

**Mangels Industrial S.A.  
and Subsidiaries**  
**Consolidated Financial Statements at  
31 December 2006 and 2005  
and Report of the Auditors**

## **Independent auditor's report**

To the Shareholders and Board of Directors of  
Mangels Industrial S.A.

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Mangels Industrial S.A. ("Mangels") and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 entity'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 entity'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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5

Paulo Cesar Estevão Netto  
Contador CRC 1RJ026365/"T" S

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

**Mangels Industrial S.A.  
and Subsidiaries**

**Consolidated Balance Sheets  
at 31 December  
In thousands of reais**

<b>Assets</b>	<b>Note</b>	<b>2006</b>	<b>2005</b>
Non-current assets			
Property, plant and equipment	5	176,944	192,368
Intangible assets	6	2,958	3,299
Taxes recoverable	7	4,654	5,104
Judicial deposits	8	12,088	12,465
Related parties		141	
		<u>196,785</u>	<u>213,236</u>
Current assets			
Assets held for sale		6,045	
Taxes recoverable	7	27,452	24,940
Inventories	9	68,110	75,170
Trade receivables	10	99,601	79,099
Notes receivable			206
Cash and cash equivalents	11	210,597	57,319
Other		12,375	11,776
		<u>424,180</u>	<u>248,510</u>
Total assets		<u><u>620,965</u></u>	<u><u>461,746</u></u>

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

**Mangels Industrial S.A.  
and Subsidiaries**

**Consolidated Balance Sheets  
at 31 December  
In thousands of Reais**

**(continued)**

<b>Shareholders' equity</b>	<b>Note</b>	<b>2006</b>	<b>2005</b>
Capital	12	79,360	79,360
Revenue reserves	12	98,519	91,501
<b>Total shareholders' equity</b>		<b>177,879</b>	<b>170,861</b>
<b>Liabilities</b>			
Non-current liabilities			
Borrowings	13	219,524	127,056
Taxes payable	14	18,512	20,241
Deferred taxes	15	3,516	8,664
Provisions for contingent liabilities	8	21,889	24,890
		<u>263,441</u>	<u>180,851</u>
Current liabilities			
Borrowings	13	91,435	55,199
Taxes payable	14	5,045	5,699
Trade payables	16	64,919	27,969
Salaries and payroll charges	17	9,410	7,836
Proposed dividends	16	1,402	2,965
Related parties		795	
Other		6,639	10,366
		<u>179,645</u>	<u>110,034</u>
<b>Total liabilities</b>		<b>443,086</b>	<b>290,885</b>
<b>Total shareholders' equity and liabilities</b>		<b>620,965</b>	<b>461,746</b>

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

**Mangels Industrial S.A.  
and Subsidiaries**

**Consolidated Income Statements  
Years Ended 31 December  
In thousands of Reais**

	<u>Note</u>	<u>2006</u>	<u>2005</u>
Net sales		569,839	520,110
Cost of sales	18	<u>(466,775)</u>	<u>(410,354)</u>
<b>Gross profit</b>		<u>103,064</u>	<u>109,756</u>
Other operating income	19	19,867	6,504
Selling and marketing costs	18	(37,274)	(35,256)
Administrative expenses	18	(52,022)	(41,666)
Other operating expenses	18	<u>501</u>	<u>(104)</u>
<b>Operating profit</b>		<u>34,136</u>	<u>39,234</u>
Finance costs	20	<u>(27,861)</u>	<u>(22,559)</u>
<b>Profit before income taxes</b>		<u>6,275</u>	<u>16,675</u>
Income tax expense	15	<u>(2,349)</u>	<u>(4,272)</u>
<b>Profit for the year</b>		<u>3,926</u>	<u>12,403</u>
<b>Attributable to</b>			
Equity holders of Mangels		<u>3,926</u>	<u>12,403</u>
Earnings per share for profit attributable to the equity holders of Mangels during the year (expressed in R\$ per share - basic and diluted)	21	<u>0.42</u>	<u>1.26</u>

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

**Mangels Industrial S.A.  
and Subsidiaries**

**Consolidated Statements of Changes in Shareholders' Equity**  
In thousands of Reais

		<u>Revenue reserves</u>				
	<u>Note</u>	<u>Share capital</u>	<u>Special reserve</u>	<u>Legal reserve</u>	<u>Retained earnings</u>	<u>Total equity</u>
<b>At 1 January 2005</b>		79,360	80,386	1,693	(26)	161,413
Increase of legal reserve				603	(603)	
Realization of revaluation reserve			2,528		(2,528)	
Profit for the year					12,403	12,403
Dividend relating to 2005 (minimum mandatory dividend)	12				(2,955)	(2,955)
Transfer to special reserve	12		6,291		(6,291)	
<b>At 31 December 2005</b>		<u>79,360</u>	<u>89,205</u>	<u>2,296</u>		<u>170,861</u>
<b>At 1 January 2006</b>						
Increase of legal reserve				271	(271)	
Realization of revaluation reserve			(9,461)		13,933	4,472
Profit for the year					3,926	3,926
Dividend relating to 2006 (minimum mandatory dividend)	12				(1,379)	(1,379)
Transfer to special reserve	12		16,209		(16,209)	
<b>At 31 December 2006</b>		<u>79,360</u>	<u>95,953</u>	<u>2,567</u>		<u>177,880</u>

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

**Mangels Industrial S.A.  
and Subsidiaries**

**Consolidated Statements of Cash Flows**  
**Years Ended 31 December**  
**In thousands of Reais**

	<u>Note</u>	<u>2006</u>	<u>2005</u>
Cash flow from operating activities			
Cash generated from operations	22	49,031	(13,970)
Interest paid		(16,944)	(8,941)
Income tax paid			(4,111)
Net cash generated from/(used in) operating activities		<u>32,087</u>	<u>(27,022)</u>
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)	5	(18,741)	(32,514)
Purchases of intangible assets	6	(547)	(2,687)
Net cash used in investing activities		<u>(19,288)</u>	<u>(35,201)</u>
Cash flows from financing activities			
Proceeds from borrowings		198,238	118,066
Repayments of borrowings		(49,359)	(63,261)
Dividends paid			(4,835)
Other long-term rights and obligations		(8,400)	6,470
Net cash generated from financing activities		<u>140,479</u>	<u>56,440</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>153,278</b>	<b>(5,783)</b>
Cash and cash equivalents at beginning of the year		57,319	63,170
Exchange gains/(losses) on cash and cash equivalents			(68)
<b>Cash, cash equivalents and bank overdrafts at end of the year</b>	<b>11</b>	<b><u>210,597</u></b>	<b><u>57,319</u></b>

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

# **Mangels Industrial S.A. and Subsidiaries**

## **Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais**

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### **1 Operations**

Mangels Industrial S.A. ("Mangels") and its subsidiaries (together the "Group") are engaged mainly in the production of steel strips and stamped steel pieces, liquid petroleum gas (LPG) containers and combustion air tanks for buses and trucks, steel and aluminum automotive wheels. They also render re-qualification services for LPG containers and galvanizing services on steel artifacts.

The Group's main office is located in São Paulo - Brazil.

These consolidated financial statements were approved for issue on 2 July, 2007.

### **2 Summary of Significant Accounting Policies**

#### **(a) Basis of preparation**

The consolidated financial statements of Mangels have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation at fair value of property, plant and equipment (Note 5), available for sale financial assets and financial assets and liabilities at fair value through the income statement (Note 2(h)).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 (Accounting estimates and judgments).

#### **(i) New standards, amendments and interpretations effective in 2006**

IAS 19 (Amendment), Employee Benefits, is mandatory for accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The Group does not currently sponsor any post-retirement benefit plan to which this amended standard would apply.

## **Mangels Industrial S.A. and Subsidiaries**

### **Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais**

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The following standards, amendments and interpretations are also mandatory for accounting periods beginning on or after 1 January 2006 but are either not relevant to the Group's operations or do not result in significant effects:

- . IAS 21 (Amendment), Net Investment in a Foreign Operation;
- . IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- . IAS 39 (Amendment), the Fair Value Option;
- . IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- . IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment;
- . IFRIC 4, Determining whether an Arrangement contains a Lease; and
- . IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

#### **(b) Foreign currency translation**

##### **(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Brazilian Reais, which is Mangels' functional and presentation currency.

##### **(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

##### **(iii) Group companies**

The results and financial position of all the group entities (none of which operating in a hyperinflationary economy) that have a functional currency different from the presentation currency, generally the local currency of the countries where Mangels' subsidiaries operate (which are: Brazilian Reais - R\$ and U.S. dollars - US\$), are translated into the presentation currency as follows:

- . Assets and liabilities are translated at the closing rate at each balance sheet date.

## **Mangels Industrial S.A. and Subsidiaries**

### **Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais**

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- . Income and expenses are translated at average exchange rates (unless the average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).
- . Equity accounts have been translated into Reais at the closing rate at the balance sheet date.

Net translation gains or losses resulting from the translation are recorded directly in shareholders' equity under Cumulative Translation Adjustment - CTA.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the statement of income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The Group does not apply hedge accounting and has not recognized any amount of goodwill in connection with transactions it has entered into to date.

#### **(c) Consolidation**

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally involving a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the

## **Mangels Industrial S.A. and Subsidiaries**

### **Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais**

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Group.

All subsidiaries included within these consolidated financial statements are wholly owned by the Group. The Group does not hold equity investment in any other entity.

#### **(d) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

#### **(e) Property, plant and equipment**

Property, plant and equipment are carried at fair value, less accumulated depreciation, which is computed on the straight-line method using rates based on the estimated useful lives of such assets. Fair value is determined on the basis of independent experts valuations carried out regularly.

Subsequent costs are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Furniture, fittings and equipment	10
Vehicles	5
Buildings	25
Machinery	10-15

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

## **Mangels Industrial S.A. and Subsidiaries**

### **Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais**

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An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3(g)).

Gains and losses on disposals are determined by comparing the proceeds with the respective carrying amount. These are included in the income statement.

#### **(f) Intangible assets - computer software**

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire the specific software and bring it to use. These costs are amortized over their estimated useful lives (not exceeding five years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. The Group does not have internally developed software.

#### **(g) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

#### **(h) Financial assets**

The Group classifies its financial assets in the following categories: at fair value through the income statement, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets are acquired and management's ability to keep the acquired assets. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

#### **Financial assets at fair value through the income statement**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through the income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by

## **Mangels Industrial S.A. and Subsidiaries**

### **Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais**

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management. Derivatives are also classified as held for trading, unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within twelve months of the balance sheet date.

The Group did not held derivatives during the financial years ended on 31 December 2006 and 2005.

#### **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 for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade receivables" (Note 10) in the balance sheet.

#### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets, unless management intends to dispose of the investment within 12 months of the balance sheet date.

#### **(i) Trade receivables**

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement within 'selling and marketing costs'.

#### **(j) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and

## **Mangels Industrial S.A. and Subsidiaries**

### **Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais**

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bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

#### **(k) Share capital**

Common and preferred shares that have no redeemable features are classified as equity. Incremental costs directly attributable to the issue of new shares or warrants are shown in equity as a deduction, net of tax, from the proceeds.

#### **(l) Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings, using the effective interest method.

Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

#### **(m) Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect either accounting or taxable income.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the tax losses or temporary differences can be utilized.

#### **(n) Provisions**

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is

## **Mangels Industrial S.A. and Subsidiaries**

### **Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais**

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recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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 interest expense.

#### **(o) Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Group.

Revenue is recognized as follows:

#### **(i) Sale of goods**

Sales of goods are recognized when a Group entity sells a product to the customer.

It is the Group's policy to sell its products to the end customer with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

#### **(ii) Sale of services**

Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

#### **(iii) Interest income**

Interest income is recognized on a time-proportion basis, using the effective interest method and is presented as other operating income in the income statement. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow, discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

## **Mangels Industrial S.A. and Subsidiaries**

### **Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais**

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#### **(p) Dividend distribution**

Dividend distribution to Mangels' shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by Mangels' shareholders. At the end of each year a liability for the minimum mandatory dividends is recognized in the balance sheet.

#### **(q) Risks and uncertainties**

The operations of Mangels are subject to certain risks and uncertainties, including amongst others, those associated with: the ability to meet obligations; losses and negative cash flows; funding expansion; managing growth and expansion; suppliers; competition; technology trends and evolving industry standards.

#### **(r) Advertising costs**

Advertising costs are expensed as incurred. Advertising expenses amounted to R\$ 1,773 and R\$ 2,138 for the years ended 31 December 2006 and 2005, respectively.

#### **(s) Assets held for sale**

Disposal groups are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

### **3 Financial Risk Management**

#### **(a) Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group rarely uses derivative financial instruments to hedge risk exposures.

Risk management is carried out by a central treasury department (Group Treasury), under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges

## **Mangels Industrial S.A. and Subsidiaries**

### **Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais**

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financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### **(i) Market risks**

##### **(i.1) Foreign exchange risk**

The Group operates internationally and is exposed to foreign exchange risk arising from certain currency exposures, primarily with respect to the U.S. dollar and the euro. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Entities in the Group use export advances contracts to manage their foreign exchange risk arising from future commercial transactions, recognized assets and liabilities. Foreign exchange risk arises when future commercial transactions, recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the net position in each foreign currency.

##### **(i.2) Price risk**

Mangels is exposed to commodity price risk related to the aluminum purchases.

#### **(ii) Credit risk**

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to a large number of customers, internationally dispersed and who have an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution.

#### **(iii) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

## **Mangels Industrial S.A. and Subsidiaries**

### **Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais**

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#### **(iv) Cash flow and fair value interest rate risk**

The Group's income and operating cash flows are relatively independent of changes in market interest rates. The Group's fair value interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Management determines and monitors position limits to manage these risks.

#### **(b) Fair value estimation**

The fair values of quoted financial instruments are based on current bid prices. The fair value of financial instruments that are not traded in an active market (Time Deposits) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

#### **4 Accounting Estimates and Judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

**Mangels Industrial S.A.  
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**Notes to the Consolidated Financial Statements  
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**5 Property, Plant and Equipment**

	<u>Land</u>	<u>Buildings</u>	<u>Machinery &amp; equipment</u>	<u>Vehicles</u>	<u>Furniture &amp; fittings</u>	<u>Assets in construction</u>	<u>Other</u>	<u>Total</u>
At 31 December 2004								
Cost	27,199	65,897	218,365	1,284	12,599	12,180	118	337,642
Accumulated depreciation		(20,207)	(133,530)	(789)	(8,705)			(163,231)
Net book amount	<u>27,199</u>	<u>45,690</u>	<u>84,835</u>	<u>495</u>	<u>3,894</u>	<u>12,180</u>	<u>118</u>	<u>174,411</u>
Year ended 31 December 2005								
Opening net book amount	27,199	45,690	84,835	495	3,894	12,180	118	174,411
Additions		2,841	24,277	1,161	1,304	2,931		32,514
Disposals	(46)			(134)	(100)			(280)
Depreciation charge (Note 18)		(2,052)	(11,168)	(297)	(760)			(14,277)
Closing net book amount	<u>27,153</u>	<u>46,479</u>	<u>97,944</u>	<u>1,225</u>	<u>4,338</u>	<u>15,111</u>	<u>118</u>	<u>192,368</u>
At 31 December 2005								
Cost	27,153	68,735	242,541	2,016	13,903	15,111	118	369,577
Accumulated depreciation		(22,256)	(144,597)	(791)	(9,565)			(177,209)
Net book amount	<u>27,153</u>	<u>46,479</u>	<u>97,944</u>	<u>1,225</u>	<u>4,338</u>	<u>15,111</u>	<u>118</u>	<u>192,368</u>

**Mangels Industrial S.A.  
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	<u>Land</u>	<u>Buildings</u>	<u>Machinery &amp; equipment</u>	<u>Vehicles</u>	<u>Furniture &amp; fittings</u>	<u>Assets in construction</u>	<u>Other</u>	<u>Total</u>
<b>Year ended 31 December 2006</b>								
Opening net book amount	27,153	46,479	97,944	1,225	4,338	15,111	118	192,368
Additions		684	22,217	784	729	(5,673)		18,741
Disposals	(6,861)	(6,230)	(373)	(385)	(2)			(13,851)
Depreciation charge (Note 18)		(1,802)	(13,052)	(413)	(878)			(16,145)
Assets held for sale			(6,045)					(6,045)
Capitalization – DEG/FMO							1,876	1,876
Closing net book amount	<u>20,292</u>	<u>39,131</u>	<u>100,691</u>	<u>1,211</u>	<u>4,187</u>	<u>9,438</u>	<u>1,994</u>	<u>176,944</u>
<b>At 31 December 2006</b>								
Cost	20,292	63,189	264,385	2,415	14,630	9,438	1,994	376,343
Accumulated depreciation		(24,058)	(163,694)	(1,204)	(10,443)			(199,399)
Net book amount	<u>20,292</u>	<u>39,131</u>	<u>100,691</u>	<u>1,211</u>	<u>4,187</u>	<u>9,438</u>	<u>1,994</u>	<u>176,944</u>

In determining the cost of property, plant and equipment for the IFRS opening balance sheet at 1 January 2004, Mangels applied the optional exemption in IFRS 1 from full retrospective application and adopted the revaluation amounts stated in the report issued by independent experts, dated 31 December 2003.

Depreciation expense of R\$ 13,136 (2005 - R\$ 11,768) has been charged to cost of sales, and R\$ 2,230 (2005 - R\$ 2,172) to administrative expenses.

As part of the Business Plan for 2007 to 2011, the Company decided to focus its financial and human resources on those businesses offering higher growth and return potentials. Accordingly, in December 2006 the steel wheel and vehicle natural gas (GNV) lines were discontinued.

Fixed assets relating to these business lines have been reclassified as assets held for sale, in current assets, recorded at cost.

### Intangible Assets

	<u>Software</u>	<u>Product development</u>	<u>Other</u>	<u>Total</u>
Year ended 31 December 2005				
Opening net book amount	774	8	110	892
Additions	2,647	40		2,687
Amortization charge (Note 18)	<u>(188)</u>	<u>(5)</u>	<u>(87)</u>	<u>(280)</u>
Closing net book amount	<u>3,233</u>	<u>43</u>	<u>23</u>	<u>3,299</u>
At 31 December 2005				
Cost	8,408	3,107	23,908	35,423
Accumulated amortization	<u>(5,175)</u>	<u>(3,064)</u>	<u>(23,885)</u>	<u>(32,124)</u>
Net book amount	<u>3,233</u>	<u>43</u>	<u>23</u>	<u>3,299</u>
Year ended 31 December 2006				
Opening net book amount	3,233	43	23	3,299
Additions	517	30		547
Amortization charge (Note 18)	<u>(849)</u>	<u>(16)</u>	<u>(23)</u>	<u>(888)</u>
Closing net book amount	<u>2,901</u>	<u>57</u>	<u>23</u>	<u>2,958</u>
At 31 December 2006				
Cost	8,925	3,137	23,908	35,970
Accumulated amortization	<u>(6,024)</u>	<u>(3,080)</u>	<u>(23,908)</u>	<u>(33,012)</u>
Net book amount	<u>2,901</u>	<u>57</u>	<u>23</u>	<u>2,958</u>

### Taxes Recoverable

	<u>2006</u>	<u>2005</u>
Value-Added Tax on Sales and Services (ICMS) (i)	15,017	13,730
IPI presumed credit (ii)	4,654	5,104
Corporate Income Tax (IRPJ)	3,184	3,563
Excise Tax (IPI)	5,506	3,272

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### Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais

	<u>2006</u>	<u>2005</u>
Withholding Income Tax (IRRF)	1,569	1,810
Social Contribution on Net Income (CSLL)	111	1,329
Social Contribution on Revenues (COFINS)	683	982
Social Integration Program (PIS)	458	254
Other	924	
	<u>32,106</u>	<u>30,044</u>
Non-current	<u>(4,654)</u>	<u>(5,104)</u>
Current	<u>27,452</u>	<u>24,940</u>

- (i) ICMS recoverable amounts arise essentially from credits on the purchase of inputs used in the production for export, as well as the acquisition of property, plant and equipment items, determined pursuant to Normative Decision CAT no. 1, of 25 April 2001, which are being used in 48 installments. This credit balance is expected to decrease as a result of increased internal sales from the Divisão Rodas aluminum re-smelting furnace on which Mangels has been investing.
- (ii) The IPI presumed credit refers to the reimbursement of PIS and COFINS contributions levied on inputs used for manufacturing products to be exported, calculated as prescribed by Law 10276/01 of September 2001.

### Provisions for Contingent Liabilities

At the date of the financial statements, the provisions for contingent liabilities of probable negative outcome and related judicial deposits are as follows.

	<u>Judicial deposits</u>		<u>Provision for contingencies</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Tax claims	7,100	7,024	15,907	16,727
Labor and social security claims	3,786	4,218	3,792	5,973
Others	1,202	1,223	2,190	2,190
	<u>12,088</u>	<u>12,465</u>	<u>21,889</u>	<u>24,890</u>

Mangels is party to various labor, tax and other disputes at both administrative and judicial levels, which, when applicable, are supported by judicial deposits. The provision for losses arising from these processes is estimated and updated by management, based on the opinion of its external legal advisors.

The movement in the balances of these provisions may be demonstrated as follows:

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	<u>Tax claims</u>	<u>Labor and social security claims</u>	<u>Others</u>	<u>Total</u>
At 31 December 2005	16,727	5,973	2,190	24,890
Charged to the income statement				
Additional provisions		798		798
Discount unwinding and monetary variance	1,419	79		1,498
Used during the year	<u>(2,239)</u>	<u>(3,058)</u>		<u>(5,297)</u>
At 31 December 2006	<u>15,907</u>	<u>3,792</u>	<u>2,190</u>	<u>21,889</u>

The main tax contingencies are related to judicial claims concerning the extension of the calculation basis of Social Contribution on Revenues (COFINS), National Institute of Social Security (INSS) on 13th month salary, fines on Value Added Tax on Sales and Services (ICMS) installments and Income Tax and Social Contribution - Real Plan. In all cases, a negative outcome to Mangels has been assessed as probable by the legal advisors.

#### Inventories

	<u>2006</u>	<u>2005</u>
Finished products	24,156	32,029
Work in process	19,225	20,563
Raw materials	18,802	16,197
Auxiliary materials	<u>5,927</u>	<u>6,381</u>
	<u>68,110</u>	<u>75,170</u>

#### Trade Receivables

	<u>2006</u>	<u>2005</u>
Trade receivables	101,721	82,767
Less provision for impairment of receivables	<u>(2,120)</u>	<u>(3,668)</u>
Trade receivables - net	<u>99,601</u>	<u>79,099</u>
Current	<u>99,601</u>	<u>79,099</u>

**Mangels Industrial S.A.  
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The Group recognized a loss of R\$ 2,120 (2005 - R\$ 3,668) arising on the impairment of its trade receivables, which is included in "Selling and marketing costs" in the income statement.

# Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements  
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## 1 Cash and Cash Equivalents

	<u>Interest rate</u>	<u>2006</u>	<u>2005</u>
Local currency			
Bank Deposit Certificates (CDB)	100% of CDI	96,858	29,280
Fixed income fund	CDI	9,347	
Securities sold with repurchase agreement	CDI	21,505	
Bank accounts		13,190	5,603
Impairment of financial assets			(4,152)
		<u>140,900</u>	<u>30,731</u>

## Mangels Industrial S.A. and Subsidiaries

### Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais

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	<u>Interest rate</u>	<u>2006</u>	<u>2005</u>
Foreign currency			
Bank Deposit Certificates (CDB)	Foreign exchange variation + 4%	67,997	17,096
Bank accounts		<u>1,700</u>	<u>9,492</u>
		<u>69,697</u>	<u>26,588</u>
		<u>210,597</u>	<u>57,319</u>

An impairment loss of R\$ 4,152 was recognized in 2005 on time deposits held against a financial institution which is currently under liquidation.

## 2 Shareholders' Equity

### a) Capital

Mangels subscribed capital comprises 9,239,019 shares with no par value, of which 3,100,865 are common and 6,138,154 are preferred shares with no voting rights.

### b) Special reserve

The special reserve is represented by the remaining balance of retained earnings, after establishing the legal reserve and proposed dividends. This reserve is intended to ensure adequate operating conditions and is limited to 80% of restated capital, as prescribed in the by-laws (Article 32, paragraph one).

### c) Revaluation reserve

The revaluation reserve reflects valuation to fair value of property and equipment, net of deferred taxes. It is realized upon depreciation, impairment or sale of the respective revalued assets, when it is transferred to retained earnings.

### d) Proposed dividends

Under Mangels' by-laws, shareholders are assured a minimum mandatory dividend of 25% of the profit for the year, adjusted as required by the law.

## Mangels Industrial S.A. and Subsidiaries

### Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais

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As from 1997, preferred stockholders receive dividends 10% higher than those of the common shareholders.

Management proposes the distribution of dividends on profit for the year, adjusted as required by the law, to be distributed on common and preferred shareholders, as follows:

	<u>2006</u>	<u>2005</u>
Profit for the year (under Brazilian GAAP)	5,444	12,066
(-) Legal reserve - 5%	<u>(271)</u>	<u>(603)</u>
Calculation basis	5,173	11,463
Proposed dividends - 26.7% (25.8% for 2005)	<u>1,379</u>	<u>2,955</u>

### 3 Borrowings

BNDES financings for property, plant and equipment purchase are collateralized by the assets financed.

Advances on Export Contracts (ACE) and prepayments of exports are collateralized by promissory notes and the exported products.

Working capital financing represent revolving credit lines, which are renewed annually and guaranteed by promissory notes.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	<u>2006</u>	<u>2005</u>
6 months or less	23,919	25,375
6-12 months	67,516	29,824
1-5 years	206,147	127,056
Over 5 years	<u>13,377</u>	<u>          </u>
	<u>310,959</u>	<u>182,255</u>

**Mangels Industrial S.A.  
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The maturity of non-current borrowings is as follows:

	<u>2006</u>	<u>2005</u>
Between one and two years	128,542	27,875
Between two and five years	77,605	99,181
Over five years	<u>13,377</u>	<u>          </u>
	<u>219,524</u>	<u>127,056</u>

The effective interest rates at the balance sheet date were as follows:

	<u>Average annual interest rate - %</u>
Local currency	
BNDES - FINAME – BDMG	Long Term Interest Rate ("TJLP") + 5.0
BNDES – PROGEREN	TJLP + 6.0
BNDES - EXIM BANK	TJLP + 4,0 to 4.8
Working capital	19.09
Foreign currency	
Advances on export contracts	Foreign exchange variation + 2,6 to 4.1
BNDES – BDMG	UMBNDDES + 5.0
Prepayments of exports	Foreign exchange variation + 6.7
Working capital	Foreign exchange variation + 6.7

The carrying amounts and fair value of the non-current borrowings are as follows:

	<u>Carrying amounts</u>		<u>Fair value</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Local currency				
BNDES - FINAME -BDMG	13,952	9,354	13,952	9,354
BNDES – PROGEREN		10,286		10,286
BNDES - EXIM BANK				
Working capital	<u>46,099</u>	<u>2,387</u>	<u>46,664</u>	<u>2,387</u>
	<u>60,051</u>	<u>22,027</u>	<u>60,616</u>	<u>22,027</u>

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	<u>Carrying amounts</u>		<u>Fair value</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Foreign currency				
Advances on export contracts	24	12,713	24	12,713
BNDES – BDMG	3,134	1,999	3,134	1,999
Prepayments of exports	173,343	137,833	175,678	139,160
DEG	53,656		60,524	
Working capital	<u>20,751</u>	<u>7,683</u>	<u>15,828</u>	<u>7,621</u>
	<u>250,908</u>	<u>160,228</u>	<u>255,188</u>	<u>161,493</u>
	<u>310,959</u>	<u>182,255</u>	<u>315,804</u>	<u>183,520</u>
Non-current	219,524	127,056		
Current	<u>91,435</u>	<u>55,199</u>		

The carrying amounts of short-term borrowings approximate their fair value.

In calculating fair value of the borrowings, the value of the risk-free rate added to the historic spread of the operation has been used in comparison with the contractual rate. The historic spread of the operation considers the additional value paid by the entity to the banks in the beginning of the operation, as compared to the risk-free rate.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	<u>2006</u>	<u>2005</u>
U.S. dollar	250,908	160,228
Real	<u>60,051</u>	<u>22,027</u>
	<u>310,959</u>	<u>182,255</u>

# Mangels Industrial S.A. and Subsidiaries

## Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais

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### 4 Taxes Payable

	<u>2006</u>	<u>2005</u>
Financial contribution on billing (COFINS)	20,163	22,109
Tax on financial operations (IOF)	1,169	973
Contribution to the Social Integration Program (PIS)	975	1,125
Income tax and social contribution (IR/CS)	530	402
Other taxes	<u>720</u>	<u>1,331</u>
	<u>23,557</u>	<u>25,940</u>
Non-current portion	<u>18,512</u>	<u>20,241</u>
Current portion	<u>5,045</u>	<u>5,699</u>

### 5 Deferred Taxes

The deferred taxes balances are as follows:

	<u>2006</u>	<u>2005</u>
Deferred tax assets		
Deferred tax asset expected to be recovered in 12 months	5,346	3,857
Deferred tax asset expected to be recovered after 12 months	<u>9,832</u>	<u>11,723</u>
	<u>15,178</u>	<u>15,580</u>
Deferred tax liabilities		
Deferred tax liability expected to be settled after 12 months	<u>18,694</u>	<u>24,244</u>
Net deferred taxes	<u>3,516</u>	<u>8,664</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the income tax relate to the same fiscal authority.

# Mangels Industrial S.A. and Subsidiaries

## Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais

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The projections of the generation of future taxable income include various estimates relating to the performance of the Brazilian and worldwide economies, the selection of foreign exchange rates, volume of sales and sales prices, tax rates and other factors that may present variations in relation to the actual amounts.

As the income tax and social contribution bases result not only from the potential future profits, but also from Mangels' tax and corporate structure, the existence of non-taxable revenues, non-deductible expenses, tax exemptions and incentives, as well as several other variables, no immediate correlation exists between Mangels' profit and the income tax and social contribution results. Accordingly, the projection for the use of tax losses does not serve as a sole indication of future profits of Mangels and its subsidiaries.

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable.

As of 31 December 2006 and 2005, net operating loss carry-forwards relate only to the Brazilian Group companies.

Tax loss carry-forwards in Brazil have no expiration date and are available for offset against future taxable income. Tax regulations in Brazil impose certain conditions and limitations on the future availability of net operating loss and tax credit carry forwards, including restriction on the use of the carry-forwards in any particular year.

### Income tax expense

	<u>2006</u>	<u>2005</u>
Current tax	(3,027)	(4,232)
Deferred tax	<u>678</u>	<u>(40)</u>
	<u>(2,349)</u>	<u>(4,272)</u>

## Mangels Industrial S.A. and Subsidiaries

### Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais

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Deferred tax on the Group's income before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to income of the consolidated companies as follows:

	<u>2006</u>	<u>2005</u>
Profit before income taxes	6,275	16,675
Income tax expense at the nominal rate of 34%	2,133	5,670
Adjustments to obtain the effective rate		
Realization of revaluation reserve	1,080	1,293
Other (additions) exclusions	568	(1,437)
Tax losses offset	(2,905)	(1,646)
Temporary differences - deferred taxes not previously recognized	1,473	392
	<u>216</u>	<u>(1,398)</u>
Income tax expense	<u>2,349</u>	<u>4,272</u>

Income tax and social contribution are calculated according to the applicable legislation, using the rates effective on the balance sheet date, being 25% for income tax and 9% for the social contribution on profit. In accordance with IAS 12, deferred tax credits are recorded on income tax losses, negative social contribution bases and temporary differences.

## 6 Trade and Other Payables

	<u>2006</u>	<u>2005</u>
Suppliers	64,919	27,969
Dividends payable	1,402	2,965
	<u>66,321</u>	<u>30,934</u>

## Mangels Industrial S.A. and Subsidiaries

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### 7 Salaries and Payroll Charges

	<u>Brazil</u>		<u>United States</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Salaries payable	4,638	3,221	300	360	4,938	3,581
Provision for year-end extra salaries	4,472	4,255			4,472	4,255
	<u>9,110</u>	<u>7,476</u>	<u>300</u>	<u>360</u>	<u>9,410</u>	<u>7,836</u>

The Group does not sponsor, nor is obliged to sponsor, any postretirement benefit plan. It makes the legally required social security contributions to the social security plans managed by the governments in the countries where it has operations. The contributions owed by the Group to government-managed social security plans are incurred and paid on a monthly basis and generally calculated as a percentage of the salaries paid in each subsidiary with percentages varying from country to country.

The Group provides to its employees other benefits, such as health insurance, food and/or transport reimbursement, which are common practice in the countries where it carries out its activities. None of those benefits are provided, nor is the Group required to provide, after employment ceases.

### 8 Expenses by Nature

	<u>2006</u>	<u>2005</u>
Depreciation, amortization and impairment charges (Notes 5 and 6)	17,033	14,557
Employee benefit expenses	37,277	64,131
Changes in inventories of finished goods and work in progress	(6,602)	58,968
Raw materials and consumables used	466,775	316,857
Transportation	3,101	13,075
Provision for impaired receivables - net	464	3,668
Advertising costs	37,275	2,288
Other expenses	247	13,836
	<u>555,570</u>	<u>487,380</u>

# Mangels Industrial S.A. and Subsidiaries

## Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais

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	<b>2006</b>	<b>2005</b>
Classified as		
Cost of sales	466,775	410,354
Selling and marketing costs	37,274	35,256
Administrative expenses	52,022	41,666
Other operating expenses	<u>(501)</u>	<u>104</u>
	<u><u>555,570</u></u>	<u><u>487,380</u></u>

### 9 Other Operating Income

	<u><b>2006</b></u>	<u><b>2005</b></u>
Interest income	16,419	5,063
Other	<u>3,448</u>	<u>1,441</u>
	<u><u>19,867</u></u>	<u><u>6,504</u></u>

### 0 Finance Costs

	<u><b>2006</b></u>	<u><b>2005</b></u>
Interest expense		
Bank borrowings	23,092	19,536
Bank fees and charges	6,036	5,766
Other	<u>8,592</u>	<u>8,777</u>
Net foreign exchange transaction gains/(losses)	<u>(9,859)</u>	<u>(11,520)</u>
	<u><u>27,861</u></u>	<u><u>22,559</u></u>

### 1 Earnings per Share

Earnings per share are calculated by dividing the profit attributable to Mangels equity holders by the weighted average number of common and preferred shares in issue during the year. As no potential common shares were outstanding in 2006 or 2005, basic and diluted earnings per share are the same.

## Mangels Industrial S.A. and Subsidiaries

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	<u>2006</u>	<u>2005</u>
Profit for the year	3,926	12,403
Weighted average number of common shares in issue (thousands)	9,239	9,853
Earnings per share (R\$ per share)	<u>0.42</u>	<u>1.26</u>

### 2 Cash Generated from Operations

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Profit for the year	3,926	12,403
Adjustment to reconcile profit to cash generated by operating activities		
Income tax and social contribution	(677)	4,272
Depreciation and amortization	17,033	14,557
Residual value of non current assets disposals	13,826	280
Provisions for contingent liabilities	(3,001)	(4,845)
Taxes payable – PAES		1,423
Accrued interest on financing	24,310	11,614
Foreign exchange variation on financing	(16,769)	(19,488)
	<u>38,648</u>	<u>20,216</u>
Changes in working capital accounts		
Trade accounts receivable	(31,274)	(13,379)
Inventories	6,731	9,646
Suppliers	37,279	(23,555)
Taxes recoverable	(2,512)	(1,707)
Other	159	(5,191)
	<u>10,383</u>	<u>(34,186)</u>
Net cash generated from (used in) operating activities	<u>49,031</u>	<u>(13,970)</u>

# Mangels Industrial S.A. and Subsidiaries

## Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais

### 3 Related-party Transactions

	<b>2006</b>				
	<b>Mangels Indústria e Comércio Ltda.</b>	<b>Laminação Baukus Ltda.</b>	<b>Mangels S.A.</b>	<b>Tecnopar S.A.</b>	<b>Shorewood S.A.</b>
Balances					
Current liabilities					
Loans		19			
Non-current assets					
Loans	679		52	3	87
Transactions					
Financial expenses	10	2			
Financial income	20		2		4
	<b>2005</b>				
	<b>Mangels Indústria e Comércio Ltda.</b>	<b>Laminação Baukus Ltda.</b>	<b>Mangels S.A.</b>	<b>Tecnopar S.A.</b>	<b>Shorewood S.A.</b>
Balances					
Current liabilities					
Loans	12.455	1.206	105		
Transactions					
Financial expenses	934	90			
Financial income			3	3	3

Intercompany transactions were carried out under normal market conditions and terms. The loan balances, arising from Mangels' centralized cash policy, bear interest similar to market rates and have no maturity date.

Key management compensation, including all related employee benefits, amounted to R\$ 4,588 and 5,600 in 2006 and 2005, respectively.

# Mangels Industrial S.A. and Subsidiaries

## Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais

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### 5 Segment Information

#### Primary reporting format - business segments

At 31 December 2006, the Group is organized into three main business segments: (1) Steel; (2) Wheels; and (3) Cylinders.

The segment results for the year ended 31 December 2006 are as follows:

	<u>Steel</u>	<u>Wheels</u>	<u>Cylinders</u>	<u>Unallocated</u>	<u>Group</u>
Total net segment sales	<u>289,999</u>	<u>157,438</u>	<u>81,481</u>	<u>40,921</u>	<u>569,839</u>
Operating profit/segment result	35,825	2,874	(4,770)	207	34,136
Finance costs - net (Note 20)					<u>(27,861)</u>
Profit before income tax					6,275
Deferred income tax					<u>(2,349)</u>
Profit for the year					<u>3,926</u>

The segment results for the year ended 31 December 2005 are as follows:

	<u>Steel</u>	<u>Wheels</u>	<u>Cylinders</u>	<u>Unallocated</u>	<u>Group</u>
Total net segment sales	<u>311,060</u>	<u>145,413</u>	<u>63,637</u>		<u>520,110</u>
Operating profit/segment result	43,000	12,487	(4,895)	(11,358)	39,234
Finance costs - net (Note 21)					<u>(22,559)</u>
Profit before income tax					16,675
Deferred income tax					<u>(4,272)</u>
Profit for the year					<u>12,403</u>

## Mangels Industrial S.A. and Subsidiaries

### Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais

Other segment items included in the income statement are as follows:

	Year ended 31 December 2006				
	Steel	Wheels	Cylinders	Unallocated	Group
Depreciation (Note 5)	5,383	5,763	3,723	1,276	16,145
Amortization (Note 6)	350	126	123	289	888
Reversal of inventory impairment					
Impairment of trade receivables (Note 11)					

	Year ended 31 December 2005				
	Steel	Wheels	Cylinders	Unallocated	Group
Depreciation (Note 5)	5,411	5,356	3,510		14,277
Amortization (Note 6)	280				280
Reversal of inventory impairment	191	137	40		368
Impairment of trade receivables (Note 11)	1,264	2,185	219		3,668

The segment assets and liabilities at 31 December 2006 for the year then ended are as follows:

	Steel	Wheels	Cylinders	Unallocated	Group
Total assets	346,248	76,149	60,504	138,064	620,965
Liabilities	8,368	5,739	4,951	424,028	443,086

The segment assets and liabilities at 31 December 2005 for the year then ended are as follows:

	Steel	Wheels	Cylinders	Unallocated	Group
Total assets	340,994	76,903	65,090	(21,241)	461,746
Liabilities	13,225	8,959	4,529	264,172	290,885

Segment assets consist primarily of property and equipment, intangible assets, receivables and operating cash.

Segment liabilities comprise operating liabilities. They exclude items such as taxation, and corporate borrowings.

Capital expenditure comprises additions to property and equipment (Note 5) and intangible assets (Note 6).

### Secondary reporting format - geographical segments

# Mangels Industrial S.A. and Subsidiaries

## Notes to the Consolidated Financial Statements at 31 December 2006 and 2005 In thousands of reais

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The Group's business segments operate in four main geographical areas, even though they are managed on a worldwide basis.

The areas of operation are principally:

	<u>2006</u>	<u>2005</u>
Sales		
Brazil	505,002	450,459
South America	26,588	32,348
Eurozone	15,255	23,511
US	12,270	11,737
Other countries	<u>10,724</u>	<u>2,055</u>
Total Net Sales	<u><u>569,839</u></u>	<u><u>520,110</u></u>

Sales are allocated based on the country in which the customer is located.

Total assets and capital expenditure are substantially located in Brazil.

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