaled R\$ 174.1 million in 2012, a new annual record, with a year-over-year (yoy) expansion of 32.2%, due to the recovery of the heavy construction market, which had suffered with the weak demand during a large period of 2011. EBITDA totaled R\$ 84.3 million, versus R\$ 57.8 million in 2011. ROIC was 17.2% this year, against 12.1% the year before.

### Jahu

Net revenue for Jahu totaled R\$ 238.0 million in 2012, a new annual record, 52.8% higher than 2011. The branches which have opened since November 2009 contributed 51% of the revenue for Jahu in the last year. EBITDA amounted to R\$ 113.4 million, with a yoy growth of 71.9%. ROIC was 15.7%, versus 14.3% in the previous year.

### Industrial Services

The net revenue of Industrial Services totaled R\$ 213.8 million in 2012, in line with the R\$ 214.8 million of 2011, due to our strategy to optimize the existing contracts in order to improve profitability instead of revenue growth. EBITDA reached R\$ 19.4 million, with a yoy retraction of 6.4% compared to 2011. ROIC was 4.6% versus 5.9% in the previous year.

### Rental

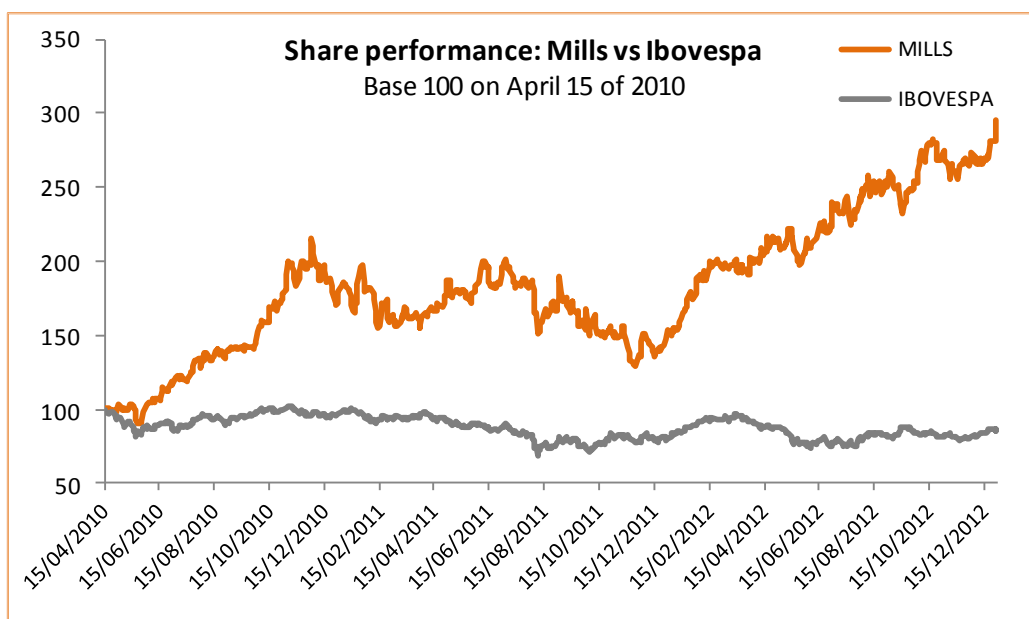
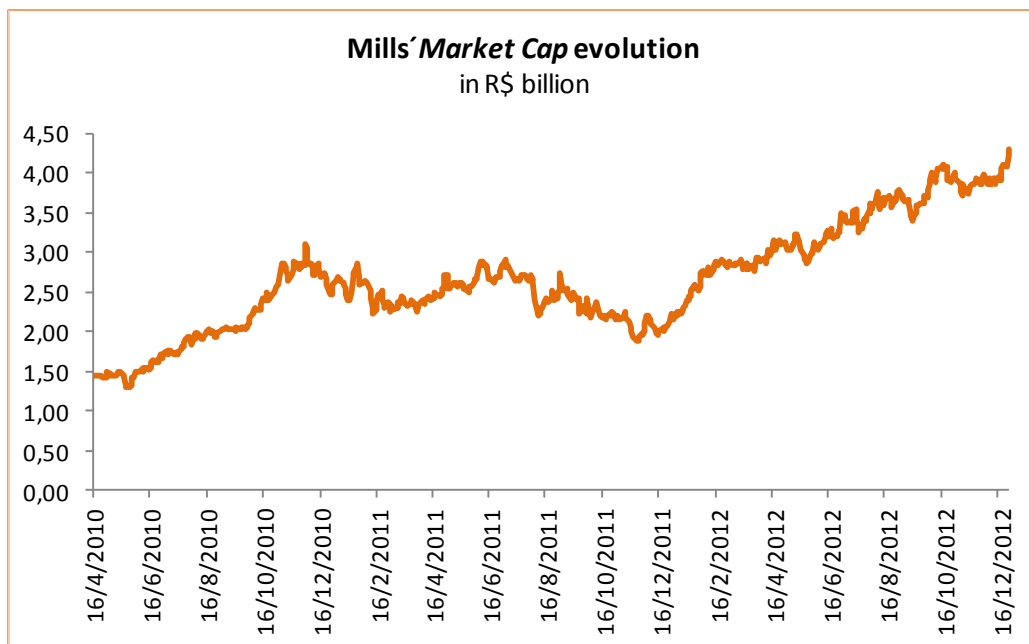
The net revenue of Rental amounted to R\$ 253.5 million in 2012, a new annual record, 44.5% above 2011. The branches opened since 2010 contributed 62% of the Rental segment revenue last year. EBITDA totaled R\$ 141.2 million, with a yoy growth of 50.8%. ROIC was 18.2%, against 16.5% in 2011.

## Generating value for our shareholders

On December 31, 2012, the closing price of Mills' shares (MILS3) on the BM&FBovespa exchange was R\$ 34.00, an increase of 92.1% over the closing price in 2011, while the IBOVESPA index grew 7.4% in the same period. By the end of 2012, Mills' market value (market cap) was R\$ 4.3 billion.

Since our IPO, on April 15, 2010, until the end of 2012, MILS3 grew 195.7%, against a 13.6% depreciation of the IBOVESPA index. Mills' total shareholder return (TSR) since the IPO date was equal to 44.6% per year.

We will pay our shareholders gross remuneration of R\$ 41.8 million as interest on equity, related to the fiscal year of 2012, equivalent to R\$ 0.33 per share, subject to approval at Mills' Shareholders Meeting.



## Human Resources

Due to the growth of our business, we increased the number of employees from 4,541 at the end of 2011 to 4,756 by the end of 2012.

The turnover rate of our employees was 4.58% in 2012, compared to 5.50% in 2011. 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 caused by the fluctuation in demand. Excluding professionals from assembly and disassembly of equipment, the turnover rate of our employees in 2012 was 2.45% versus 3.64% in 2011.

In order to take part of the result and align their incentives with value creation for our shareholders, we offer our employees a profit-sharing program, based on economic value added (EVA), which is the adjusted net income less the remuneration on invested capital by our shareholders. Annually, 20-30% of the EVA is distributed to our administrators and employees. In 2012 we distributed R\$ 7.9 million, relating to the 2011 results, and in 2013 we will distribute R\$ 16.8 million, relating to the 2012 result.

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

Our internship program is aimed to attract, develop and retain talents that want to grow and acquire the expertise to contribute to the Company's growth in the coming years. By the end of 2012, 180 interns participated in the program, of which 79% were allocated to engineering and technical areas. In 2012 76 interns were hired as permanent employees and 40 interns were hired as permanent employees in 2011.

Due to the large growth of the company and the increasing number of new employees, we decided this year to create a new definition of purpose and values for Mills, mixing the inherited culture from the past, which we do not want to lose, with the Company’s new reality. Our purpose is “We work to make Mills a leader, a company that is reliable, transparent and profitable, a company that recognizes its responsibility to build a Brazil that is more sustainable, humane and just.”

### Values - What we believe and how we will behave

#### Identity: Built on Reliability

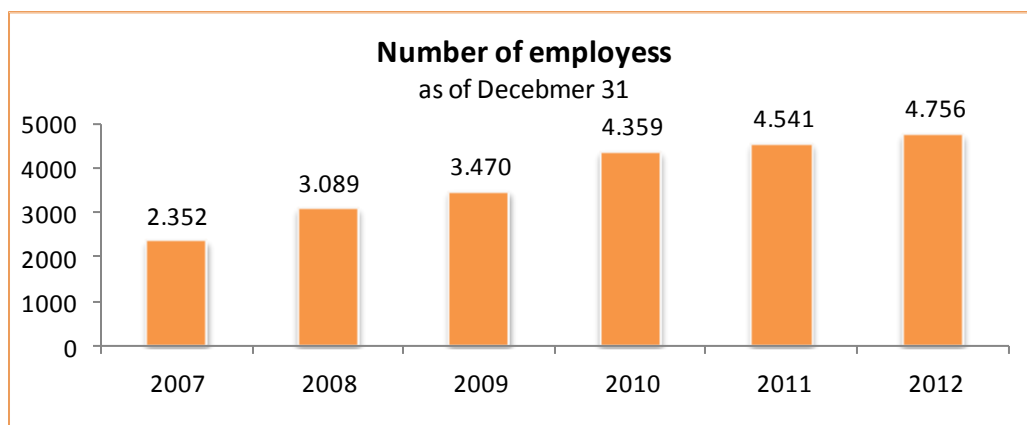
- A good corporate citizen with responsible, ethical and trustworthy behaviour
- Trust based on transparency
- Business results with social and environmental responsibility

#### Fundamentals: Built on Competence

- Survive, prosper and contribute over many decades
- Doing things right is our passion
- Being at the forefront of competencies that our clients and partners value

#### Style: Built on Example

- Participative leadership, supporting people and nurturing their progress
- People with integrity whose work delights their clients and colleagues and make things happen
- Informal environment, where people enjoy their work, are empowered to make decisions, and are evaluated on merit.



## Ownership structure and corporate restructuring

In early 2012, Mills’ total and voting capital consisted of 125,656,724 common shares, with Nacht Participações S.A. (Nacht) and Jeroboam Investments LLC (Jeroboam), its major shareholders, holding together 37.1% of the voting and total capital. The free float was equal to 57.3%.

In March 2012, there was a transfer of all common shares, book-entry shares with no par value issued by Mills held by Jeroboam for Snow Petrel S.L. (Snow Petrel), due to the dissolution and consequent extinction of its wholly owned subsidiary Jeroboam. Consequently, Snow Petrel became the owner of 19,233,281 Mills shares, with no impact on the control of the Company.

In April 2012, approval was given at the Extraordinary General Meeting to change the corporate purpose of Mills. In June, 2012 the removal of 4,000 registered common shares with no par value, held in treasury was approved, as a result of the reimbursement paid to the shareholder who disagreed with the decision.

In October 2012, Nacht reduced its capital through the delivery of all shares issued by Mills to its shareholders. This transaction was completed in December 2012, when all 27,421,713 shares issued by Mills formerly held by Nacht, were transferred to Andres Cristian Nacht and his direct family members, in proportion to their ownership interest in Nacht's capital stock, with no impact on the control of Mills.

In view of the exercise of the stock option by a part of the beneficiaries of Mills' existing stock option plans, there was an issuance of 746,706 new common shares during 2012.

Thus Mills' total and voting capital by the end of 2012 consisted of 126,399,430 common shares. The free float was 61.4%

## Independent Auditor

According to CVM Instruction 381/2003, our external auditor, Deloitte Touche Tohmatsu Auditores Independentes (Deloitte), provided no other service beside the audit of the financial statements in the fiscal year of 2012.

## Fiscal Council

At the Ordinary and Extraordinary General Meeting held in April, 2012, the conversion of the company's fiscal council into a permanent body was approved. We believe that this was an important step in the continuing adoption of best practices for Corporate Governance by Mills, taking into account that the Fiscal Council is an independent body, whose primary responsibility is to monitor management's activities, review the Company's financial statements, and report its findings to the shareholders.

## Business Perspective

Despite the level of activity in the heavy construction sector being lower than normal at the end of 2012, there was a significant improvement in the expected level of activity for the next six months, according to research conducted by the National Confederation of Industry (*CNI – Confederação Nacional da Indústria*), which reached a value of 61.9 in February 2013, in which values above 50 indicate a prospect of growth of activity in the sector. Cement sales reached 68 million tons in 2012, according to the National Union of Cement Industries (*SNIC - Sindicato Nacional de Indústria do Cimento*), with a yoy growth rate of 6.1%.

Investments in Brazil should reach R\$ 2.4 trillion in the period 2013-2016, of which R\$ 489 billion in infrastructure, according to the Brazilian National Development Bank (BNDES); for which one of the determining factors is the feasibility of concessions and public budget for the transportation, sanitation and low income housing sectors, with an expected average linear growth of 22.3% per year. BNDES disbursements for infrastructure totaled R\$ 40.1 billion in 2012, with a 16% yoy increase, while the value of applications totaled R\$ 97.4 billion, 45% yoy superior, confirming the prospect of greater activity in the sector.

The highlight in the infrastructure sector is the package of logistics concessions that the government has launched with estimated investments of R\$ 194 billion, of which R\$ 91 billion in railways, R\$ 54 billion in ports, R\$ 42 billion in highways and R\$ 7 billion in airports. Despite the viability of these projects being a challenge, the changes in the rules that occurred in February, such as higher rates of return and longer concession and loan payment terms, make these investments more attractive and, therefore, more likely to become a reality in the short and medium term.

As for the market for residential construction, the demand for residential properties remains influenced by (i) the large housing deficit in Brazil, (ii) the expansion in housing credit availability, the estimated balance of which increased by 37.6% between December 2011 and December 2012, according to the Brazilian Central Bank (Bacen), and (iii) the increase in the purchasing power of the population.

Since the main challenge for the sector is labor, both in terms of cost and availability, the industrialization of construction processes becomes increasingly necessary, the penetration of which is one of the main growth drivers of our business. Our projects and equipment enable productivity gains in the construction works, with the reduction of the length of the construction cycle and the number of workers involved, enabling the Jahu business to expand above real estate sector growth.

The new building announced by the listed real estate companies<sup>2</sup> presented a quarter-over-quarter (qoq) growth of 76% in the fourth quarter of 2012 (4Q12) and, for the first time in the last 15 months, was in line with the same period of the previous year; a fact that might indicate the end of the adjustment period for these companies.

In the Industrial Services segment, the expected recovery for the industry in 2012 did not happen and we ended another year with contraction in industrial activity in Brazil. In this context, we suffered with pressures on prices and lower maintenance activities.

<sup>2</sup> Brookfield, Cyrela, Direcional, Even, Eztec, Gafisa, Helbor, MRV, Rodobens, Tecnisa and Trisul.

Therefore, we will continue in 2013 our strategy of expanding our participation in the offshore market of the oil and gas industry, offering complementary services with higher added value and, therefore, higher profitability.

The motorized access equipment market is still booming. The Brazilian fleet of aerial work platform and telescopic handlers grew 32.1%, ending 2012 with 20,847 units, against 15,777 units in the end of 2011, 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 in 2007 making aerial work platforms obligatory for lifting people, thereby increasing safety and productivity in the workplace.

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

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

BALANCE SHEET

FOR THE YEAR ENDED DECEMBER 31, 2012

(In thousands of Brazilian reais - R\$)

	<u>Note</u>	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and cash equivalents	6	44,200	35,179
Marketable securities	7	159,606	-
Trade receivables	8	194,778	139,142
Inventories		26,938	11,191
Recoverable taxes	9	35,021	22,051
Advances to suppliers		6,682	11,485
Derivative financial instruments		-	2,841
Other assets		<u>6,452</u>	<u>2,980</u>
		<u>473,677</u>	<u>224,869</u>
<u>NON-CURRENT ASSETS</u>			
Trade receivables	8	2,549	2,608
Recoverable taxes	9	30,717	31,577
Deferred taxes	17	-	4,888
Judicial deposits	18	<u>11,853</u>	<u>10,911</u>
		<u>45,119</u>	<u>49,984</u>
Investments	10	87,392	87,392
Property, plant and equipment	11	1,003,347	872,886
Intangible assets	12	<u>54,526</u>	<u>45,488</u>
		<u>1,145,265</u>	<u>1,005,766</u>
<b>TOTAL ASSETS</b>		<u><u>1,664,061</u></u>	<u><u>1,280,619</u></u>

(continues)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

BALANCE SHEET

FOR THE YEAR ENDED DECEMBER 31, 2012

(In thousands of Brazilian reais - R\$)

	<u>Note</u>	<u>2012</u>	<u>2011</u>
<u>LIABILITIES AND EQUITY</u>			
<u>CURRENT LIABILITIES</u>			
Trade payables		47,784	35,898
Borrowings and financing	13	41,796	65,282
Debentures	14	12,994	6,126
Payroll and related taxes		27,585	24,967
Income tax and social contribution		-	2,742
Tax debt refinancing program (REFIS)	19	907	353
Taxes payable		18,597	8,119
Profit sharing payable		20,142	7,917
Dividends and interest on capital payable	21	36,170	21,892
Derivative financial instruments	27	800	-
Other liabilities		<u>7,752</u>	<u>4,441</u>
		<u>214,527</u>	<u>177,737</u>
<u>NON-CURRENT LIABILITIES</u>			
Borrowings and financing	13	30,203	71,110
Debentures	14	537,459	268,428
Tax debt refinancing program (REFIS)	19	9,823	10,519
Deferred taxes	17	2,381	-
Provision for tax, civil and labor claims	18	9,919	16,079
Other liabilities		<u>423</u>	<u>606</u>
		<u>590,208</u>	<u>366,742</u>
<u>TOTAL LIABILITIES</u>		<u>804,735</u>	<u>544,479</u>
<u>EQUITY</u>			
Issued capital	20	537,625	527,587
Capital reserves	20	233	(5,581)
Earnings reserves	20	321,768	212,032
Equity valuation adjustments	20	(300)	2,102
Total equity		<u>859,326</u>	<u>736,140</u>
<u>TOTAL LIABILITIES AND EQUITY</u>		<u>1,664,061</u>	<u>1,280,619</u>

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

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2012

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

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	<u>Note</u>	<u>2012</u>	<u>2011</u>
Net revenue from sales and services	23	879,274	677,592
Cost of sales and services	24	(410,929)	(340,422)
GROSS PROFIT		468,345	337,170
General and administrative expenses	24	(218,461)	(175,202)
OPERATING PROFIT		249,884	161,968
Finance income	25	12,050	14,714
Finance costs	25	<u>(51,249)</u>	<u>(46,555)</u>
FINANCE COSTS, NET		(39,199)	(31,841)
PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		210,685	130,127
Income tax and social contribution	17	<u>(59,169)</u>	<u>(37,950)</u>
PROFIT FOR THE YEAR		<u>151,516</u>	<u>92,177</u>
Basic earnings per share - R\$	22(a)	<u>1.20</u>	<u>0.73</u>
Diluted earnings per share - R\$	22(b)	<u>1.19</u>	<u>0.72</u>

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

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

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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	<u>Note</u>	<u>2012</u>	<u>2011</u>
PROFIT FOR THE YEAR		151,516	92,177
OTHER COMPREHENSIVE INCOME			
Cash flow hedge	27	<u>(2,402)</u>	<u>9,105</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>149,114</u>	<u>101,282</u>

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

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

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(In thousands of Brazilian reais - R\$)

	Share capital <u>subscribed</u>	Capital <u>reserve</u>	Earnings reserves			Earnings <u>retention</u>	Equity valuation <u>adjustments</u>	Retained <u>earnings</u>	<u>Total</u>
			<u>Legal</u>	<u>Expansion</u>	<u>Special</u>				
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>655.152</u>
Capital contribution - share issue	2,464	-	-	-	-	-	-	-	2.464
Purchase/Cancelation of treasury shares	-	(535)	-	-	-	-	-	-	(535)
Stock option plan	-	3,124	-	-	-	-	-	-	3.124
Realization of special reserve - tax amortization of Itapoã merged goodwill	-	-	-	-	(1,520)	-	-	1,520	-
Comprehensive income for the year - cash flow hedge	-	-	-	-	-	-	9,105	-	9.105
Profit for the year	-	-	-	-	-	-	-	92,177	92.177
Allocation of profit for the year									
Statutory reserves on profit for the year	-	-	4,609	-	-	63,741	-	(68,350)	-
Dividends proposed (0.007 per share)	-	-	-	-	-	-	-	(947)	(947)
Interest on capital proposed (0.194 per share)	-	-	-	-	-	-	-	(24,400)	(24.400)
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>736.140</u>

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

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

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

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

	Share capital subscribed	Capital reserve	Earnings reserves			Earnings retention	Equity valuation adjustments	Retained earnings	Total
			Legal	Expansion	Special				
AT JANUARY 1, 2012	<u>527,587</u>	<u>(5,581)</u>	<u>13,192</u>	<u>61,243</u>	<u>2,329</u>	<u>135,268</u>	<u>2,102</u>	-	<u>736.140</u>
Capital contribution - share issue	10,038	-	-	-	-	-	-	-	10.038
Purchase/Cancelation of treasury shares	-	(23)	-	-	-	-	-	-	(23)
Stock option plan	-	5,837	-	-	-	-	-	-	5.837
Realization of special reserve - tax amortization of Itapoã merged goodwill	-	-	-	-	(1,521)	-	-	1.521	-
Comprehensive income for the year - cash flow hedge	-	-	-	-	-	-	(2.402)	-	(2.402)
Profit for the year	-	-	-	-	-	-	-	151.516	151.516
Allocation of profit for the year									
Statutory reserves on profit for the year	-	-	7,576	-	-	103,681	-	(111.257)	-
Interest on capital proposed (0.331 per share)	-	-	-	-	-	-	-	(41.780)	(41.780)
AT DECEMBER 31, 2012	<u>537,625</u>	<u>233</u>	<u>20,768</u>	<u>61,243</u>	<u>808</u>	<u>238,949</u>	<u>(300)</u>	-	<u>859.326</u>

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

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

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

	<u>Note</u>	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before income tax and social contribution		210,685	130,127
Adjustments:			
Depreciation and amortization		108,619	76,188
Provision for tax, civil and labor claims		(3,993)	1,695
Accrued expenses on stock options		5,837	3,124
Profit sharing payable		20,142	7,917
Gain on sale of property, plant and equipment and intangible assets		(25,978)	(19,277)
Yield on marketable securities		-	(1,549)
Interest, indexation and exchange differences on borrowings, contingencies and judicial deposits		46,890	38,938
Allowance for doubtful debts		16,057	11,353
Others		<u>(142)</u>	<u>1,230</u>
Changes in assets and liabilities:			
Trade receivables		(71,634)	(27,186)
Inventories		(15,747)	(5,561)
Recoverable taxes		13,474	(6,019)
Judicial deposits		(942)	(339)
Other assets		4,172	(5,652)
Trade payables		(6,070)	1,129
Payroll and related taxes		2,618	3,704
Taxes payable		7,864	(2,940)
Other liabilities		<u>3,128</u>	<u>3,696</u>
Lawsuits settled		(2,585)	-
Interest paid		(47,054)	(32,170)
Income tax and social contribution paid		(55,109)	(20,347)
Profit sharing paid		<u>(7,917)</u>	<u>(17,504)</u>
<b>NET CASH GENERATED BY OPERATING ACTIVITIES</b>		<b>202,315</b>	<b>140,557</b>
<b>Cash flows from investing activities:</b>			
Marketable securities		(159,606)	137,695
Acquisitions of investments		-	(92,892)
Purchases of property, plant and equipment and intangible assets (*)		(279,621)	(430,347)
Proceeds from sale of property, plant and equipment and intangible assets		<u>46,140</u>	<u>26,137</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(393,087)</b>	<b>(359,407)</b>

(continues)

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

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

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	<u>Note</u>	<u>2012</u>	<u>2011</u>
Cash flows from financing activities			
Capital contributions		10,038	2,464
Purchase of treasury shares		(23)	(535)
Dividends and interest on capital paid		(21,892)	(24,530)
Repayment of borrowings		(95,196)	(86,266)
Borrowings raised		<u>306,866</u>	<u>356,704</u>
 NET CASH GENERATED BY FINANCING ACTIVITIES		<u>199,793</u>	<u>247,837</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, NET		<u>9,021</u>	<u>28,987</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE			
YEAR (Note 6)		<u>35,179</u>	<u>6,192</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
(Note 6)		<u>44,200</u>	<u>35,179</u>

(\* ) PIS and COFINS credits are included in total purchases of property, plant and equipment and intangible assets.

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

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MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

STATEMENTS OF VALUE ADDED  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(In thousands of Brazilian reais - R\$)

	<u>2012</u>	<u>2011</u>
Revenues:		
Sales of merchandise, products and services	1,031,790	785,295
Cancelations and discounts	(63,198)	(42,847)
Other revenues (sale of assets)	2,935	680
Allowance for doubtful debts	<u>(16,057)</u>	<u>(11,353)</u>
Inputs purchased from third parties	955,470	731,775
Cost of sales and services	(22,178)	(23,879)
Materials, energy, outside services and other	(158,161)	(113,700)
Write-off of assets	(23,802)	(4,559)
Other	-	<u>(1,719)</u>
Gross value added	<u>751,329</u>	<u>587,918</u>
Depreciation, amortization and depletion	(108,619)	(76,188)
Wealth created by the Company	<u>642,710</u>	<u>511,730</u>
Wealth received in transfer		
Finance income	12,050	14,714
Wealth for distribution	<u>654,760</u>	<u>526,444</u>
Distribution of wealth		
Personnel and payroll taxes	235,368	220,853
Salaries and wages	179,445	171,061
Benefits	42,575	38,009
Severance Pay Fund (FGTS)	13,348	11,783
Taxes and contributions	197,232	147,271
Federal	181,621	133,244
State	4,788	4,759
Municipal	10,823	9,268
Lenders and lessors	70,644	66,143
Interest and exchange differences	51,143	46,701
Leases	19,501	19,442
Remuneration of capital	151,516	92,177
Interest on capital	41,780	25,347
Retained earnings	<u>109,736</u>	<u>66,830</u>
Wealth distributed	<u>654,760</u>	<u>526,444</u>

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

MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012  
(In thousands of Brazilian reais - R\$, unless otherwise stated)

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1. GENERAL INFORMATION

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

- (a) Rental and sale, including import and export, of steel and aluminum structures for construction works, as well as reusable concrete 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.
- (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, and
- (e) Participation as shareholder in other companies or corporations.

The accounting information contained in these financial statements was approved by the Company's Board of Directors and authorized for issue on March 4, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are summarized below: These policies have been consistently applied to all reported years, unless otherwise stated.

2.1. Basis of presentation

a) Statement of compliance

The financial statements have been prepared and are being presented in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting practices adopted in Brazil. The accounting practices adopted in Brazil comprise those prescribed by the Brazilian corporate law and the standards issued by the Brazilian Securities Commission (CVM) and the pronouncements, guidance and interpretations issued by the Accounting Pronouncements Committee (CPC).

b) Basis of measurement

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

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

c) Functional currency and presentation currency

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

d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, is the Executive Board, responsible also for making the Company's strategic decisions.

e) Statement of value added

The purpose of this statement is to evidence the wealth created by the Company and its distribution during a certain period and is presented by the Company, as required by Brazilian corporate law, as supplemental information to the financial statements, since this statement is not established or required by IFRSs.

The statement of value added (DVA) has been prepared based on information obtained from the accounting records used as a basis for the preparation of the financial statements and in conformity with the provisions of CPC 09 - *Statement of Value Added*. The first part of the DVA presents the wealth created by the Company, represented by revenues (gross sales revenue, including taxes on sales, other revenues and the effects of the allowance for bad debts), inputs purchased from third parties (cost of sales and purchases of materials, energy and outside services, including taxes levied on purchases, the effects of impairment and recovery of assets, and depreciation and amortization) and the wealth received from third parties (share of profits/losses of subsidiaries, finance income and other income). The second part of the DVA presents the distribution of wealth among personnel and payroll taxes, taxes and contributions, lenders and lessors, and shareholders.

## 2.2. Significant accounting policies

(i) Cash and cash equivalents

Cash and cash equivalents are held to meet short-term cash commitments and other purposes. Cash and cash equivalents include bank deposits and highly liquid short-term investments with original maturity of three months or less, readily convertible

into a known amount of cash and subject to an insignificant risk of change in value.

(ii) Financial instruments

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

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

(iii) Financial assets

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

The classification depends on the purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

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

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

Financial assets are classified as at fair value when the financial asset is either held for trading or it is designated as at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling it in the near term; or (ii) on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-

taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

(b) Held-to-maturity investments

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

(c) Available-for-sale financial assets

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

(d) Loans and receivables

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

Financial assets measured at cost

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

(e) Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

(iv) Financial liabilities

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

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

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

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

(b) Other financial liabilities

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

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

(v) Derivative financial instruments

(a) Hedging activities

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

(b) Fair value hedge

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

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

(c) Cash flow hedge

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

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

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

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

The fair value of derivative instruments is disclosed in Note 27.

(vi) Trade receivables

Trade receivables are recognized on an accrual basis when services are rendered or products are sold to customers. Trade receivables are carried at fair value at the time of sale, adjusted by a provision for impairment (allowance for doubtful debts). The allowance for doubtful debts is recognized when there is objective evidence that the Company will not receive the total amount according to the original terms of the receivables. Such allowance is calculated based on the analysis of credit risks, which considers the individual situation of customers, the situation of the economic group to which they belong, the guarantees provided for the debts, and the assessment made by the legal counsel.

(vii) Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined under 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.

(viii) Current and deferred income tax and social contribution

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

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

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

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

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

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

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

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

(ix) Judicial deposits

Judicial deposits are presented in non-current assets, at amounts adjusted for inflation (Note 17).

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

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

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

Property, plant and equipment are carried at historical cost, less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure directly attributable to the acquisition of the property, plant and equipment items.

Subsequent costs are added to the residual value of property, plant and equipment or recognized as a specific item, as appropriate, only if the future economic benefits associated to these items are probable and the amounts can be reliably measured.

The residual value of the replaced item is derecognized. Other repair and maintenance costs are immediately recognized when incurred.

Depreciation is calculated under the straight-line method, at the rates shown in Note 10, which take into consideration the estimated economic useful lives of assets. Land is not depreciated.

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

Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is included in operating income or expense.

The residual values and estimated useful lives of assets are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

(x) Intangible assets

Software licenses

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

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

Software licenses have finite useful lives and are amortized over five years (Note 11). The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(xii) Goodwill

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

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

(xiii) Impairment of assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets, are tested to identify evidences of impairment on an annual basis or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. When applicable, the recoverable amount is calculated to

determine if there is an impairment loss.

When an impairment loss is identified, it is recognized in the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the net selling price and the value in use of an asset. For impairment testing purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units - CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for the analysis of a possible reversal of the impairment at the reporting date.

(xiv) Trade payables

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

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

(xv) Provisions

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

The provisions for tax, civil and labor claims are recognized at the amount of probable losses, according to the nature of each provision (Note 17). Based on the opinion of its legal counsel, management believes that the recognized provisions are sufficient to cover any losses on ongoing lawsuits. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as expense.

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

(xvi) Profit sharing

The profit sharing is recognized over the year and paid in the following year. The amount of the 2012 profit sharing to be distributed in 2013, was established at 30% of the Economic Value Added (see note 16).

(xvii) Share-based compensation

The Company offers certain employees and executives share-based payment, converted into Company common shares, according to which the Company receives the services as consideration for the options to purchase the shares. The fair value of the options granted is recognized as an expense during the period over which the right is vested, that is, period during which specific vesting conditions should be met. At the end of the reporting period, the Company reviews its estimates of the number of options whose rights must be vested based on the conditions. It recognizes the impact of the review of the initial estimates, if any, in the income statement, as a balancing item to the capital reserve in equity.

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

(xviii) Borrowings and financing

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

The effective interest 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.

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

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

Borrowings and financing are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(xix) Leases

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

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

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

(xx) Translation into foreign currency

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

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

(xxi) Share capital

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

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

(xxii) Repurchase of shares (treasury shares)

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

(xxiii) Distribution of dividends and interest on capital

The distribution of dividends and interest on capital to the Company's shareholders is recognized as a liability in the Company's financial statements at the end of the reporting period based on the Company's bylaws. Any amount that exceeds the minimum required is only provided on the date it is approved by the shareholders at the General Meeting.

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

(xxiv) Revenue recognition

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

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

Rental income is recognized on a straight-line basis over the term of the equipment lease agreements.

The Company separates the identifiable components of a single contract or a group of contracts to reflect the essence of the contract or group of contracts, recognizing the revenue of each of the elements proportionally to its fair value. Thus, the Company's revenue is split into lease, technical assistance, sales and indemnities/recoveries of expenses.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate through maturity, when it is determined whether such income will accrue to the Company.

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

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

(xxv) Earnings per share

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

(xxvi) Business combination

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

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

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

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

### 2.3. Reclassification

As at December 31, 2012, the comparative balances amounting to R\$3,245 of judicial deposits and provision for tax, civil and labor claims at December 31, 2011 have been reclassified for comparability purposes.

As at December 31, 2012, the comparative balances amounting to R\$4,888 of deferred income tax assets and liabilities at December 31, 2011 were presented on a net basis.

### 2.4. New and revised standards and interpretations issued and not yet adopted

#### Standards issued by the IASB

Several standards and amendments to standards and IFRS interpretations issued by the IASB are not yet effective for the year ended December 31, 2012, as follows:

- IFRS 9 - *Financial Instruments* (a) - *Financial Instruments* establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

- IFRS 10 - *Consolidated Financial Statements* (b) - *Consolidated Financial Statements* includes a new definition of control in the determination of which entities will be included in the consolidated financial statements of a group. IFRS 10 partially supersedes IAS 27 (CPC 36).
- IFRS 11 - *Joint Arrangements* (b) - *Joint Arrangements* prescribes the accounting for contracts in which there are joint control. Proportionate consolidation will no longer be permitted for joint ventures and/or joint arrangements.
- IFRS 12 - *Disclosure of Interests in Other Entities* (b) - *Disclosure of Interests in Other Entities* determines the disclosure requirements for subsidiaries, jointly controlled entities and/or joint ventures, associates and special purpose entities. IFRS 12 replaces requirements previously included in IAS 27 (CPC 35), IAS 31 (CPC 19) and IAS 28 (CPC 18).
- IFRS 13 - *Fair Value Measurement* (b) - *Fair Value Measurement* - IFRS 13 replaces the guidelines related to fair value measurement in the existing IFRSs by a single standard. More extensive disclosures will be required.

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments (1)
IFRS 10	Consolidated Financial Statements (2)
IFRS 11	Joint Arrangements (2)
IFRS 12	Disclosure of Interests in Other Entities (2)
IFRS 13	Fair Value Measurement (2)
Amendments to IAS 1 (revised in 2011)	Presentation of Items of Other Comprehensive Income (3)
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities (2):
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities (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) Effective for annual periods beginning on or after January 1, 2015.

(2) Effective for annual periods beginning on or after January 1, 2013.

(3) Effective for annual periods beginning on or after July 1, 2012.

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

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

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

In the preparation of the Company's consolidated financial statements, management is required to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, as well as the disclosure of contingent liabilities at the end of the reporting period. However, the uncertainty related to these assumptions and estimates might lead to results that would require a significant adjustment to the carrying amount of the affected asset or liability in future periods.

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

#### 3.1. Impairment of non-financial assets

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

#### 3.2 Share-based payment transactions

The Company measures the cost of share-based payment transactions with employees based on the fair value of the equity instruments on their grant date. The estimate of the fair value of share-based payments requires the determination of the most appropriate valuation model for the granting of equity instruments, which depends on the terms and conditions of the granting. This also requires the determination of the most appropriate valuation model, including the expected life of the option, volatility and dividend yield and related assumptions. The assumptions and models used to estimate the fair value of share-based payments are disclosed in Note 16.

#### 3.3. Taxes

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

deferred tax assets that can be recognized, based on the probable term and level of future taxable profits, together with strategies for future tax planning.

#### 3.4. Fair value of financial instruments

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

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

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

#### 3.6. Useful life of property, plant and equipment

As described in note 11, the Company reviews the estimated useful life of property, plant and equipment annually at the end of each reporting period. During the current year Management concluded that the useful life of ten years adopted in prior years reasonably represents the average useful life of the Company's assets and should be maintained for our equipment in 2012.

#### 3.7. Revenue recognition

The revenue from the industrial services division, for the provision of services, is recognized by reference to the stage of completion of the contract at the end of the reporting period.

### 4. FINANCIAL RISK MANAGEMENT

#### 4.1. Financial risk factors

The Company's operations are exposed to various financial risks: market risk (including currency risk, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The risk management program concentrates on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to protect

certain risk exposures, and has a policy of not entering into any derivative transactions for speculative purposes.

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

(i) Sensitivity analysis

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

<u>Debt</u>	<u>Indicator</u>	<u>Debt balance at 12/31/12</u>		
		<u>Current</u>	<u>25%</u>	<u>50%</u>
BNDES	TJLP	26,664	26,888	27,111
Leasing	CDI	18,013	18,315	18,615
Working capital	CDI	27,322	27,491	27,659
1 <sup>st</sup> issue of debentures	CDI	274,067	285,828	297,501
2 <sup>nd</sup> issue of debentures				
1 <sup>st</sup> series	CDI	165,674	165,918	166,157
2 <sup>nd</sup> series	IPCA	<u>113,992</u>	<u>114,224</u>	<u>114,450</u>
	Total	<u>625,732</u>	<u>638,664</u>	<u>651,493</u>
	Change		2.07%	4.12%

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

<u>Scenarios</u>	<u>12/31/2012</u>		
	<u>Scenario I</u>	<u>Scenario II</u>	<u>Scenario III</u>
Rates		25%	50%
CDI (%) (i)	6.90%	8.63%	10.35%
TJLP (%) (ii)	5.50%	6.88%	8.25%
IPCA (%) (iii)	5.84%	7.30%	8.76%
US\$ (%) (iv)	2.04	2.55	3.07
Euro (%) (v)	2.70	3.37	4.04

(i) Regarding interest rate risk, the Company's management considered as probable assumption (scenario I) for its financial instruments that the Central

Bank's policy rate (SELIC) and, consequently the CDI rate, would remain stable since there is a direct relationship between the rates, and an increase in the rate as an assumption for the other two scenarios.

- (ii) For financial liabilities related to borrowings and financing - BNDES, the Company's management considered as probable assumption (scenario I) that the TJLP would remain stable in the coming three months, since there is no evidence of a change in the rate in the short term, and an increase in the rate as an assumption for the other two scenarios.
- (iii) For financial liabilities related to the second series of debentures, the Company's management considered as probable assumption (scenario I) that the IPCA would remain stable in the coming three months, since there is no evidence of a change in the rate in the short term, and an increase in the rate as an assumption for the other two scenarios.
- (vi) and (v) The Company's management considered as a probable assumption (scenario I) that the exchange rate would remain stable in the coming three months, and an increase in the rate as an assumption for the other two scenarios.

#### 4.2. Market risk

- (i) Exchange rate risk

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

The Company has a policy of reducing the cash risk related to exchange variation, on a conservative basis, since all its revenues are earned in Brazilian reais. For this purpose, the Company enters into swap contracts with financial institutions for hedging purposes. All these contracts provide for a simple swap of indices through which the financial institution assumes the exchange rate risk, and the Company commits to paying an interest rate on the notional amount (corresponding to the original amount of the liability in foreign currency).

- (ii) Interest rate and inflation adjustment risk

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

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

The Company takes a dynamic approach to analyzing its exposure to interest rates. Various scenarios are simulated, taking into consideration refinancing, financing and hedging. Based on these scenarios, the Company determines a reasonable

change in the interest rate. The scenarios are prepared only for liabilities that represent the main positions with interest. See the sensitivity analysis of possible fluctuations in interest rates in note 27 (b.4).

#### 4.3. Credit risk

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

##### (i) Trade receivables

The Company periodically bills amounts for rentals and services due by its customers, for past due periods that normally vary from 30 to 45 days, with an average payment term of 50 days. Thus, it is subject to the risk of default on trade receivables. The default rates are relatively low, which can be attributed to the long relationships with customers. The Company's commercial credit portfolio is overwhelmingly concentrated in domestic customers. The Company recognizes a provision for impairment when it understands there is the risk of amounts due not being received.

Customer credit risk is managed by the Company's financial management, which evaluates customers' financial capacity to pay. This analysis is performed before the actual commercial agreement between the parties, and for this purpose, each customer is analyzed individually, taking into consideration mainly the following information: (i) registration information; (ii) financial information and indicators; (iii) risk ratings (methodology of credit bureau SERASA); (iv) controlling shareholder; and (v) pending issues and protests at Serasa. The Company does not have the practice of obtaining financial guarantees from its customers for managing credit risk.

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

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

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

#### 4.4. Liquidity risk

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

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

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

	<u>Less than one year</u>	<u>Between one and two years</u>	<u>Between two and five years</u>	<u>Over five years</u>
<u>At December 31, 2012</u>				
Borrowings and financing	34,176	5,988	12,220	9,131
Debentures	49,931	137,197	432,108	145,586
Finance leases	10,236	8,390	1,364	-
Derivative financial instruments	800	-	-	-
Trade payables	47,784	-	-	-
<u>At December 31, 2011</u>				
Borrowings and financing	16,293	33,367	10,104	8,317
Promissory notes	30,620	-	-	-
Debentures	33,677	35,692	320,552	-
Finance leases	27,471	21,876	12,047	-
Derivative financial instruments	(2,841)	-	-	-
Trade payables	35,898	-	-	-

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

#### 4.5. Credit quality of financial assets

##### (i) Trade receivables

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

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

	<u>12/31/2012</u>	<u>12/31/2011</u>
<u>Bank account</u>		
Bank (1)	6,550	7,087
Bank (2)	132	44
Total	6,682	7,131

Short-term investments

Bank (1)	197,124	28,048
Total	<u>197,124</u>	<u>28,048</u>
Total banks and short-term investments	203,806	35,179

- (1) Main financial institutions with extensive operations in Brazil, with investment grade.
- (2) Financial institutions with good operations in Brazil, but without investment grade.

## 5. CAPITAL MANAGEMENT

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

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

	<u>2012</u>	<u>2011</u>
Total bank debt	<u>625,732</u>	<u>412,990</u>
Financing	<u>53,986</u>	<u>84,233</u>
Lease	<u>18,013</u>	<u>52,159</u>
Debentures	<u>553,733</u>	<u>276,598</u>
Cash and cash equivalents and short-term investments	<u>203,806</u>	<u>35,179</u>
Net indebtedness	<u>421,926</u>	<u>377,811</u>
EBITDA	<u>358,503</u>	<u>238,156</u>
Net debt / EBITDA *	<u>1.18</u>	<u>1.59</u>

- \* EBITDA is a non-accounting measure prepared by the Company observing the provisions of CVM Circular 01/2007, when applicable. EBITDA is calculated based on operating profit before finance income (costs), the effects of depreciation of assets for own use and rental equipment, and amortization of intangible assets. EBITDA is not a measurement recognized by accounting practices adopted in Brazil or IFRSs, does not have a standard meaning, and may not be comparable with measurements using similar names provided by other entities. EBITDA should not be considered on a standalone basis or as a substitute for profit or operating profit, as indicators of operating performance or cash flow, or to measure liquidity or capacity to pay debt. Information not subject to audit by independent auditors.

The Company is not subject to any external requirement regarding issued capital.

## 6. CASH AND CASH EQUIVALENTS

	<u>2012</u>	<u>2011</u>
Cash and banks	6,682	7,131
Short-term investments	<u>37,518</u>	<u>28,048</u>
	<u>44,200</u>	<u>35,179</u>

The balances recorded as cash and cash equivalents refer to deposits and highly liquid short-term investments, readily convertible into a known amount of cash and subject to an insignificant risk of change in value. As at December 31, 2012, short-term investments refer to bank deposit certificates (CDBs) issued by bank Santander, bearing interest at 103.5% of the interbank deposit certificate (CDI) (102% to 103.5% at December 31, 2011).

## 7. MARKETABLE SECURITIES

The balance of R\$159,606 recognized as marketable securities as at December 31, 2012 refers to short-term investments with Banco Santander, through bank deposits, yielding 103.5% of the Certificate of Interbank Deposit (CDI). The balance of this account will be used mainly for purchase of the Company's property, plant and equipment.

## 8. TRADE RECEIVABLES

	<u>2012</u>	<u>2011</u>
Construction division	52,867	40,934
Jahu division	66,585	31,844
Industrial services divisions	59,041	49,755
Rental division (Mills Rental)	51,290	34,708
Events division (**)	4,247	5,155
	<u>234,030</u>	<u>162,396</u>
Allowance for doubtful debts (*)	<u>(36,703)</u>	<u>(20,646)</u>
	<u>197,327</u>	<u>141,750</u>
Current	<u>194,778</u>	<u>139,142</u>
Non-current	<u>2,549</u>	<u>2,608</u>

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

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

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

	<u>2012</u>	<u>2011</u>
At January 1	20,646	9,293

Allowance for doubtful debts	16,106	11,392
Amounts received	<u>(49)</u>	<u>(39)</u>
At December 31	<u>36,703</u>	<u>20,646</u>

As at December 31, 2012, trade receivables totaling R\$36,703 (2011 - R\$20,646) were accrued. The increase in the amount of this allowance refers mainly to the accrual of the balance receivable from specific customers that during 2012 were having difficulties to discharge their obligations.

Mills holds receivables corresponding to assets of the Events Division, whose activities have been discontinued. Part of these assets was sold in the course of 2008 and 2009 under an agreement for the sale of chattels with reserve of title entered into on May 20, 2008 and February 18, 2009. The total amount will be received over a period not exceeding eight years, and the installments are adjusted using the percentage fluctuation of the Extended Consumer Price Index (IPCA). As at December 31, 2012, the asset is adjusted at present value and management, based on the collaterals provided for in the agreement, believes that the amount will be fully realized by the due date of the last installment.

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

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

	<u>2012</u>	<u>2011</u>
Current	130,420	94,892
Current (bills with original due dates extended)	11,688	14,330
1 to 60 days past due (*)	40,577	20,743
61 to 120 days past due (*)	15,359	10,675
More than 120 days past due (*)	<u>35,986</u>	<u>21,756</u>
Total	<u>234,030</u>	<u>162,396</u>

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

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

	<u>2012</u>	<u>2011</u>
1 to 60 days past due (*)	40,147	20,681
61 to 120 days past due (*)	9,749	8,731
More than 120 days past due (*)	<u>6,729</u>	<u>3,115</u>
Total	<u>56,625</u>	<u>32,527</u>

As at December 31, 2012, trade receivables amounting to R\$56,625 (2011 - R\$32,527) are past due, but no allowance for doubtful debts was recorded for them due to the fact that they do not meet the provisioning recognition criteria established by the Company.

## 9. RECOVERABLE TAXES

	<u>2012</u>	<u>2011</u>
Taxes on revenue (PIS and COFINS) (*)	54,724	48,506
Income tax (IRPJ) and social contribution (CSLL) (**)	6,453	606
State VAT (ICMS) (***)	3,618	2,051
Other	<u>943</u>	<u>2,465</u>
	<u>65,738</u>	<u>53,628</u>
Current	<u>35,021</u>	<u>22,051</u>
Non-current	<u>30,717</u>	<u>31,577</u>

(\*) PIS and COFINS credits refer basically to amounts recoverable on purchases of property, plant and equipment and that will be offset at the rate of 1/48 per month against non-cumulative PIS and COFINS federal tax obligations. Mills expects that these credits will be realized by 2016.

(\*\*) Refers to negative balances of IRPJ and CSLL calculated at December 31, 2012, which will be adjusted for inflation monthly based on the SELIC rate and offset against taxes of the same nature during 2013.

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

## 10. INVESTMENTS

### a) Investment in non-controlled company

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

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

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

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

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

In December 2012 Mills recognized finance income of R\$3,214 related to interest on capital of Rohr for the years 2011 and 2012.

b) Impairment loss

During 2012 the Company reviewed the recoverable amount of the investment in Rohr S.A based on an internal report. The recoverable amount of this asset was determined based on economic projections to determine Rohr's market value, using the income approach, through a discounted cash flow projection, in order to establish the grounds for the amount paid. The discount rate used to measure the recoverable amount was approximately 12% per year. Management believes that any type of change reasonably possible in key assumptions on which the recoverable amount is based would not lead the investment's carrying amount to exceed its recoverable amount.

## 11. PROPERTY, PLANT AND EQUIPMENT

	Equipment for rental and operational use	Leasing	Rental equipment in progress	Total leased equipment	Leasehold improvements	Buildings and land	Computers and peripherals	Vehicles	Facilities	Furniture and fixtures	Construction in progress	Total assets in use	Total PP&E
<b>Gross cost of PP&amp;E</b>													
Balances at December 31, 2010	<u>531,326</u>	<u>100,882</u>	<u>57,695</u>	<u>689,903</u>	<u>6,910</u>	<u>8,433</u>	<u>6,840</u>	<u>897</u>	<u>1,089</u>	<u>4,672</u>	<u>5,470</u>	<u>34,311</u>	<u>724,214</u>
Acquisition through merger GP Sul	2,751	-	-	2,751	-	-	-	-	-	6	-	6	2,757
Purchases	234,580	-	180,814	415,394	3,043	2,616	1,700	269	108	1,467	6,126	15,329	430,723
Write-offs/disposals	(17,224)	(1,911)	-	(19,135)	-	-	(14)	(215)	-	-	-	(229)	(19,364)
Adjustment for PIS and COFINS credits	(29,519)	-	-	(29,519)	-	-	-	-	-	-	-	-	(29,519)
Transfers	<u>181,006</u>	<u>-</u>	<u>(181,006)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balances at December 31, 2011	<u>902,920</u>	<u>98,971</u>	<u>57,503</u>	<u>1,059,394</u>	<u>9,953</u>	<u>11,049</u>	<u>8,526</u>	<u>951</u>	<u>1,197</u>	<u>6,145</u>	<u>11,596</u>	<u>49,417</u>	<u>1,108,811</u>
Purchases	199,194	-	77,089	276,283	3,372	-	1,195	585	260	1,465	4,287	11,164	287,447
Write-offs/disposals	(38,416)	(2,733)	(12)	(41,161)	(669)	-	(647)	(66)	-	(374)	-	(1,756)	(42,917)
Adjustment for PIS and COFINS credits	(25,584)	-	-	(25,584)	-	-	-	-	-	-	-	-	(25,584)
Reclassification	-	-	(23)	(23)	-	-	380	-	-	-	(192)	188	165
Transfers	<u>85,040</u>	<u>(56)</u>	<u>(87,991)</u>	<u>(3,007)</u>	<u>111</u>	<u>14,107</u>	<u>47</u>	<u>2,804</u>	<u>-</u>	<u>(62)</u>	<u>(14,000)</u>	<u>3,007</u>	<u>-</u>
Balances at December 31, 2012	<u>1,123,154</u>	<u>96,182</u>	<u>46,566</u>	<u>1,265,902</u>	<u>12,767</u>	<u>25,156</u>	<u>9,501</u>	<u>4,274</u>	<u>1,457</u>	<u>7,174</u>	<u>1,691</u>	<u>62,020</u>	<u>1,327,922</u>
<b>Accumulated depreciation</b>													
Balances at December 31, 2010	<u>(162,978)</u>	<u>-</u>	<u>-</u>	<u>(162,978)</u>	<u>(1,818)</u>	<u>(774)</u>	<u>(4,034)</u>	<u>(291)</u>	<u>(501)</u>	<u>(2,644)</u>	<u>-</u>	<u>(10,062)</u>	<u>(173,040)</u>
Depreciation	(63,182)	(9,851)	-	(73,033)	(802)	(110)	(971)	(189)	(68)	(336)	-	(2,476)	(75,509)
Write-offs	<u>11,773</u>	<u>689</u>	<u>-</u>	<u>12,462</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>156</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>162</u>	<u>12,624</u>
Balances at December 31, 2011	<u>(214,387)</u>	<u>(9,162)</u>	<u>-</u>	<u>(223,549)</u>	<u>(2,620)</u>	<u>(884)</u>	<u>(4,999)</u>	<u>(324)</u>	<u>(569)</u>	<u>(2,980)</u>	<u>-</u>	<u>(12,376)</u>	<u>(235,925)</u>
Depreciation	(99,427)	(4,816)	-	(104,243)	(1,057)	(196)	(1,172)	(323)	(85)	(468)	-	(3,301)	(107,544)
Disposals	16,362	1,088	-	17,450	573	-	637	43	-	339	-	1,592	19,042
Reclassification	-	-	-	-	-	-	(148)	-	-	-	-	(148)	(148)
Transfers	<u>1,918</u>	<u>-</u>	<u>-</u>	<u>1,918</u>	<u>-</u>	<u>-</u>	<u>(36)</u>	<u>(1,918)</u>	<u>-</u>	<u>36</u>	<u>-</u>	<u>(1,918)</u>	<u>-</u>
Balances at December 31, 2012	<u>(295,534)</u>	<u>(12,890)</u>	<u>-</u>	<u>(308,424)</u>	<u>(3,104)</u>	<u>(1,080)</u>	<u>(5,718)</u>	<u>(2,522)</u>	<u>(654)</u>	<u>(3,073)</u>	<u>-</u>	<u>(16,151)</u>	<u>(324,575)</u>
Annual depreciation rates - %	10	10	-	-	10	4	20	20	10	10	-	-	-
<b>Property, plant and equipment, net</b>													
Balance at December 31, 2011	688,533	89,809	57,503	835,845	7,333	10,165	3,527	627	628	3,165	11,596	37,041	872,886
Balance at December 31, 2012	827,620	83,292	46,566	957,478	9,663	24,076	3,783	1,752	803	4,101	1,691	45,869	1,003,347

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

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

	<u>2012</u>
Props	40,246
Platforms	158,111
Reusable concrete forms	48,465
Suspended scaffolding and access structures	26,445
Other	<u>14,180</u>
Total purchases	<u>287,447</u>

The depreciation for the year, allocated to costs of production and services and to general and administrative expenses, amounts to R\$104,243 and R\$3,301 as at December 31, 2012 (R\$73,033 and R\$2,476 as at December 31, 2011), respectively.

Certain items of the Company's property, plant and equipment are pledged as collateral of borrowing and financing transactions (Note 13).

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

#### Review of estimated useful life

For purposes of this review, based on a valuation conducted by technical experts the Company issued a valuation report dated December 31, 2012, approved at an executive board's meeting. In 2010 the Company contracted independent appraisers who issued a valuation report dated February 4, 2011. In order to prepare the report, the technical experts and independent appraisers considered the Company's operational planning for the coming fiscal years, past experience, such as the level of maintenance and use of the items, external elements for benchmarking, such as available technologies, manufacturers' recommendations and technical manuals, and the service lives of the assets. There was no change in the remaining estimated useful life of property, plant and equipment of the rental equipment group in relation to that calculated in the report of February 2011 and that is in line with the depreciation rates used by the Company; therefore, there was no change in the depreciation rate for 2012.

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

## 12. INTANGIBLE ASSETS

	<u>Software</u>	<u>Trademarks and patents</u>	<u>Goodwill on Investments</u>	<u>Total intangible assets</u>
Gross cost of intangible assets				
Balances at December 31, 2011	<u>8,370</u>	<u>63</u>	<u>44,294</u>	<u>52,727</u>
Purchases	9,261	869	-	10,130
Write-offs/disposals	(1)	-	-	(1)
Reclassification	(165)	-	-	(165)
Balances at December 31, 2012	<u>17,465</u>	<u>932</u>	<u>44,294</u>	<u>62,691</u>
Accumulated amortization				
Balances at December 31, 2011	<u>(2,997)</u>	<u>(10)</u>	<u>(4,232)</u>	<u>(7,239)</u>
Amortization	(963)	(112)	-	(1,075)
Write-offs/disposals	1	-	-	1
Reclassification	148	-	-	148
Balances at December 31, 2012	<u>(3,811)</u>	<u>(122)</u>	<u>(4,232)</u>	<u>(8,165)</u>
Annual amortization rates - %	20	20		
<u>Intangible assets, net</u>				
Balance at December 31, 2011	5,373	53	40,062	45,488
Balance at December 31, 2012	13,654	810	40,062	54,526

Allowance for impairment of goodwill

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

The recoverable amount of the Jahu CGU was determined based on the actual cash flow of this segment in 2011, before income tax and social contribution, projected for a 10-year period by the Company according to financial forecasts approved by management, at a discount rate of around 12% per year and without taking into consideration any growth rate. No need to recognize an allowance for impairment losses of this goodwill was identified.

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

During the year, the Company reviewed the recoverable amount of goodwill allocated to GP Andaimes Sul Locadora LTDA., based on a valuation report prepared by a specialized firm. The recoverable amount of this asset was determined based on economic projections to determine the market value of GP Sul using the income approach by projecting discounted cash flows, in order to support the amount paid. The discount rate used to measure the recoverable amount was around 12% per year.

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

## 13. BORROWINGS, FINANCING AND FINANCE LEASES

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

Borrowings indexed to the CDI rate also bear interest of between 0.84% and 4.5% per year, and principal and interest are amortized on a monthly basis.

The financing agreements for rental equipment have been contracted at TJLP charges plus interest of 0.2% to 0.9% per year, with amortization on a monthly basis through June 2021.

Promissory notes

On December 7, 2011 the Company issued a single series of 3 commercial promissory notes with unit face value of R\$9,000, for a total amount of R\$27,000 maturing on December 1, 2012. The unit face value of the commercial notes bears interest corresponding to 100% of the accumulated fluctuation of the average daily interbank deposit (DI) rates, plus 1.10% per year. Interest was fully paid on the maturity date.

On April 23, 2012 the Company issued a single series of 30 commercial promissory notes with unit face value of R\$1,000, for a total amount of R\$30,000 maturing on December 3, 2012. The unit face value of the commercial notes bears interest corresponding to 104.9% of the accumulated fluctuation of the average daily interbank deposit (DI) rates. Interest was fully paid on the maturity date.

Borrowings, financing and finance leases are as follows:

	<u>2012</u>	<u>2011</u>
Current:		
Borrowings and financing	31,672	39,214
Finance leases	<u>10,124</u>	<u>26,068</u>
	<u>41,796</u>	<u>65,282</u>
Non-current:		
Bank loans	22,314	45,019
Finance leases	<u>7,889</u>	<u>26,091</u>
Total	<u>30,203</u>	<u>71,110</u>

Borrowings and financing

	<u>Current liabilities</u>	
	<u>2012</u>	<u>2011</u>
Financing from financial institutions:		
Indexed to CDI plus interest of 0.84% to 4.5% per year	27,323	35,553
Indexed to TJLP plus interest of 0.2% to 0.9% per year	<u>4,349</u>	<u>3,661</u>
	<u>31,672</u>	<u>39,214</u>

	<u>Non-current liabilities</u>	
	<u>2012</u>	<u>2011</u>
Financing from financial institutions:		
Indexed to CDI plus interest of 0.84% to 4.5% per year	-	26,545
Indexed to TJLP plus interest of 0.2% to 0.9% per year	<u>22,314</u>	<u>18,474</u>
	<u>22,314</u>	<u>45,019</u>

The financial institutions with which the Company has borrowing and financing transactions as at December 31, 2012 are as follows:

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

On May 27, 2011 the Company entered into a borrowing agreement with the Nassau Branch of Banco Itaú BBA S.A. totaling US\$15.8 million (equivalent to R\$25.4 million). The borrowing will be settled in a bullet payment on May 28, 2013 and interest will be paid semiannually. In order to eliminate the foreign exchange risk on this borrowing, on the same date a swap was contracted with Banco Itaú BBA S.A. in the amount of R\$25.4 million so that the obligations (principal and interest) are fully converted into local currency and carried out on the same maturity dates.

The agreement has financial covenants as follows:

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

Accordingly, the financial instruments and related 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 future cash flows, as well as the risks to which such cash flows will be exposed.

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

	<u>2012</u>	<u>2011</u>
Guarantees provided:		
Receivables	904	3,684
Liens	-	2,106
Collateral sale (*)	<u>66,775</u>	<u>121,302</u>
Total collaterals	<u>67,679</u>	<u>127,092</u>
Promissory notes	20,777	91,751

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

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

The maturities of the non-current portions at December 31, 2012 are as follows:

2014	4,621
2015	3,412
2016	3,009
2017	3,009
2018 to 2021	<u>8,263</u>
	<u>22,314</u>

#### Covenants

The financing agreement entered into with Banco Itaú establishes limits for certain financial ratios linked to the Company's debt and interest payment capacity, as follows:

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

On the closing of the financial statements for the year ended December 31, 2012 the Company was compliant with all ratios.

#### Finance leases

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

	<u>2012</u>	<u>2011</u>
2013	10,124	26,068
2014	6,773	18,490
2015	1,116	7,386
2016	<u>-</u>	<u>215</u>
Present value of minimum lease payments	<u>18,013</u>	<u>52,159</u>
	<u>18,013</u>	<u>52,159</u>
Current portion	10,124	26,068
Non-current portion	7,889	26,091

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

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

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

## 14. DEBENTURES

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

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

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

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

- 1<sup>st</sup> series - 16,094 debentures of the first series, totaling R\$160,940, with maturity on August 15, 2017, not subject to adjustment for inflation. The nominal amount of the debentures of the first series will be amortized in two annual installments as from the fourth year of their issue and interest paid semiannually will correspond to a surcharge of 0.88% p.a. levied on 100% of the accumulated variation of the DI rate;
- 2<sup>nd</sup> series - 10,906 debentures of the second series, totaling R\$109,060, with maturity on August 15, 2020, subject to adjustment for inflation based on the accumulated variation of the IPCA index. The nominal amount of the debentures of the second series will be amortized in three annual installments as from the sixth year of their issue and interest paid semiannually will correspond to 5.50% p.a. of the amount adjusted for inflation as indicated above.

As at December 31, 2012 the balance of debentures including transaction costs is R\$13,733 in current liabilities and R\$540,000 in non-current liabilities, and R\$12,994 and R\$537,459, net of transaction costs, respectively. (As at December 31, 2011 the balance of debentures is R\$6,598 in current liabilities and R\$270,000 in non-current liabilities, and R\$6,126 and R\$268,428, net of transaction costs, respectively.)

### Covenants

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

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

On the closing of the financial statements for the year ended December 31, 2012 the Company was compliant with all ratios.

## 15. RELATED PARTIES

### a) Transactions and balances

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

As at December 31, 2012 the Company had no service agreements with members of its Board of Directors.

### b) Management compensation

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

	<u>2012</u>	<u>2011</u>
Salaries and payroll charges - officers	4,769	4,481
Directors' fees	1,456	1,301
Profit sharing	637	524
Share-based payments	<u>1,690</u>	<u>1,122</u>
Total	<u>8,552</u>	<u>7,428</u>

## 16. EMPLOYEE BENEFITS

### a) Employee profit sharing

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

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

The profit sharing is recognized over the year and paid in the following year. The amount recognized in current liabilities and profit as at December 31, 2012 is R\$20,142 (December 31, 2011 - R\$7,917)).

### b) Stock option plan

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

## Description of the plans

### *2002 Plan*

This plan was approved at the extraordinary shareholders' meeting held on August 1, 2002, granted on the same date and implemented on August 31, 2002. The plan consists of a Company common stock purchase scheme.

A total of 612,157,000 shares of the then Mills Andaimes Tubulares do Brasil S.A. (MAT), former Group holding company merged into Mills Estruturas e Serviços de Engenharia S.A. (ME) on January 30, 2009, were acquired, equivalent at December 31, 2009 to 3,920 ME shares 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.

### *Top Mills and CEO Special Plans*

These plans were approved by the Board of Directors on November 27, 2007 and ratified at the extraordinary shareholders' meeting held on May 28, 2008. A total of 140,825,000 options were granted between January 1, 2008 and January 1, 2009 to purchase shares of the former MAT, corresponding to 901,000 ME stock options at December 31, 2009.

These options will be converted into shares at the price of R\$12.0294 per thousand shares, adjusted for inflation using the IPCA between January 2008 and the exercise date.

In return, the beneficiaries are required to perform services to the Company for a three-year period after the date of the IPO.

The Top Mills special plan became effective on January 1, 2008 and will be discontinued by July 10, 2015 or at any other time, at the discretion of the extraordinary shareholders' meeting.

The CEO special plan became effective on November 1, 2008 and will be discontinued by July 10, 2012 or at any other time, at the discretion of the extraordinary shareholders' meeting.

### *Ex-CEO Plan*

A total of 24,000,000 stock options of the former MAT were granted on May 1, 2008 under this plan, corresponding to 154,000 ME stock options at December 31, 2009. This plan is equal to the Top Mills and CEO special plans described above, including as regards the strike 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 154,000 shares.

### *Mills Rental Executives Plan*

This plan was granted on December 29, 2008 and also involved options for purchase of shares of the former MAT, granted to the main executives of the Rental division, which started to operate in January 2008. The exercise of the options is contingent to the attaining of EBITDA targets.

During the first stage of the plan, stock options equivalent to US\$387,000 were granted, the exercise of which is contingent to the division's reaching EBITDA of R\$11 thousand. During the second stage, stock options equivalent to US\$1,162,000 were granted, the exercise of which is contingent to the division's reaching EBITDA of R\$22 million. The number of shares corresponding to these amounts was obtained by converting the above amounts into reais at the closing rate of the year when the target was attained and dividing the amount in reais by the amount per share corresponding to the appreciation of Mills at 6.6 times the EBITDA, less the net debt for the same year in which the target was attained. A small amount is added to this amount to gross up the withholding income tax (IRRF) levied thereon at the rate of 15%.

The strike price of these stock options is R\$3.95 per thousand, indexed to the IPCA from January 2007 through the exercise date. When the plan was granted, it was projected that the first target would be attained on December 31, 2008 and the second on December 31, 2009, resulting in granting 137,031,000 options on former MAT shares, corresponding, at December 31, 2009, to 438,000 options on ME stock. The first target was indeed attained on December 31, 2008 and resulted in the issue and purchase of 199,853 ME shares, through a capital increase, approved at the extraordinary shareholders' meeting held on October 1, 2009, in the amount of R\$134,000. The second target was also attained and the stock options were exercised.

The Rental division special plan became effective on January 1, 2008 and will be discontinued by December 31, 2013 or at any other time, at the discretion of the extraordinary shareholders' meeting.

#### *2010 Stock Purchase Option Plan*

The 2010 Stock Purchase Options Plan, was approved by the Extraordinary General Meeting held on February 8, 2010 with amendments approved by the Board of Directors meeting held on May 31, 2010 and by the Extraordinary General Meeting held on April 20, 2012.

The Board of Directors approved (i) on March 11, 2010, the 2010 stock options program of the Company ("2010 Program"), (ii) on March 25, 2011, the stock options program 2011 of the Company ("2011 Program"), and (iii) on May 30, 2012, the stock options program 2012 of the Company ("2012 Program").

The extraordinary shareholders' meeting held on February 8, 2010 approved the Stock Option Plan for purchase of Company shares. The beneficiaries eligible for this new plan are officers and employees holding leadership positions at the Company or company subsidiaries. This plan is managed by the Board of Directors. The Board of Directors can impose terms and/or conditions for exercise of the stock options, and restrictions on the transfer of shares acquired through exercise of the stock options. The stock options granted under the new plan may grant rights for acquisition of up to 5% of the Company's capital stock. Furthermore, the number of stock options granted under this plan cannot exceed 1% of capital stock each year on the plan approval date.

#### (i) 2010 Program

The price of the common shares to be acquired by the beneficiaries by exercising the stock options is to be set by the Board of Directors based on their average quotation on the São Paulo Stock Exchange (BM&F BOVESPA), weighted by the trading volume in the month or in the

two months prior to the grant, adjusted for inflation using the IPCA, less dividends and interest on capital per share paid by the Company as from the grant date. Exceptionally, on the first grant, the strike price for the stock options will be based on the issue price of the shares under the IPO, indexed to 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 vesting period of up to 72 months for conversion of the options into shares. A total of 1,432,000 stock options were granted on May 31, 2010.

The purchase options will remain in effect for a six-year period, beginning on the contract date May 31, 2010, i.e., up to May 31, 2016.

The second grant of stock options took place on July 5, 2010, at the strike exercise price of the initial public offering, i.e., R\$11.50, indexed to the IPCA from that date through the stock option exercise date, less dividends and interest on capital paid by the Company since the grant date. The second grant stock options of this plan are subject to a vesting period of up to 72 months for conversion of the options into shares. A total of 43,000 stock options were granted.

The purchase options will remain in effect for a six-year period as from July 5, 2010, i.e., up to July 5, 2016.

(ii) 2011 Program

The price of the common shares to be acquired by the beneficiaries by exercising the stock options, set by the Board of Directors when the program was implemented, is equal to the average price of the shares purchased according to the brokerage note, indexed to the IPCA as from the date the stock option contract is executed through the date the option is exercised, less the amount of dividends and interest on capital per share paid by the Company as from the grant date.

The options granted under the terms of this plan are subject to a vesting period of up to 72 months for conversion of the options into shares. A total of 1,184,000 stock options were granted on April 16, 2011.

The purchase options will remain in effect for a six-year period, beginning on the contract date April 16, 2011.

(iii) 2012 Program

The strike prices of options granted to beneficiaries were set by the Board of Directors as follows: (i) In the case of purchase options at basic grant level - R\$5.86, corresponding to the amount of equity at December 31, 2011; (ii) In the case of purchase options at discretionary grant level - R\$19.22 corresponding to the weighted average based on the trading volume of the Company's common shares on BM&FBOVESPA S.A. during the fiscal year 2011. Both prices will be adjusted for inflation based on the IPCA, as from the Option Contract execution date to the Option exercise date, less the amount of dividends and interest on capital per share paid by the Company as from the grant date.

The options granted under the terms of this plan are subject to a vesting period of up to 48 months for conversion of the options into shares. A total of 1,258,000 stock options were granted on June 30, 2012.

The purchase options will remain in effect for a six-year period, beginning on the contract date June 30, 2012.

#### *Plan pricing and accounting*

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

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

For the other plans granted until 2009, the Company classified them as compound instruments since they include a debt component (right/possibility of receiving payment in cash should the IPO not take place) and an equity component (right/possibility of receiving payment in an equity instrument should the IPO take place), in which the settlement method 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, using the EBITDA multiple described above, weighted by the probability of the IPO taking place, and the resulting value was recognized in long-term liabilities. The IPO took place on April 14, 2010 and, therefore, the debt component was extinguished on that date.

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

The weighted average fair value of the options granted in 2011 was determined using the Black-Scholes valuation model, and was R\$6.57 per option. The significant data included in the model was as follows: weighted average price per share of R\$21.08 on grant date, strike price of R\$19.28, volatility of 35.79% measured based on the historical behavior of the Company's share price, dividend yield of 1.73%, expected life of option of four years, and annual risk-free interest rate of 6.53%.

The weighted average fair value of options granted during the year 2012 was determined using the standard Black-Scholes valuation model, of R\$21,75 per option for basic grant and R\$12,57 per option for discretionary grant. Significant data included in the model were: strike price of the share on the grant date, exercise price of R\$19,22 for discretionary grants and for R\$5,86 for basic grants, volatility of 44,53% measured by the historical behavior of the company's share value, dividend yield of 0,81%, an expected option life of four years and an annual interest rate risk free of 3.95%.

The equity portion is priced only at the time of the grant and does not undergo any fair value remeasurements at the end of the reporting period. The equity and debt portions are allocated on a plan-by-plan basis, considering their related lock-up periods (i.e., the periods during which

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 balance sheet accounts and the effects on profit for the year.

	<u>2012</u>	<u>2011</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	1,148	1,021
Number of exercisable options (thousands)	95	143
Number of shares (thousands)	960	912
<u>Mills Rental Executives Plan</u>		
Capital reserve	4,007	3,959
Number of shares (thousands)	391	391
<u>2010 Plan</u>		
Capital reserve	3,825	2,236
Number of exercisable options (thousands)	768	1,281
Number of shares (thousands)	670	194
<u>2011 Program (2010 Plan)</u>		
Capital reserve	3,280	1,360
Number of exercisable options (thousands)	1,011	1,184
Number of shares (thousands)	125	-
<u>2012 Program (2010 Plan)</u>		
Capital reserve	2,153	-
Number of exercisable options (thousands)	1,258	-
Total recognized as equity (accumulated)	15,859	10,022
Annual effect on profit	(5,837)	(3,124)

## 17. INCOME TAX AND SOCIAL CONTRIBUTION

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

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

	<u>2012</u>	<u>2011</u>
Profit for the year before income tax and social contribution	210,685	130,127
Statutory income tax and social contribution rate	<u>34%</u>	<u>34%</u>
Income tax and social contribution at statutory rate	(71,633)	(44,243)
Non-deductible provisions(*) and permanent differences	(2,677)	(1,771)
Interest on capital - Declared	14,205	8,296
Other	<u>936</u>	<u>(232)</u>
Total current and deferred income tax and social contribution	(59,169)	(37,950)
Effective tax rate	28.08%	29.16%
Current income tax	(50,662)	(35,865)
Deferred income tax	<u>(8,507)</u>	<u>(2,085)</u>
	(59,169)	(37,950)

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

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

The deferred tax recognized in other comprehensive income is a result of the provision for gains/losses on cash flow hedging instruments transferred to the opening carrying amounts of the hedged items. The total income tax and social contribution recognized in comprehensive income in December 2012 is R\$155.

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

Description	December 31, 2011	Additions	Write-offs	December 31, 2012
Itapoã goodwill	2,202	-	(1,521)	681
Discount to present value	160	-	(31)	129
Hedge on property, plant and equipment	-	1,252	-	1,252
Other provisions	577	-	(107)	470
Allowance for doubtful debts	4,370	1,689	-	6,059
Finance leases	3,351	-	(4,096)	(745)
Provision for tax, civil and labor claims	5,457	-	(2,042)	3,415
Swap derivatives	(1,083)	1,238	-	155
GP Andaimés Sul Locadora	(56)	-	(134)	(190)
Jahu goodwill	(8,633)	-	(2,877)	(11,510)
Adjustment for inflation of judicial deposits	(762)	-	(225)	(987)
Debentures	<u>(695)</u>	<u>-</u>	<u>(415)</u>	<u>(1,110)</u>
	<u>4,888</u>	<u>4,179</u>	<u>(11,448)</u>	<u>(2,381)</u>

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

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

The table below shows the expected realization of deferred income tax and social contribution at December 31, 2012:

	Deferred IR and CSLL assets	Deferred IR and CSLL liabilities
2013	3,103	(358)
2014	1,952	(358)
2015	1,952	(358)
2016	1,952	(252)
2017	1,952	(157)
Beginning 2018	<u>1,250</u>	<u>(13,059)</u>
Total	<u>12,161</u>	<u>(14,542)</u>

#### Transition Tax Regime

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

The Company elected to adopt the RTT in 2008. Accordingly, for purposes of calculating the income tax and social contribution of 2009 and 2008 the Company used the definitions in the RTT, which are mandatory since 2010.

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

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

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

The Company does not have any contingent assets recorded.

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

	<u>2012</u>	<u>2011</u>
Tax (i)	4,425	12,251
Civil (ii)	444	578
Labor (iii)	2,462	2,341
Success fees (iv)	<u>2,588</u>	<u>909</u>
Total	<u>9,919</u>	<u>16,079</u>

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

	<u>2012</u>	<u>2011</u>
Balance at January 1	<u>16,079</u>	<u>11,139</u>
Amount recognized	2,720	2,444
Reversals	(6,713)	(577)
Write-offs	(2,585)	-
Transfers	<u>418</u>	<u>3,073</u>
Balance at December 31	<u>9,919</u>	<u>16,079</u>

- (i) The balance as at December 31, 2012 of R\$3,404 (December 31, 2011 - R\$3,073) provisioned for PIS/Cofins taxes, refers to a motion for injunction filed by the former Jahu (prior to the merger into Mills) referring to challenge of an increase in the PIS and Cofins tax rates established by the non-cumulative regime of these taxes, with the enactment of Laws 10,637/2002 and 10,833/2003. Due to the legal challenge, the former Jahú began to make escrow deposits for the 1% difference of PIS and 4.6% difference of Cofins, paying the taxes based on the rates under the cumulative regime. Beginning in October 2005, the Company no longer made deposits, and began paying the rates under the non-cumulative regime (1.65% for PIS and 7.6% for Cofins).

Considering that the likelihood of success was considered remote by the outside legal counsel, the Company recognized a provision for losses in the amount of R\$976 (December 31, 2011 - R\$898) referring to the administrative proceedings for collection of Cofins due from January through April 2004, and IRPJ and PIS for the year 1985.

The former Jahu (before its merger into Mills), was assessed for the non-deductibility of expenses incurred on service providers, as well as withholding income tax on amounts paid to the latter.

After the procedural progress at the administrative levels, the lawsuit reached the Administrative Board of Tax Appeals (CARF). The members of the Board denied the mandatory appeal and accepted the voluntary appeal of Mills, ruling out the requirement of withholding income tax and the disallowance of expenses on service providers. In view of this decision, it was not necessary to make any subsequent payments.

We point out that the Office of Attorney-General of the National Treasury (PGFN) was informed of the decision and stated expressly in the records that it would not appeal to the Superior Board of Tax Appeals (CSRF), which resulted in the reversal

of R\$5,415 (December 31, 2011 - R\$5,289) of the provision recognized in prior periods by the Company.

- (ii) The Company is a party to lawsuits filed against it relating to civil liability and compensation claims. Based on the opinion of its outside legal counsel, management set up a provision in the amount of R\$ 444 as at December 31, 2012 (December 31, 2011 - R\$578) for losses considered probable.
- (iii) The Company is a defendant in several labor lawsuits. Most of the lawsuits involve claims for compensation due to occupational diseases, overtime, hazardous duty premium and salary equalization.

During 2012, based on the position of its outside legal counsel, Mills conducted a new analysis of the ongoing labor lawsuits and, accordingly, recognized an R\$121 increase in the provision only for those whose likelihood of loss was considered probable.

- (iv) Provisions in the amount of R\$2,588 related to fees, which are generally set at up to 10% of the amount of the lawsuit, guaranteeing for the outside legal counsel the fees in the proportion of a successful outcome in the lawsuit. Payment is contingent upon favorable outcome in the lawsuits.

b) Breakdown of judicial deposits:

	<u>2012</u>	<u>2011</u>
Tax (i)	8,440	7,811
Civil	555	817
Labor (ii)	<u>2,858</u>	<u>2,283</u>
	<u>11,853</u>	<u>10,911</u>

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

The former Jahu filed lawsuits challenging the levy of ISS on rentals of chattels and made judicial deposits, even after enactment of Law 116/2003. The Company had recognized a provision for loss in the amount of R\$190 to cover this expense in the event of an unfavorable outcome. However, this provision was reversed due to the change of the likelihood of loss, which was previously considered probable for the city of Niterói. As in the other cities the likelihood of a favorable outcome is possible, no provisions have been recognized.

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

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

	<u>2012</u>	<u>2011</u>
Tax	13,218	13,743
Labor	6,791	9,004
Civil	596	2,349
Other	<u>5,000</u>	<u>5,000</u>
	<u>25.605</u>	<u>30,096</u>

#### 19. TAX DEBT REFINANCING PROGRAM (REFIS)

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

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

- (a) The period of the payment in installments was 180 months.
- (b) 60% reduction in the amounts related to voluntary and late payment fines, and a 25% reduction in late payment interest.
- (c) The debts made payable in installments were:
  - (i) PIS and COFINS (for the period from April 2002 to May 2004).
  - (ii) IRPJ (for December 2003, January 2004 and April 2004).
  - (iii) CSLL (for November 2003, January 2004 and April 2004).
  - (iv) INSS - Additional Occupational Accident Insurance (SAT) contribution.

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

In light of the new guidance from the court precedent, set by the Superior Court of Justice (STJ) (1<sup>st</sup> Panel of the STJ - judgment in September 2009 of Special Appeal n° 929.521), which settled the understanding regarding the levy of COFINS on revenue earned from rental of chattel, the Company decided to pay in installments the amount related to the aforementioned debts.

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

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

- (d) At the time of the preliminary stage of consolidation of the debt for payment in installments, on June 30, 2010, the Company decided to include an INSS debt in light of the change in the chance of success in the lawsuit from probable to remote, according to an opinion by the outside legal counsel.
- (e) Also in the preliminary stage of consolidation of the debts for payment in installments, PIS and Cofins debts considered expired by the outside legal counsel were excluded.

	Amounts payable in installments	Change	2011	Write-offs	Adjustment for inflation	2012
PIS	1,725	131	1,856	(151)	126	1,831
COFINS	5,801	(113)	5,688	(461)	387	5,614
IRPJ	2,149	159	2,308	(187)	157	2,278
CSLL	255	(103)	152	(12)	10	150
INSS	<u>828</u>	<u>40</u>	<u>868</u>	<u>(70)</u>	<u>59</u>	<u>857</u>
	<u>10,758</u>	<u>114</u>	<u>10,872</u>	<u>(881)</u>	<u>739</u>	<u>10,730</u>
Current			353			907
Non-current			<u>10,519</u>			<u>9,823</u>
			<u>10,872</u>			<u>10,730</u>

## 20. EQUITY

### a) Subscribed capital

The Company's fully subscribed and paid-in capital stock as at December 31, 2012 is R\$537,625 (December 31, 2011 - R\$527,587) represented by 126,399,000 registered common shares without par value (December 31, 2011 - 125,657,000). Each common share corresponds to the right to one vote in decisions made by the shareholders.

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

#### (a.1) Treasury shares

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

#### (a.2) Share issue

The Company's Board of Directors meetings held on January 24 and February 28,

2012 approved the issue of 33 thousand shares, totaling a capital increase of R\$403, due to the exercise by beneficiaries of stock options granted under the 2010 Stock Option Plan. The shares issued were fully subscribed and paid up by the related beneficiaries.

At the meeting held on April 2, 2012 the Board of Directors approved the increase of the Company's capital through the issue of 47,131 thousand registered common shares without par value, within the authorized capital ceiling, at the issue price of R\$2.38 per share, totaling R\$112, in view of the exercise by beneficiaries of stock options granted under the Top Mills Special Stock Option Plan.

At the meeting held on April 24, 2012 the Board of Directors approved the increase of the Company's capital through the issue of 371,448 thousand and 44,421 thousand registered common shares without par value, within the authorized capital ceiling, at the issue price of R\$12.42 and R\$20.10 per share, respectively, totaling a capital increase of R\$5,506, in view of the exercise by the beneficiaries of stock options granted under the 2010 and 2011 Stock Option Plans, respectively.

At the meeting held on July 2, 2012 the Board of Directors approved the increase of the Company's capital through the issue of 13,032 thousand registered common shares without par value, within the authorized capital ceiling, at the issue price of R\$2.40 per share, totaling R\$31, in view of the exercise by beneficiaries of stock options granted under the Top Mills Special Stock Option Plan.

On August 9, 2012, the Board of Directors approved the increase of the Company's capital through the issue of 70,550 thousand and 1,600 thousand registered common shares without par value, within the authorized capital ceiling, respectively, at the issue price of R\$12.56 and R\$12.50, due to the exercise by beneficiaries of stock options granted under the 2010 Stock Option Plan, and 80,422 thousand registered common shares without par value, at the issue price of R\$20.31, due to the exercise by beneficiaries of stock options granted under the 2011 Stock Option Plan, totaling R\$2,540.

On November 12, 2012, the Board of Directors approved the increase of the Company's capital through the issue of 35,529 thousand and 1,500 thousand registered common shares without par value, within the authorized capital ceiling, respectively, at the issue price of R\$12.53 and R\$12.44, due to the exercise by beneficiaries of stock options granted under the 2010 Stock Option Plan, and 48,151 registered common shares without par value, at the issue price of R\$20.40, due to the exercise by beneficiaries of stock options granted under the 2011 Stock Option Plan, totaling R\$1,446.

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

Shareholders	2012		2011	
	Number of shares (in thousands)	Percentage	Number of shares (in thousands)	Percentage
Nacht Participações S.A. (*)	-	-	27,422	21.82%
Andres Cristian Nacht	15,596	12.34%	-	-
Jeroboam Investments LLC.(*)	-	-	19,233	15.31%
Snow Petrel S.L.	17,728	14.03%	-	-
Capital Group International Inc.	-	-	7,032	5.60%
FMR LLC	-	-	6,587	5.24%
HSBC Bank Brasil S.A.	6,323	5.00%	-	-
Other signatories of the Company Shareholders' Agreement (**)	11,826	9.36%	-	-
Other	<u>74,926</u>	<u>59.28 %</u>	<u>65,383</u>	<u>52.03%</u>
	<u>126,399</u>	<u>100.00 %</u>	<u>125,657</u>	<u>100.00%</u>

(\*) Nacht Participações S.A. - Nacht Participações S.A. - Nacht, (majority and controlling shareholder) reduced its capital, as approved in an Extraordinary Shareholders' Meeting held on February 17, 2011. After capitalization of retained earnings and the legal reserve, there was a reduction in Nacht's capital. As a consequence of the capital reduction, Nacht's stake in Mills' voting and total capital was reduced by 17.2%, from 39.0% to 21.83%, and the shareholders Jeroboam Investments LLC (Jeroboam), Andres Cristian Nacht (Cristian Nacht) and Jytte Kjellerup Nacht ended up with direct stakes of 15.3%, 1.4% and 0.5% in Mills, respectively. On October 30, 2012, the Company was notified of the holding of the extraordinary shareholders' meeting of Nacht Participações S.A. in which the reduction of its capital was approved, with the transfer of all the equity interest held in Mills to shareholders of Nacht.

(\*\*) Other signatories of the Company Shareholders' Agreement, all holding individual stakes of less than 5% in the Company's capital, are represented as shareholders, including for purposes of exercising voting rights, by Andres Cristian Nacht.

## b) Earnings reserves

### (b.1) Legal reserve

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

### (b.2) Expansion reserve

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

(b.3) Special reserve

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

c) Capital reserve

The capital reserve incorporates the transaction costs incurred in capital funding, amounting to R\$15,068, net of taxes, related to the distribution of shares under the IPO, the premium reserve of the stock options amounting to R\$15,859 related to the employees' stock option plans, and the cost of the cancelled shares amounting to R\$558, totaling a capital reserve of R\$233 as at December 31, 2012 (December 31, 2011 - R\$5,581).

d) Earnings retention

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

e) Equity valuation adjustment - cash flow hedge

The cash flow hedge reserve incorporates the effective portion of the cash flow hedges through the end of the reporting period, amounting to R\$300, net of taxes (December 31, 2011 - R\$2.102).

## 21. PROPOSED DIVIDENDS AND INTEREST ON CAPITAL

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

In a Board of Directors meeting on June 21, 2012, the declaration of interest on capital was approved, as part of the minimum mandatory dividend in the amount of R\$21,780 (R\$18,784 net of taxes), equivalent to R\$0.17 per share. The proposed interest on capital will be part of the amount paid as minimum mandatory dividends upon the end of fiscal year 2012.

In a Board of Directors meeting on December 31, 2012, the declaration of interest on capital was approved, as part of the minimum mandatory dividend in the amount of R\$20,000 (R\$17,386 net of taxes), equivalent to R\$0.16 per share. The proposed interest on capital will be part of the amount paid as minimum mandatory dividends upon the end of fiscal year 2012.

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

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

	<u>2012</u>	<u>2011</u>
Profit for the year	151,516	92,177
Legal reserve -5%	<u>(7,576)</u>	<u>(4,609)</u>
Dividend calculation basis	<u>143,940</u>	<u>87,568</u>
Minimum mandatory dividends - 25% (net of taxes)	<u>35,985</u>	<u>21,892</u>
Proposed interest on capital for payment in the following year	41,780	24,400
Withholding income tax - 15%(*)	<u>(5,610)</u>	<u>(3,455)</u>
Proposed net interest on capital for payment in the following year	36,170	20,945
Proposed dividends for payment in the following year	<u>-</u>	<u>947</u>
Total net dividends proposed for payment	36,170	21,892
Total dividends including income tax proposed for payment	<u>41,780</u>	<u>25,347</u>
Percentage of dividends including income tax on profit for the year	27,57%	27,50%

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

The amount recognized in current liabilities as at December 31, 2012 is R\$36,170 (December 31, 2011 - R\$21,892).

## 22. EARNINGS PER SHARE

### a) Basic

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

	<u>2012</u>	<u>2011</u>
Profit attributable to owners of the Company	<u>151,516</u>	<u>92,177</u>
Weighted average number of common shares issued (thousands)	<u>126,084</u>	<u>125,565</u>
Basic earnings per share	<u>1.20</u>	<u>0.73</u>

### b) Diluted

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

	<u>2012</u>	<u>2011</u>
Profit		
Profit used to determine diluted earnings per share	<u>151,516</u>	<u>92,177</u>
Weighted average number of common shares issued (thousands)	126,084	125,565
Adjustments for:		
Stock options (thousands)	<u>911</u>	<u>2,608</u>
Weighted average number of common shares for diluted earnings per share (thousands)	<u>126,995</u>	<u>128,173</u>
Diluted earnings per share	1.19	0.72

### 23. NET REVENUE FROM SALES AND SERVICES

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

	<u>2012</u>	<u>2011</u>
Rentals	712,868	526,861
Sales	52,628	44,924
Technical assistance	206,971	182,254
Indemnities and recoveries	59,323	31,256
Taxes on sales and services	(89,318)	(64,856)
Cancelations and discounts	<u>(63,198)</u>	<u>(42,847)</u>
	<u>879,274</u>	<u>677,592</u>

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

The costs refer mainly to personnel expenses for assembly and dismantling of Company-owned leased assets, when such assembly is carried out by Mills itself, the equipment sublet from third parties when the Company's inventory is insufficient to meet demand, freight for transportation of equipment between branches and occasionally to customers, and expenses on supplies consumed in the projects, from personal protective equipment (PPE) to wood, paint and thermal insulation.

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

Nature	12/31/2012			12/31/2011		
	Direct project and rental costs	General and administrative expenses	Total	Direct project and rental costs	General and administrative expenses	Total
Personnel	(179,240)	(109,331)	(288,571)	(162,328)	(89,924)	(252,252)
Third parties	(6,306)	(22,060)	(28,366)	(6,973)	(17,415)	(24,388)
Freight	(15,043)	(761)	(15,804)	(13,399)	(605)	(14,004)
Construction/ maintenance material and repair	(41,709)	(4,822)	(46,531)	(35,246)	(4,094)	(39,340)
Equipment and other rentals	(8,251)	(11,251)	(19,502)	(9,984)	(9,458)	(19,442)
Travel	(8,562)	(11,525)	(20,087)	(8,598)	(11,427)	(20,025)
Depreciation	(104,243)	(3,301)	(107,544)	(73,033)	(2,476)	(75,509)
Amortization of intangible assets	-	(1,075)	(1,075)	-	(679)	(679)
Write-off of assets	(4,930)	-	(4,930)	(4,559)	-	(4,559)
Allowance for doubtful debts	-	(16,057)	(16,057)	-	(11,353)	(11,353)
Stock option plan	-	(5,837)	(5,837)	-	(3,124)	(3,124)
Adjustment of provisions	-	3,993	3,993	-	(1,695)	(1,695)
Profit sharing	-	(20,142)	(20,142)	-	(7,917)	(7,917)
Other	(42,645)	(16,292)	(58,937)	(26,302)	(15,035)	(41,337)
	<u>(410,929)</u>	<u>(218,461)</u>	<u>(629,390)</u>	<u>(340,422)</u>	<u>(175,202)</u>	<u>(515,624)</u>

## 25. FINANCE INCOME (COSTS)

## a) Finance income

	<u>2012</u>	<u>2011</u>
Dividend income	3,214	1,346
Interest income on past-due bills	1,465	1,137
Income from short-term investments	6,701	11,288
Discounts obtained	349	200
Foreign exchange and inflation gains	318	730
Other	3	13
	<u>12,050</u>	<u>14,714</u>

## a) Finance costs

	<u>2012</u>	<u>2011</u>
Borrowing costs	(9,208)	(7,311)
Inflation losses	(890)	(1,467)
Interest on finance leases	(4,615)	(8,796)
Interest - debentures	(33,680)	(24,453)
Bank fees	(316)	(2,770)
Other	(2,540)	(1,758)
	<u>(51,249)</u>	<u>(46,555)</u>

## 26. SEGMENT REPORTING

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

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

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

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

### Construction division

This division provides specific engineering and equipment solutions, specifically in relation to concrete forms and props used in the construction of large structures, planning, design, technical supervision, equipment and related services.

### Jahu division

This division supplies forms and concrete, props and scaffolding in the context of the services performed, involving specialized engineering construction solutions, with emphasis on the residential and commercial construction sector, by supplying planning, design, technical supervision, equipment and related services.

### Industrial services division

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

### Rental division

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

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

No customer individually accounted for 10% or more of the Company's revenues in 2012 and 2011.

## Income statement by business segment

	Construction		Jahu		Industrial services		Rental		Other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Net revenue	174,059	131,638	237,955	155,761	213,800	214,783	253,460	175,410	-	-	879,274	677,592
(-) Costs and expenses	(89,694)	(73,817)	(124,483)	(89,783)	(194,390)	(194,055)	(112,204)	(81,781)	-	-	(520,771)	(439,436)
(-) Depreciation and amortization	(24,839)	(20,932)	(31,024)	(16,499)	(11,364)	(10,529)	(41,392)	(28,228)	-	-	(108,619)	(76,188)
Operating profit	<u>59,795</u>	<u>36,889</u>	<u>82,705</u>	<u>49,479</u>	<u>7,079</u>	<u>10,199</u>	<u>100,305</u>	<u>65,401</u>	-	-	<u>249,884</u>	<u>161,968</u>
Finance income	1,742	3,932	2,854	3,106	1,098	2,180	3,142	4,150	3,214	1,346	12,050	14,714
Finance costs	(11,182)	(13,158)	(16,582)	(10,958)	(6,336)	(7,817)	(17,149)	(14,622)	-	-	(51,249)	(46,555)
Profit before IRPJ/CSL	50,355	27,663	68,977	41,627	1,841	4,562	86,298	54,929	3,214	1,346	210,685	130,127
(-) IRPJ/CSL	<u>(14,284)</u>	<u>(7,599)</u>	<u>(19,598)</u>	<u>(13,439)</u>	<u>(801)</u>	<u>(1,357)</u>	<u>(24,486)</u>	<u>(15,555)</u>	-	-	<u>(59,169)</u>	<u>(37,950)</u>
Profit for the year	<u>36,014</u>	<u>20,064</u>	<u>49,289</u>	<u>28,188</u>	<u>1,225</u>	<u>3,205</u>	<u>61,774</u>	<u>39,374</u>	<u>3,214</u>	<u>1,346</u>	<u>151,516</u>	<u>92,177</u>
EBITDA	<u>84,365</u>	<u>57,821</u>	<u>113,472</u>	<u>65,978</u>	<u>19,410</u>	<u>20,728</u>	<u>141,256</u>	<u>93,629</u>	-	-	<u>358,503</u>	<u>238,156</u>

(\*) EBITDA is a non-accounting measure prepared by the Company observing the provisions of CVM Circular 01/2007, when applicable. EBITDA is calculated based on operating profit before finance income (costs), the effects of depreciation of assets for own use and rental equipment, and amortization of intangible assets. EBITDA is not a measurement recognized by accounting practices adopted in Brazil or IFRSs, does not have a standard meaning, and may not be comparable with measurements using similar names provided by other entities. EBITDA should not be considered on a standalone basis or as a substitute for profit or operating profit, as indicators of operating performance or cash flow, or to measure liquidity or capacity to pay debt. Information not subject to review by independent auditors.

## Assets by business segment

	Construction		Jahu		Industrial services		Rental		Other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
PP&E	214,221	193,138	309,293	287,499	73,162	79,900	406,671	312,349	-	-	1,003,347	872,886
Other assets	<u>117,365</u>	<u>59,825</u>	<u>195,548</u>	<u>94,075</u>	<u>133,393</u>	<u>93,346</u>	<u>127,016</u>	<u>73,095</u>	<u>87,392</u>	<u>87,392</u>	<u>660,714</u>	<u>407,733</u>
Total assets	<u>331,586</u>	<u>252,963</u>	<u>503,841</u>	<u>381,574</u>	<u>206,555</u>	<u>173,246</u>	<u>533,687</u>	<u>385,444</u>	<u>87,392</u>	<u>87,392</u>	<u>1,664,061</u>	<u>1,280,619</u>

## 27. FINANCIAL INSTRUMENTS

## 27.1. Category of financial instruments

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

	Carrying amount	
	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	44,200	35,179
Loans and receivables:		
Trade receivables	197,327	141,750
Judicial deposits	11,853	10,911
Financial liabilities measured at amortized cost		
Borrowings and financing	53,986	57,023
Finance leases	18,013	52,159
Debentures	550,453	274,554
Promissory notes	-	27,210
Trade payables	47,784	35,898
Financial liabilities at fair value		
Derivatives	800	-
Financial assets at fair value		
Marketable securities	159,606	-
Derivatives	-	2,841
Equity financial instruments		
Stock option plans	15,859	10,022

## 27.2. Fair value of financial instruments

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

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

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

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

The table below shows the Company's assets and liabilities measured at fair value at December 31, 2012.

	Level 1		Level 2		Total balance	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets						
Marketable securities	159,606	-	-	-	159,606	-
Financial assets - derivatives used for hedging	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,841</u>	<u>-</u>	<u>2,841</u>
Total assets	<u>159,606</u>	<u>-</u>	<u>-</u>	<u>2,841</u>	<u>159,606</u>	<u>2,841</u>
Financial liabilities						
Derivatives used for hedging	<u>-</u>	<u>-</u>	<u>800</u>	<u>-</u>	<u>800</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>800</u>	<u>-</u>	<u>800</u>	<u>-</u>

(a) Fair value of securities

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

(b) Fair value of trade receivables and payables

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

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

(c) Fair value of borrowings and financing

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

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

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

Borrowings and financing

<u>Debt</u>	<u>Indicator</u>	<u>Fair value</u>		<u>Carrying amount</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
BNDES	TJLP	26,211	22,611	26,664	22,134
Working capital	CDI	27,134	35,374	27,322	34,889
Leasing	CDI	17,796	52,612	18,013	52,159
Promissory notes		-	27,210	-	27,210
1 <sup>st</sup> issue of debentures	CDI	275,283	281,247	274,067	276,598
2 <sup>nd</sup> issue of debentures:					
1 <sup>st</sup> series	CDI	162,395	-	165,674	-
2 <sup>nd</sup> series	IPCA	113,783	-	113,992	-

## (d) Fair value of share-based payments

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

## (e) Derivatives

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

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

## 27.3. Derivative financial instruments - hedging

## (a) Derivative policy

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

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

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

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

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

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

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

(b) Derivatives can be summarized as follows:

<u>Type</u>	12/31/2012		
	<u>Notional amount</u>	<u>Fair value</u>	<u>Amounts receivable/payable</u>
NDF Forward US dollar purchase contracted: 2.05 to 2.15 (USD)	152,868	(800)	(800)
	12/31/2011		
<u>Type</u>	<u>Notional amount</u>	<u>Fair value</u>	<u>Amounts receivable/payable</u>
NDF Forward US dollar purchase contracted: 1.64 to 1.94 (USD)	67,958	2,842	2,842
NDF Forward euro purchase contracted: 2.44 (EURO)	206	(1)	(1)
	<u>68,164</u>	<u>2,841</u>	<u>2,841</u>

(c) Derivatives fair value calculation method

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

d) Hedge effectiveness calculation method

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

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

As at December 31, 2011, no ineffectiveness was recognized in profit or loss as a result of the Company's hedging transactions.

(e) Gains and losses for the period

Since the Company evidences the effectiveness of the conducted hedge accounting swap transactions, the losses and gains on these derivative transactions are recognized as a balancing item to the hedged assets (property, plant and equipment) as part of the initial cost of the asset at the same time the asset is accounted for. As at December 31, 2012 the amount of R\$3,011 was transferred from equity and deducted from the initial cost of the equipment.

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

As at December 31, 2012, total unrealized losses on currency futures, recognized in "Other comprehensive income", accumulated in equity, in line item "Equity valuation adjustments" and related to such future purchases scheduled, amounted to R\$300 (unrealized losses of R\$2,102 in 2011). The Company expects that the purchases will occur in the next year, when the amount then deferred in equity will be included in the carrying amount of the imported equipment.

(f) Embedded derivatives

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

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

(g) Value and type of margins pledged as guarantees

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

## 28. INSURANCE

It is the Company's policy to constantly monitor the risks inherent in its operations. Accordingly, the Company has taken out insurance to cover civil liability risks, with coverage amounting to R\$41,800 as at December 31, 2012 (December 31, 2011 - R\$29,000).

## 29. NON-CASH TRANSACTIONS

During the year ended December 31, 2012, the Company declared interest on capital of R\$36,170, net of income tax.

In 2012, the Company made an installment purchase of equipment amounting to R\$41,366 as part of its non-cash investing activities. Accordingly, this investment is not reflected in the statement of cash flows (December 31, 2011 - R\$23,410).