

**Mangels Industrial S.A.
and Subsidiaries**
**Consolidated Financial Statements at
31 December 2008 and Independent
Auditors' Report**

Independent Auditors' Report

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

Report on the consolidated financial statements

- 1 We have audited the accompanying consolidated financial statements of Mangels Industrial S.A. ("Mangels") and its subsidiaries (together the "Group") which comprise the consolidated balance sheet as of 31 December 2008 and the related consolidated income statement, cash flow statement and statement of changes in shareholders' equity for the year then ended and a summary of significant accounting policies and other related explanatory notes.

Management's responsibility for the financial statements

- 2 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

- 3 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.
- 4 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

Mangels Industrial S.A.

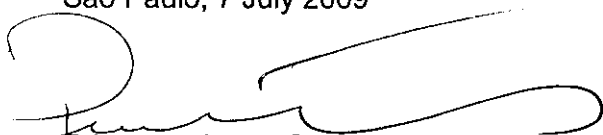
considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit 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.

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

Opinion

- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance, cash flows and changes in shareholders' equity for the year then ended in accordance with International Financial Reporting Standards.

São Paulo, 7 July 2009



PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5



Paulo Cesar Estevão Netto
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**Mangels Industrial S.A.
and Subsidiaries**

**Consolidated Balance Sheets
at 31 December**

In thousands of Reais, unless otherwise stated

Assets	Note	2008	2007
Non-current assets			
Property, plant and equipment	5	259,897	201,016
Intangible assets	6	3,474	2,922
Recoverable taxes	7	12,168	10,369
Judicial deposits	8	6,666	10,835
Related parties			72
Deferred income tax		19,574	13,047
Other		466	
		<u>302,265</u>	<u>238,261</u>
Current assets			
Assets held for sale			1,462
Recoverable taxes	7	34,818	21,476
Recoverable corporate income taxes and social contribution on net income		19,087	7,309
Inventories	9	98,556	59,629
Trade receivables	10	67,997	91,653
Marketable securities	11	107,433	113,864
Cash and cash equivalents	12	135,752	80,240
Other		14,339	33,702
		<u>477,982</u>	<u>409,335</u>
Total assets		<u><u>780,247</u></u>	<u><u>647,596</u></u>

The notes on pages 9 to 42 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, unless otherwise stated

(continued)

Shareholders' equity	Note	2008	2007
Capital	13	89,359	79,360
Treasury shares	13	(1,202)	(12,645)
Reserves	13	107,993	129,725
Currency translation adjustment			(2,162)
Total shareholders' equity		<u>196,150</u>	<u>194,278</u>
Liabilities			
Non-current liabilities			
Borrowings	14	244,199	174,952
Taxes payables	15	13,611	16,214
Deferred taxes	16	18,582	30,008
Provisions	8	6,443	18,015
		<u>283,035</u>	<u>239,189</u>
Current liabilities			
Borrowings	14	235,567	124,217
Trade payable		19,897	40,080
Taxes payable	15	1,367	6,990
Corporate income taxes and Social Contribution on Net Income payable		777	8,732
Salaries and payroll charges	18	11,710	13,575
Dividends payable	13	519	8,971
Derivatives	17	14,077	1,614
Other		17,348	9,950
		<u>301,262</u>	<u>214,129</u>
Total liabilities		<u>584,097</u>	<u>453,318</u>
Total shareholders' equity and liabilities		<u><u>780,247</u></u>	<u><u>647,596</u></u>

The notes on pages 9 to 42 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, unless otherwise stated

	<u>Note</u>	<u>2008</u>	<u>2007</u>
Net sales		698,599	631,588
Cost of sales	19	<u>(565,925)</u>	<u>(515,266)</u>
Gross profit		<u>132,674</u>	<u>116,322</u>
Selling and marketing expenses	19	(33,417)	(34,763)
Administrative expenses	19	(49,471)	(44,060)
Other operating income (expenses), net	19	<u>55,736</u>	<u>57,787</u>
Operating profit		<u>105,522</u>	<u>95,286</u>
Finance costs	21	<u>(124,970)</u>	<u>(37,765)</u>
Profit (loss) before income taxes		<u>(19,448)</u>	<u>57,521</u>
Income tax revenue (expense)	15	<u>24,321</u>	<u>(19,937)</u>
Profit for the year		<u>4,873</u>	<u>37,584</u>
Attributable to			
Mangels' shareholders		<u>4,873</u>	<u>37,584</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>0.28</u>	<u>4.27</u>

The notes on pages 9 to 42 are an integral part of these consolidated financial statements.

Mangels Industrial S.A.

Consolidated Statements of Changes in Shareholders' Equity In thousands of Reais, unless otherwise stated

	Note	Share capital	Revenue reserves			Treasury shares	Currency translation adjustment	Total equity
			Special reserve	Legal reserve	Retained earnings			
At 31 December 2006		79.360	94.720	2.567	-	-	-	176.647
At 1 January 2007								
Increase in legal reserve				1.882	(1.882)			-
Realization of revaluation reserve			(1.852)		1.852			-
Revaluation of fixed assets			3.795					3.795
Purchase of own shares (treasury shares)	12					(12.645)		(12.645)
Profit for the year					37.584			37.584
Dividend relating to 2007 (minimum mandatory dividend)	12				(8.941)			(8.941)
Transfer to reserve for future increase of capital			25.416		(25.416)			-
Currency translation adjustment							(2.162)	(2.162)
Transfer to special reserve	12		3.197		(3.197)			-
At 31 December 2007		79.360	125.276	4.449	-	(12.645)	(2.162)	194.278
At 1 January 2008								
Capital increase		9.999	(9.999)					-
Increase in legal reserve				100	(100)			-
Realization of revaluation reserve			(3.742)		3.742			-
Purchase of own shares						(2.528)		(2.528)
Cancellation of treasury shares			(14)			14		-
Profit for the year					4.873			4.873
Dividend relating to 2008 (minimum mandatory dividend)	12				(473)			(473)
Currency translation adjustment					(2.162)		2.162	-
Transfer to special reserve	12		5.880		(5.880)			-
At 31 December 2008		89.359	117.401	4.549	-	(15.159)	-	196.150

The notes on pages 9 to 42 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, unless otherwise stated

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Net income	4,873	37,584
Adjustments to reconcile net income with cash provided by operating activities		
Deferred income tax and social contribution	(24,658)	14,385
Depreciation and amortization	21,329	16,637
Residual value of permanent asset disposals	11,600	1,670
Provision for contingencies	(11,572)	(3,874)
Provisioned interest on loans and financing	49,995	29,023
Exchange variation on loans and financing	128,671	(43,130)
Other financial results	7,309	(2,303)
	<u>187,547</u>	<u>49,992</u>
Changes in working capital		
Trade accounts receivable	28,964	6,222
Inventories	(37,906)	7,767
Suppliers	(21,204)	(24,125)
Recoverable taxes	(26,919)	(7,048)
Marketable securities	12,019	8,071
Other	5,787	(572)
	<u>(39,259)</u>	<u>(9,685)</u>
Net cash provided by operating activities	<u>148,288</u>	<u>40,307</u>
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(78,265)	(39,753)
Deferred charges and intangible assets	(7,467)	(25)
	<u>(85,732)</u>	<u>(39,778)</u>
Cash flows from financing activities		
Loans and financing	194,020	86,345
Payments of loans and financing	(151,424)	(48,808)
Interest paid on loans and financing	(40,420)	(26,049)
Share repurchase	(2,528)	(12,645)
Payment of dividends	(8,925)	(1,372)
Other long-term receivables and payable	2,233	(5,910)
	<u>(7,044)</u>	<u>(8,439)</u>
Net increase (decrease) in cash and cash equivalents	<u>55,512</u>	<u>(7,910)</u>
Cash and cash equivalents		
At the beginning of the year	80,240	88,150
At the end of the year	<u>135,752</u>	<u>80,240</u>

The notes on pages 9 to 42 are an integral part of these consolidated financial statements.

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

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 fuel tanks for buses and trucks and steel and aluminum automotive wheels. They also render reconditioning services for LPG containers and galvanising services on steel artifacts.

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

The Company has its primary listing on the São Paulo stock exchange ("BOVESPA").

These consolidated financial statements were approved for issue by the Chief Financial Officer on 20 May 2009.

2 Summary of Significant Accounting Policies

(a) Basis of preparation

The consolidated financial statements of the Group 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 profit and loss (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) Standards, amendments and interpretations effective in 2008

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2008 but are either not relevant to the Group's operations or do not result in significant effects:

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

- . IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'
 - . IFRIC 11, 'IFRS 2 – Group and treasury share transactions'
 - . IFRIC 12, 'Service concession arrangements'; and
- (iii) Standards, amendments and interpretations that are not yet effective and have not been early adopted**
- . IAS 23 (Amendment), 'Borrowing costs'
 - . IAS 1 (Revised), 'Presentation of financial statements'
 - . IFRS 2 (Amendment), 'Share-based payment'
 - . IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation'
 - . IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements'
 - . IAS 27 (Revised), 'Consolidated and separate financial statements'
 - . IFRS 3 (Revised), 'Business combinations'
 - . IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption')
 - . IAS 28 (Amendment), 'Investments in associates'
 - . IAS 36 (Amendment), 'Impairment of assets'
 - . IAS 38 (Amendment), 'Intangible assets'
 - . IAS 19 (Amendment), 'Employee benefits'
 - . IAS 37, 'Provisions, contingent liabilities and contingent assets'
 - . IAS 39(Amendment), 'Financial instruments: Recognition and measurement'
 - . IFRIC 16, 'Hedges of a net investment in a foreign operation'

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

(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 the Group's 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 recognised in the income statement.

(iii) Group companies

All group companies are considered to have the Brazilian Real as their functional currency. Foreign currency translation follows the procedures described above.

The Group does not apply hedge accounting and has not recognised 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 unrealised gains on transactions between Group companies are eliminated. Unrealised 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 Group.

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007 In thousands of reais, unless otherwise stated

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

(d) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Chief Executive Officer.

(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. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount.

Subsequent costs are included in the assets' carrying amount or recognised 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 and fittings	10
Vehicles	5
Buildings	25
Machinery and equipment	10-15

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

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 2(g)).

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

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

(f) Intangible assets

(i) Computer software

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

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

(ii) Product development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- . It is technically feasible to complete the intangible asset so that it will be available for use;
- . Management intends to complete the intangible asset and use or sell it;
- . There is an ability to use or sell the intangible asset;
- . It can be demonstrated how the intangible asset will generate probable future economic benefits;
- . Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- . The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

(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 recognised 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). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit and loss, and loans and receivables. 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.

(i) Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss 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 management. Derivatives are also classified as held for trading. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

(ii) 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.

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

(j) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the Weighted Moving Average method. The costs of finished products and work in process comprise raw materials, direct labor, other direct costs and related general production expenses (based on the normal operational capacity). The net realizable value is the estimated sales price in the normal course of business, net of the execution costs and selling expenses. Imports in transit are stated at the accumulated cost of each import.

(k) Trade receivables

Trade receivables are initially recognised 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 recognised in the income statement within "Selling and marketing costs".

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

(m) 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.

(n) Borrowings

Borrowings are recognised 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 recognised in the income statement over the period of the borrowings, using the effective interest method.

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

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.

(o) 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 realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised 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.

(p) 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 recognised 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 recognised as interest expense.

(q) 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 recognised as follows:

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

(i) Sale of goods

Sales of goods are recognised when a Group entity delivers the 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 recognised 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 recognised 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 the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(r) Dividend distribution

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

(s) 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.

(t) Advertising costs

Advertising costs are expensed as incurred. Advertising expenses amounted to R\$ 1,184 and R\$ 937 for the years ended 31 December 2007 and 2008, respectively.

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

(u) Non-current assets held for sale

Non-current assets (or 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.

(v) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. There are no derivatives designated as a hedging instrument for hedge accounting purposes. Changes in the fair value of any these derivative instruments are recognised immediately in the income statement within "Finance costs".

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 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, recognised assets and liabilities and net investments in foreign operations.

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

Entities in the Group use export advance contracts to manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions and recognised 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 aluminium purchases.

At 31 December 2008, no significant changes would be expected either in the profit for the year or the shareholders' equity, if the aluminium price had weakened or strengthened by 5%, with all other variables held constant.

(i.3) 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.

The Group manages its cash flow interest rate risk by using interest rate derivative financial instruments (swaps). Such interest rate swaps have the economic effect of converting borrowings from floating rates to the Interbank Deposit Certificate ("CDI") rate. Generally, the Group raises long-term borrowings at floating rates and swaps them into CDI rates that are lower than those available if the group borrowed at fixed rates directly. Under the interest rate swaps, the group agrees with other parties to exchange, at specified intervals, the difference between CDI and floating-rate interest amounts calculated by reference to the agreed notional amounts.

At 31 December 2008, no significant changes would be expected either in the profit for the year and in the shareholders' equity, if interest rates on currency-denominated borrowings had been 0.5% higher or lower with all other variables held constant, due to the effect of the derivative financial instruments contracted by the Group, to mitigate the interest risk.

(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.

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

(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.

Management monitors rolling forecasts of the group's liquidity reserve (comprises undrawn borrowing facility (Note 13) and cash and cash equivalents (Note 11)) on the basis of expected cash flow.

(b) Capital management

The Group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(c) 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.

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

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.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

(b) Fair value of fixed assets

The fair value of fixed assets is determined by obtaining the values of similar items traded in an active market, when applicable. For items with no active market, other valuation techniques are used.

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

**Notes to the Consolidated Financial Statements
at 31 December 2008 and 2007**
In thousands of reais, unless otherwise stated

5 Property, Plant and Equipment

	Land	Buildings and improvements	Equipment and installations	Vehicles	Furniture and fixtures	Other	Total in operation	Construction in progress	Total
At December 31, 2006	20,292	39,131	100,691	1,211	4,187	1,994	167,506	9,438	176,944
Acquisitions			846		57		903	38,850	39,753
Disposals			(1,086)	(293)	(1)		(1,380)	(290)	(1,670)
Transfer		314	16,143	402	307		17,166	(17,166)	
Depreciation/amortization		(1,809)	(13,633)	(337)	(858)		(16,637)		(16,637)
Interest capitalization						(3,123)	(3,123)		(3,123)
Revaluation	1,176	2,718	1,855				5,749		5,749
At December 31, 2007	<u>21,468</u>	<u>40,354</u>	<u>104,816</u>	<u>983</u>	<u>3,692</u>	<u>(1,129)</u>	<u>170,184</u>	<u>30,832</u>	<u>201,016</u>
Total cost	21,468	66,221	282,060	2,524	14,993	(1,129)	386,137	30,832	416,969
Accumulated depreciation		(25,867)	(177,244)	(1,541)	(11,301)		(215,953)		(215,953)
Net book value	<u>21,468</u>	<u>40,354</u>	<u>104,816</u>	<u>983</u>	<u>3,692</u>	<u>(1,129)</u>	<u>170,184</u>	<u>30,832</u>	<u>201,016</u>
Annual depreciation rate - %		<u>4</u>	<u>4.81</u>	<u>20</u>	<u>10</u>				
At December 31, 2007	21,468	40,354	104,816	983	3,692	(1,129)	170,184	30,832	201,016
Acquisitions	855	6,705	20,763	135	622	759	29,839	48,426	78,265
Disposals	(712)		(9,791)	(275)	(103)		(10,881)	(719)	(11,600)
Transfer		4,120	51,200	975	1,217		57,512	(57,512)	
Depreciation/amortization		(2,061)	(16,525)	(359)	(1,057)		(20,002)		(20,002)
Interest capitalization		(4)	(482)		(3)	489			
Advances to supplier - property, plant and equipment								12,218	12,218
At December 31, 2008	<u>21,611</u>	<u>49,114</u>	<u>149,981</u>	<u>1,459</u>	<u>4,368</u>	<u>119</u>	<u>226,652</u>	<u>33,245</u>	<u>259,897</u>
Total cost	21,611	77,042	343,750	3,359	16,726	119	462,607	33,245	495,852
Accumulated depreciation		(27,928)	(193,769)	(1,900)	(12,358)		(235,955)		(235,955)
Net book value	<u>21,611</u>	<u>49,114</u>	<u>149,981</u>	<u>1,459</u>	<u>4,368</u>	<u>119</u>	<u>226,652</u>	<u>33,245</u>	<u>259,897</u>
Annual depreciation rate - %		<u>4</u>	<u>4.81</u>	<u>20</u>	<u>10</u>				

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

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 as deemed cost the revaluation amounts stated in the report issued by independent experts, dated 31 December 2003.

6 Intangible Assets

	<u>Software</u>	<u>Product development</u>	<u>Other</u>	<u>Total</u>
Year ended 31 December 2007				
Opening net book amount	2,863	56	39	2,958
Additions	655		167	822
Amortization charge (Note 19)	<u>(820)</u>	<u>(14)</u>	<u>(24)</u>	<u>(858)</u>
Closing net book amount	<u>2,698</u>	<u>42</u>	<u>182</u>	<u>2,922</u>
At 31 December 2007				
Cost	9,463	3,136	475	13,074
Accumulated amortization	<u>(6,765)</u>	<u>(3,094)</u>	<u>(293)</u>	<u>(10,152)</u>
Net book amount	<u>2,698</u>	<u>42</u>	<u>182</u>	<u>2,922</u>
Year ended 31 December 2008				
Opening net book amount	2,698	42	182	2,922
Additions	1,915	10		1,925
Amortization charge (Note 19)	<u>(1,191)</u>	<u></u>	<u>(182)</u>	<u>(1,373)</u>
Closing net book amount	<u>3,422</u>	<u>52</u>	<u></u>	<u>3,474</u>
At 31 December 2008				
Cost	5,829	3,146		8,975
Accumulated amortization	<u>(2,355)</u>	<u>(3,146)</u>	<u></u>	<u>(5,501)</u>
Net book amount	<u>3,474</u>	<u></u>	<u></u>	<u>3,474</u>

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

**Notes to the Consolidated Financial Statements
at 31 December 2008 and 2007**

In thousands of reais, unless otherwise stated

7 Recoverable taxes

	<u>2008</u>	<u>2007</u>
Value-Added Tax on Sales and Services (ICMS) (i)	19,815	18,552
IPI presumed credit	796	4,503
Excise Tax (IPI)	6,104	3,461
Withholding Income Tax (IRRF)	12,010	3,197
Social Contribution on Revenues (COFINS)	4,261	740
Social Integration Program (PIS)	3,074	466
Other	925	926
	<u>46,986</u>	<u>31,845</u>
Non-current	<u>(12,168)</u>	<u>(10,369)</u>
Current	<u>34,818</u>	<u>21,476</u>

(i) ICMS recoverable amounts arise essentially from credits on the purchase of inputs used in making products with ICMS recoverable on sales, as well as on the acquisition of property, plant and equipment items, determined pursuant to Coordinating Committee of the Tax Administration Board (CAT) Normative Decision No. 1, of April 25, 2001, which are being used in 48 installments.

8 Provisions

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

	<u>Judicial deposits</u>		<u>Provisions</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Tax claims	2,235	4,766	2,775	12,719
Labour and social security claims	3,227	4,867	864	3,106
Others	1,204	1,202	2,804	2,190
	<u>6,666</u>	<u>10,835</u>	<u>6,443</u>	<u>18,015</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 advice of its external legal advisors.

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

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

**Notes to the Consolidated Financial Statements
at 31 December 2008 and 2007**

In thousands of reais, unless otherwise stated

	<u>Tax claims</u>	<u>Labor and social security claims</u>	<u>Others</u>	<u>Total</u>
At 31 December 2007	12,719	3,106	2,190	18,015
Discount unwinding and monetary variance	812	278		1,090
Used during the year	<u>(10,756)</u>	<u>(2,519)</u>	<u>613</u>	<u>(13,275)</u>
At 31 December 2008	<u>2,775</u>	<u>864</u>	<u>2,804</u>	<u>6,443</u>

The main tax contingencies relate to legal actions brought against the National Institute of Social Security (INSS) on the 13th month salary, fine on Value-added Tax on Sales and Services (ICMS) financing and provision for Income Tax and Social Contribution - Real Plan, for which the possibilities of losses were evaluated as probable by the legal advisors.

9 Inventories

	<u>2008</u>	<u>2007</u>
Finished products	21,751	11,739
Work in process	26,754	15,304
Raw materials	41,064	24,713
Auxiliary materials	<u>8,987</u>	<u>7,873</u>
	<u>98,556</u>	<u>59,629</u>

10 Trade Receivables

	<u>2008</u>	<u>2007</u>
Trade receivables	73,241	95,232
Less provision for impairment of receivables	<u>(5,244)</u>	<u>(3,579)</u>
Trade receivables – net	<u>67,997</u>	<u>91,653</u>

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

The Group recognised a loss of R\$ 1,665 – (2007 - R\$ 1,721) arising on the impairment of its trade receivables, which is included in "Selling and marketing costs" in the income statement. The accounts receivable include the amount of R\$ 5,436 – (2007 – R\$ 4,875) with maturity of more than three months.

11 Marketable Securities

<u>For trading</u>	<u>Remuneration - %</u>	<u>2008</u>	<u>2007</u>
Domestic currency			
Bank Deposit Certificates (CDBs)	102.92 of CDI	20,608	
MICL I - Multi-market private credit investment fund (portfolio composition)			
CDB	104.13 of CDI	21,248	10,795
Box			22,767
Credit Rights Investment Fund (FIDC) quotas	110.1 of CDI	6,566	2,080
Purchase and sale commitments	101.16 of CDI	2,514	297
Government securities - National Treasury Bill (LTN) and Financial Treasury Bill (LFT)	98.86 of CDI	4,794	
Other			11,561
		<u>55,730</u>	<u>47,500</u>
<u>For trading</u>	<u>Remuneration - %</u>	<u>2008</u>	<u>2007</u>
Foreign currency			
Time deposit	EV* + 4.80 p.a.	20,729	65,201
Treasury notes	EV + 4.68 p.a.	2,834	
Time deposit	EV + 6.41 p.a.	2,447	
		<u>26,010</u>	<u>65,201</u>
Foreign currency			
Bank accounts	EV	25,693	1,163
		<u>107,433</u>	<u>113,864</u>

*Exchange variation

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

12 Cash and Cash Equivalents

	<u>Remuneration - %</u>	<u>2008</u>	<u>2007</u>
Local currency			
Bank Deposit Certificates - (CDBs)	102.92 of CDI	61,033	13,364
Purchase and sale commitments	103.56 of CDI	44,005	33,339
MICL I - Multi-market private credit investment fund (portfolio composition)			
CDB	104.13 of CDI	16,472	8,482
Multi-market fund quotas			5,666
Purchase and sale commitments	101.16 of CDI	6,501	
Government securities - National Treasury Bill (LTN) and Financial Treasury Bill (LFT)	98.86 of CDI	1,307	
Other	96 of CDI	275	2,052
Bank accounts		6,159	17,337
		<u>135,752</u>	<u>80,240</u>

13 Shareholders' Equity

(a) Capital

Mangels' subscribed capital comprises 17,525,838 shares with no par value, of which 6,201,730 are common and 11,324,108 are preferred shares.

Preferred shares do not have voting rights and are not convertible in common shares. Nevertheless, these shares have priority in capital reimbursement if the Company is extinguished, the right to receive 10% additional dividends in relation to the amount attributed to the common shares and the same rights in relation to the distribution of bonus shares resulting from the capitalization of reserves, profits and others.

At an Extraordinary and Ordinary General Meeting held on April 30, 2008, the stockholders approved a capital increase, without the issue of new shares, through the capitalization of R\$ 9,999 recorded in the reserve for future capital increase, thus increasing the Company's capital to R\$ 89,359.

On April 30, 2008, at an Extraordinary General Meeting, the stockholders approved the stock split of the Company's preferred and common shares at the ratio of: (a) one new common share for each common share held on the date of the aforementioned Extraordinary General Meeting; and (b) one new preferred share for each preferred share held on the date of such Extraordinary General Meeting. Accordingly, as a result of this split, the Company's capital

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

**Notes to the Consolidated Financial Statements
at 31 December 2008 and 2007**

In thousands of reais, unless otherwise stated

comprises 17,525,838 nominative shares, with no par value, 6,201,730 of which are common shares and 11,324,108 are preferred shares. The purpose of the stock split was to increase the liquidity of the shares issued by the Company.

(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 realised 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.

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 to common and preferred shareholders, as follows:

	<u>2008</u>	<u>2007</u>
Profit for the year (under Brazilian GAAP)	1,992	37,584
(-) Legal reserve - 5%	<u>(100)</u>	<u>(1,882)</u>
Calculation basis	1,892	35,702
Proposed dividends	503	8,941
Remaining amounts from prior years	<u>16</u>	<u>30</u>
Dividends payable	<u><u>519</u></u>	<u><u>8,971</u></u>

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

(e) Treasury shares

On 16 October 2008, a purchase of own shares was authorized by the Board of Directors. In accordance with this decision, a maximum of 860,226 preferred shares may be repurchased, for future disposal or cancellation, with no impacts in the capital as of 31 December 2008. The movement of the treasury shares during 2008 and 2007 is demonstrated as follows:

	Number of shares repurchased	Cost	Price per share - R\$			Fair value of the shares at 31/12/07 (*)
			Minimum	Maximum	Average	
Repurchases during 2007						
Second quarter	140,900	2,988	16.30	24.60	21.20	
Third quarter	119,500	3,333	24.50	30.00	27.89	
Fourth quarter	184,100	6,324	28.00	41.50	34.35	
At 31 December 2007	444,500	12,645			28.45	18,967
Repurchases during 2008						
First quarter	31,600	1,327	42.00	42.00	42.00	
Treasury shares (cancelled)	(476,100)	(13,972)				
Third quarter	176,200	1,202	6.20	7.75	6.82	
At 31 December 2008	176,200	1,202			6.82	881

Fair value has been determined based on the average price of the shares, equivalent to R\$ 5.00 and R\$ 42.67 per share, at the end of the year 2008 and 2007, respectively.

14 Borrowings

National Bank for Economic and Social Development (“BNDES”) financing for property, plant and equipment purchase is secured by the assets financed. Working capital financing represents revolving credit lines, which are renewed annually and guaranteed by promissory notes.

DEG/FMO financing contracts include restrictive covenants requiring the Company to comply with certain financial indices quarterly and annually, calculated based on quarterly information and annual financial statements, respectively, prepared in accordance with the accounting practices adopted in Brazil.

At December 31, 2008 the Company was not in compliance with these covenants related to the maintenance of a certain financial index. The non-compliance would permit the creditor to call the anticipated maturity of the debt. Nevertheless, the creditor agreed, through a formal document, to change the related index up to December 31, 2009. This waiver was issued after

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

**Notes to the Consolidated Financial Statements
at 31 December 2008 and 2007**

In thousands of reais, unless otherwise stated

December 31, 2008, consequently the amount of R\$ 134,584 was reclassified to current liabilities.

The maturity of non-current borrowings is as follows:

	<u>2008</u>	<u>2007</u>
Between one and two years	42,148	90,958
Between two and five years	116,144	79,561
Over five years	<u>70,908</u>	<u>8,870</u>
Subtotal	<u>244,904</u>	<u>179,389</u>
Transaction costs	<u>(705)</u>	<u>(4,437)</u>
Total	<u><u>244,199</u></u>	<u><u>174,952</u></u>

The annual interest rates at the balance sheet date and the carrying amounts and fair value of the non-current borrowings are as follows:

	<u>Average annual interest rate - %</u>
Local currency	
BNDES - Government Agency for Machinery and Equipment Financing ("FINAME") – Development Bank of Minas Gerais State ("BDMG")	Long Term Interest Rate ("TJLP") + 2.74% year
Working capital	
Foreign currency	
BNDES - BDMG	UMBNDDES + 4.38
Prepayments of exports	LIBOR + 2.67
Working capital	LIBOR + 3.83
DEG/FMO	LIBOR + 4.09

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

**Notes to the Consolidated Financial Statements
at 31 December 2008 and 2007**

In thousands of reais, unless otherwise stated

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

	<u>Carrying amounts</u>		<u>Fair value</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Local currency				
BNDES - FINAME -BDMG	17,577	16,856	17,577	16,856
Working capital		54,773		45,382
	<u>17,577</u>	<u>71,629</u>		<u>62,238</u>
Foreign currency				
BNDES - BDMG	789	2,489	789	2,489
Prepayments of exports	179,202	144,104	179,998	145,774
Working capital	147,615	32,088	150,391	28,817
DEG/FMO	<u>134,583</u>	<u>48,859</u>	<u>147,097</u>	<u>61,603</u>
	<u>462,189</u>	<u>227,540</u>	<u>478,276</u>	<u>238,683</u>
	<u>479,766</u>	<u>299,169</u>	<u>495,853</u>	<u>300,921</u>
Non-current	<u>244,199</u>	<u>174,952</u>		
Current	<u>235,567</u>	<u>124,217</u>		

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

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

	<u>2008</u>	<u>2007</u>
U.S. dollar	462,189	227,540
Real	<u>17,577</u>	<u>71,629</u>
	<u>479,766</u>	<u>299,169</u>

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

**Notes to the Consolidated Financial Statements
at 31 December 2008 and 2007**
In thousands of reais, unless otherwise stated

15 Taxes Payable

	<u>2008</u>	<u>2007</u>
Financial contribution on billing (COFINS)	13,199	18,291
Tax on financial transactions (IOF)	350	1,227
Contribution to the Social Integration Program (PIS)	804	1,129
Other taxes	625	2,557
	<u>14,978</u>	<u>23,204</u>
Non-current portion	<u>(13,611)</u>	<u>(16,214)</u>
Current portion	<u>1,367</u>	<u>6,990</u>

16 Deferred Taxes

The deferred tax balances are as follows:

	<u>2008</u>	<u>2007</u>
Deferred tax assets		
Deferred tax asset expected to be recovered in 12 months	(3,257)	(3,207)
Deferred tax asset expected to be recovered after 12 months	<u>(16,317)</u>	<u>(9,840)</u>
	(19,574)	(13,047)
Deferred tax liabilities		
Deferred tax liability expected to be settled after 12 months	<u>18,582</u>	<u>30,008</u>
Net deferred taxes	<u>992</u>	<u>16,961</u>

(i) Deferred tax assets

Taking into consideration estimates of future profitability, deferred income tax and social contribution assets are recorded. The realizations of these deferred tax assets is supported by taxable income projections and considers that the offset is limited to 30% of taxable income for the year, determined in accordance with Brazilian tax legislation. The base for these deferred tax assets are as follows:

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

**Notes to the Consolidated Financial Statements
at 31 December 2008 and 2007**

In thousands of reais, unless otherwise stated

	<u>2008</u>	<u>2007</u>
Income tax losses to be offset	(6,682)	(2,500)
Social contribution losses	(2,482)	(1,029)
Temporary differences		
Provisions for tax contingencies	(1,187)	(2,458)
Allowance for doubtful accounts	(1,981)	(1,328)
Provision for PLR	(845)	(75)
Provision for PP&E held	(1,439)	(1,020)
Provision for PIS - Law 8541/92		(904)
Provision for suspended taxes- COFINS and IR - Real Plan		(958)
Provision for untimely credit		(374)
Provision for obsolete inventory	(739)	(364)
Technological innovation depreciation charges	1,049	
Provision for swap	(1,657)	
Other additions	<u>(3,611)</u>	<u>(2,037)</u>
Total deferred income tax and social contribution assets	<u>(19,574)</u>	<u>(13,047)</u>

(ii) Deferred tax liabilities

The Group calculated deferred income tax liabilities on the revaluations and is transferring this amount to results as and when depreciation is computed.

Based on the provisions of Article 30 of the Provisional Measure 2158-35 of August 24, 2001, the Group opted to include foreign exchange variations in taxable income on a cash basis.

	<u>2008</u>	<u>2007</u>
Revaluation of property, plant and equipment	6,894	6,894
Foreign exchange variations	<u>11,688</u>	<u>23,114</u>
Total deferred income tax and social contribution liabilities	<u>18,582</u>	<u>30,008</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 taxes relate to the same fiscal authority.

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

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

**Notes to the Consolidated Financial Statements
at 31 December 2008 and 2007**

In thousands of reais, unless otherwise stated

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 represent the only indication of future profits of Mangels and its subsidiaries.

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

As of 31 December 2008 and 2007, tax 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>2008</u>	<u>2007</u>
Current tax	(337)	(9,150)
Deferred tax	<u>24,658</u>	<u>(10,787)</u>
	<u>24,321</u>	<u>(19,937)</u>

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>2008</u>	<u>2007</u>
(Loss) profit before income taxes	<u>(19,448)</u>	<u>57,521</u>
Income tax credit (expense) at the nominal rate of 34%	6,612	(19,557)

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

**Notes to the Consolidated Financial Statements
at 31 December 2008 and 2007**

In thousands of reais, unless otherwise stated

Realization of revaluation reserve	1,115	(949)
Provision for PLR		(76)
Provision for obsolete inventory	1,325	(136)
Provision for PP&E set up for sale	1,858	(1,020)
Provision for deferred IRPJ/CSLL assets		(1,147)
Provision for (reversal of) foreign exchange variation		2,730
Provision for IRPJ/CSLL (anticipations)		(760)
Allowance for doubtful accounts	2,636	(222)
Provision for tax contingency	38	
Provision reversal for tax contingency	(4,056)	
Technological innovation depreciation charges	(2,266)	
Provision for Swap	3,314	
Reversal of exchange variation	10,314	
Tax loss carryforward	7,266	
Other (additions) exclusions	(3,835)	(93)
Negative bases offset		1,100
Tax losses offset		2,669
Temporary differences		(2,476)
	<u>17,052</u>	<u>(380)</u>
Income tax expense	<u>24,321</u>	<u>19,937</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 assets are recorded on income tax losses, social contribution losses and temporary differences.

17 Derivatives

	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<u>Description</u>	<u>Notional amount</u>		<u>Fair value</u>	
Asset position				
Option contracts	23,956		3,351	
Swap contracts	<u>6,673</u>		<u>249</u>	
	<u>30,629</u>		<u>3,600</u>	

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

Liability position

Option contracts	(23,956)		(4,629)	
Swap contracts	(45,052)		(9,422)	(1,952)
US dollar futures	109,839	38,526	(3,626)	338
	<u>(40,831)</u>	<u>38,526</u>	<u>17,677</u>	<u>(1,614)</u>

The derivative financial instruments are classified as either a current asset or liability when the instrument falls due within 12 months of the balance sheet date, and as either a non-current asset or liability when the instrument falls due in more than 12 months.

(a) Sensitivity analysis

The table below presents the sensitivity analysis of the financial instruments, including derivatives, describing risks that may result in material losses for the Group. It indicates the most probable scenario (scenario I) according to an evaluation carried out by management, considering a three-month period, when the next financial information including this analysis should be disclosed. In addition, two other scenarios are presented, in accordance with CVM Instruction 475/08, to describe the 25% and 50% deterioration in the risk factor (scenarios II and III, respectively).

	<u>Risks</u>	<u>Scenario I</u>	<u>Scenario II</u>	<u>Scenario III</u>
Liabilities				
Debt in US\$	Appreciation of US\$	(476,572)	(568,185)	(655,301)
Debt in domestic currency	Increase in TJLP	<u>(17,578)</u>	<u>(17,853)</u>	<u>(18,127)</u>
		<u>(494,150)</u>	<u>(586,038)</u>	<u>(673,428)</u>
Assets				
Marketable securities	Appreciation of US\$	50,410	59,943	61,591
Swaps (asset position US\$)	Appreciation of US\$	3,898	4,951	5,942
Purchase of US\$ futures	Appreciation of US\$	108,100	137,299	164,759
Swap (asset position CDI)	Increase in CDI	<u>34,098</u>	<u>40,546</u>	<u>41,660</u>
Total assets		<u>196,506</u>	<u>242,739</u>	<u>273,952</u>
Net effect		<u>(297,644)</u>	<u>(343,299)</u>	<u>(399,476)</u>
Net effect in relation to scenario I			<u>(45,655)</u>	<u>(101,833)</u>

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

(i) Sensitivity assumptions

The Company used projected interest rates and US dollar futures rates, obtained from BM&F BOVESPA for the maturity dates of the contracts. Rates used for scenario I were the following: TJLP: 8.99% p.a., Dollar: R\$ 2.30 and CDI: 12.75% p.a.

(ii) Determination of fair value

The Company and its subsidiaries assess the book value of their assets and liabilities as compared to market value, which have the same economic effects of the original transaction. The fair value was determined based on the volatility of the future exchange rate, obtained from BM&F, and the calculation method was the future value estimated through market future curves brought to present value.

18 Salaries and Payroll Charges

	<u>Brazil</u>		<u>United States</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Salaries payable	5,906	7,145	937	1,070	6,843	8,215
Provision for year-end bonus	4,867	5,360			4,867	5,360
	<u>10,773</u>	<u>12,505</u>	<u>937</u>	<u>1,070</u>	<u>11,710</u>	<u>13,575</u>

The Group does not sponsor, nor is it 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.

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

**Notes to the Consolidated Financial Statements
at 31 December 2008 and 2007**

In thousands of reais, unless otherwise stated

19 Expenses by Nature

	<u>2008</u>	<u>2007</u>
Depreciation and amortization charges (Notes 5 and 6)	18,810	17,495
Employee benefit expenses	16,346	14,587
Raw materials and consumables used	565,925	515,226
Transportation	16,179	16,651
Provision for impaired receivables - net	1,699	1,721
Advertising costs	33,417	34,763
IPI state credits	(6,868)	(6,280)
Sale of "Package hoop-iron" business	(16,010)	
Lawyers fees	1,092	1,275
Other expenses (income), net	<u>(32,788)</u>	<u>(27,221)</u>
	<u>597,802</u>	<u>568,218</u>
Classified as		
Cost of sales	565,925	515,226
Selling and marketing costs	33,417	34,763
Administrative expenses	49,471	44,060
Other operating (income) and expenses, net	<u>(51,011)</u>	<u>(25,871)</u>
	<u>597,802</u>	<u>568,179</u>

20 Finance costs

	<u>2008</u>	<u>2007</u>
Interest expense on bank borrowings	(38,368)	(23,578)
Bank fees and charges	(1,059)	(4,735)
Commercial expenses	(1,030)	(3,129)
Fair value losses (gains)		(307)
Other	(117)	(6,016)
Net foreign exchange transaction gains/(losses)	<u>(84,396)</u>	<u>31,916</u>
	<u>(124,970)</u>	<u>(5,849)</u>

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007 In thousands of reais, unless otherwise stated

21 Earnings per Share

Earnings per share are calculated by dividing the profit attributable to Mangels shareholders by the weighted average number of common and preferred shares in issue during the year. As no potential common shares were outstanding in 2008 or 2007, basic and diluted earnings per share are the same.

	<u>2008</u>	<u>2007</u>
Profit for the year	4,873	37,584
Weighted average number of common shares in issue (thousands)	<u>17,526</u>	<u>17,526</u>
Earnings per share (R\$ per share)	<u>0.28</u>	<u>2.14</u>

Due to the split of the Company's preferred and common shares, as described in the Note 13 (a), the Company recalculated the earnings per share of 2007 to maintain the comparability of the information presented.

22 Related-party Transactions

	<u>2007</u>			
	<u>Mangels S.A.</u>	<u>Tecnopar S.A.</u>	<u>Shorewood S.A.</u>	<u>Total</u>
Balances				
Non-current assets				
Loans	15		57	72
Transactions				
Financial income	8	16	16	40
				2008
	<u>Mangels S.A.</u>	<u>Tecnopar S.A.</u>	<u>Shorewood S.A.</u>	<u>Total</u>
Balances				
Non-current assets				
Loans	0	5	9	14
Transactions				
Financial income	2	0	4	6
Financial expense	0	1	0	1

Related-party 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.

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007 In thousands of reais, unless otherwise stated

(a) Remuneration of the key management personnel - consolidated

Key management personnel include the directors, officers and members of the Executive Committee. Remuneration paid in 2008 and 2007 is shown below:

	<u>2008</u>	<u>2007</u>
Fees and charges of management and directors	5,457	5,491
Pension plans	771	1,135
Other benefits	<u>436</u>	<u>287</u>
	<u>6,664</u>	<u>6,913</u>

23 Operating Segmental Information

Management has determined the operating segments based on the reports reviewed by Chief Executive Officer that are used to make strategic decisions.

The segment results for the year ended 31 December 2007 are as follows:

	<u>Steel</u>	<u>Wheels</u>	<u>Cylinders</u>	<u>Galvanizing</u>	<u>Unallocated</u>	<u>Group</u>
Total net segment sales	<u>304,748</u>	<u>194,711</u>	<u>96,343</u>	<u>35,561</u>	<u>225</u>	<u>631,588</u>
Operating profit/segment result	27,006	20,773	7,852	7,739		63,370
Finance costs - net (Note 20)						<u>(5,849)</u>
Profit before income tax						<u>57,521</u>
Income tax expense						<u>(19,937)</u>
Profit for the year						<u>37,584</u>

The segment results for the year ended 31 December 2008 are as follows:

	<u>Steel</u>	<u>Wheels</u>	<u>Cylinders</u>	<u>Galvanizing</u>	<u>Unallocated</u>	<u>Group</u>
Total net segment sales	<u>311,894</u>	<u>230,544</u>	<u>113,578</u>	<u>42,041</u>	<u>542</u>	<u>698,599</u>
Operating profit/segment result	50,461	27,106	8,682	10,652	6,690	103,591
Finance costs - net (Note 20)						<u>(124,970)</u>

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007 In thousands of reais, unless otherwise stated

Profit before income tax	(21,379)
Income tax expense	23,371
Profit for the year	<u>1,992</u>

Other segment items included in the income statement for the year ended 31 December 2007 are as follows:

	<u>Steel</u>	<u>Wheels</u>	<u>Cylinders</u>	<u>Galvanizing</u>	<u>Unallocated</u>	<u>Group</u>
Depreciation (Note 5)	5,904	6,401	3,659	23	650	16,637
Amortization (Note 6)	346	127	124	47	214	858

Other segment items included in the income statement for the year ended 31 December 2008 are as follows:

	<u>Steel</u>	<u>Wheels</u>	<u>Cylinders</u>	<u>Galvanizing</u>	<u>Unallocated</u>	<u>Group</u>
Depreciation (Note 5)	6,630	8,478	3,860	63	971	20,002
Amortization (Note 6)	371	183	179	50	408	1,191

The segment assets and liabilities at 31 December 2007 for the year then ended are as follows:

	<u>Steel</u>	<u>Wheels</u>	<u>Cylinders</u>	<u>Galvanizing</u>	<u>Unallocated</u>	<u>Group</u>
Total assets	387,191	108,968	73,590	39,610	38,237	647,596
Total liabilities	21,153	17,896	8,047	1,601	404,618	453,318

The segment assets and liabilities at 31 December 2008 for the year then ended are as follows:

	<u>Steel</u>	<u>Wheels</u>	<u>Cylinders</u>	<u>Galvanizing</u>	<u>Unallocated</u>	<u>Group</u>
Total assets	432,245	132,609	81,415	50,411	85,411	782,091
Total liabilities	12,513	9,565	6,564	1,739	553,716	584,097

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.

Mangels Industrial S.A. and Subsidiaries

Notes to the Consolidated Financial Statements at 31 December 2008 and 2007

In thousands of reais, unless otherwise stated

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

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>2008</u>	<u>2007</u>
Sales		
Brazil	655,365	591,411
South America	33,139	21,068
Eurozone	1,559	6,046
US	860	1,117
Other countries	<u>7,676</u>	<u>11,946</u>
Total net sales	<u>698,599</u>	<u>631,588</u>

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

Total assets and capital expenditure are substantially located in Brazil.

24 Changes in the Brazilian Corporate Law for 2008

Law 11638 was enacted on December 28, 2007 and amended the Brazilian Corporation Law. The Law established several changes to the preparation of the financial statements, in order to align them with international accounting standards, and assigned to the Brazilian Securities Commission (CVM) the responsibility of determining the accounting practices to be applied by publicly-held companies.

The changes introduced by the law do not impact these IFRS financial statements.

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