(A free translation of the original in Portuguese)

Indústrias Romi S.A.

Individual and Consolidated Financial Statements at December 31, 2012 and Independent Auditors' Report

(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Shareholders
Indústrias Romi S.A.

We have audited the accompanying financial statements of Indústrias Romi S.A. ("Parent Company" or "Company"), which comprise the balance sheet as at December 31, 2012 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We have also audited the accompanying consolidated financial statements of Indústrias Romi S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with accounting practices adopted in Brazil[3], and for the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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Indústrias Romi S.A.

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 on the parent company financial statements

In our opinion, the parent company financial statements referred to above present fairly, in all material respects, the financial position of Indústrias Romi S.A. as at December 31, 2012, and its financial performance and its cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Indústrias Romi S.A. and its subsidiaries as at December 31, 2012, and their financial performance and their cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil.

Emphasis of matter

As discussed in note 2.1 to these financial statements, the parent company financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of Indústrias Romi S.A., these practices differ from IFRS applicable to separate financial statements only in relation to the measurement of investments in subsidiaries and associates based on equity accounting, while IFRS requires measurement based on cost or fair value. Our opinion is not qualified in respect of this matter.

Indústrias Romi S.A.

Other matters

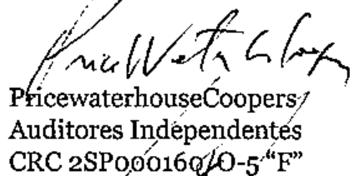
Supplementary information - statements of value added

We also have audited the parent company and consolidated statements of value added for the year ended December 31, 2012, which are the responsibility of the Company's management. The presentation of these statements is required by the Brazilian corporate legislation for listed companies, but they are considered supplementary information for IFRS. These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Audit of prior-year information

The original financial statements of the Company for the year ended December 31, 2011, were audited by another firm of auditors whose report, dated February 7, 2012, expressed an unmodified opinion on those statements.

Campinas, February 5, 2013



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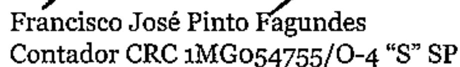

Francisco José Pinto Fagundes
Contador CRC 1MG054755/O-4 "S" SP

Indústrias Romi S.A.

Balance sheet

All amounts in thousands of reais (A free translation of the original in Portuguese)

Assets	Note	Parent company December 31, 2012	Parent company December 31, 2011	Consolidated December 31, 2012	Consolidated December 31, 2011
Current					
Cash and cash equivalents	4	45,110	83,467	82,320	162,813
Trade accounts receivable	5	95,844	73,525	125,568	86,938
Onlending of FINAME manufacturer financing	6	317,633	341,688	317,633	341,688
Inventories	7	233,435	272,678	301,686	314,355
Related parties	9	9,779	20,681	456	
Taxes recoverable		8,942	10,894	10,817	11,854
Other receivables	6 (b)	26,721	31,292	29,798	32,700
		737,464	834,225	868,278	950,348
Non-current					
Trade accounts receivable	5	13,842	13,208	13,842	13,208
Onward lending of FINAME manufacturer financing	6	312,805	478,991	312,805	478,991
Related parties	9	31,076	14,194		
Taxes recoverable		874	2,383	874	2,383
Deferred income tax and social contribution	16	52,004	33,710	52,004	33,710
Judicial deposits	15	1,697		1,697	
Other receivables	6 (b)	27,681	12,568	28,663	13,866
Investments in subsidiary and associated Companies	8	105,601	103,764	1,944	
Property, plant and equipment	11	223,907	263,407	272,857	280,796
Investment property	10	14,202		16,103	
Intangible assets	12	6,169	8,132	45,493	8,132
		789,858	930,357	746,282	831,086
Total Assets		1,527,322	1,764,582	1,614,560	1,781,434

Liabilities and equity	Note	Parent company December 31, 2012	Parent company December 31, 2011	Consolidated December 31, 2012	Consolidated December 31, 2011
Current					
Borrowings	13	67,605	112,322	70,192	113,038
FINAME manufacturer financing	14	285,440	307,734	285,440	307,734
Trade accounts payable		30,565	36,403	41,516	41,172
Payroll and related taxes		16,975	23,735	21,781	26,546
Taxes payable		9,573	4,966	11,263	6,505
Advances from customers		10,844	9,322	41,838	10,131
Dividends and interest on capital		70	81	112	306
Profit sharing		322	322	322	322
Other payables		9,411	5,857	16,877	7,170
Provision for net capital deficiency – subsidiaries	8	4,890	3,548		
Related parties	9	435	380	590	
		436,130	504,670	489,931	512,924
Non-current					
Borrowings	13	142,790	123,776	152,490	123,776
FINAME manufacturer financing	14	302,279	447,020	302,279	447,020
Taxes payable		3,461	4,761	3,461	4,761
Provision for tax, labor and civil risks	15	6,520	2,392	6,520	2,392
Other payables		615	4,187	325	4,347
Deferred income tax and social contributions	16			22,284	6,470
		455,665	582,136	487,359	588,766
Total liabilities		891,795	1,086,806	977,290	1,101,690
Equity					
Capital					
Capital reserve		489,973	489,973	489,973	489,973
Treasury shares		2,052	2,052	2,052	2,052
Profits reserve		(17,850)	(4,599)	(17,850)	(4,599)
Accumulated deficit		157,591	195,598	157,591	195,598
Other comprehensive income (loss)		3,761	(5,248)	3,761	(5,248)
		635,527	677,776	635,527	677,776
Non-controlling interests				1,743	1,968
Total equity		635,527	677,776	637,270	679,744
Total liabilities and equity		1,527,322	1,764,582	1,614,560	1,781,434

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

Indústrias Romi S.A.

Statement of income
Years ended December 31
All amounts in thousands of reais unless otherwise stated (A free translation of the original in Portuguese)

	Note	Parent company 2012	Parent company 2011	Consolidated 2012	Consolidated 2011
Net operating revenue	23	463,731	591,197	617,561	631,054
Cost of sales and services	24	(365,243)	(436,136)	(485,712)	(458,442)
Gross profit		98,488	155,061	131,849	172,612
Operating Income (expenses)					
Selling	24	(56,947)	(62,724)	(74,033)	(74,933)
General and administrative	24	(67,409)	(66,059)	(87,121)	(75,386)
Research and development	24	(20,687)	(24,700)	(21,541)	(26,085)
Management profit sharing and fees	9	(6,803)	(8,143)	(6,936)	(8,276)
Equity in the earnings of subsidiaries	8	717	(9,219)		
Other operating expenses, net	26	(957)	663	5,907	1,004
		(152,086)	(170,182)	(183,724)	(183,676)
Operating loss		(53,598)	(15,121)	(51,875)	(11,064)
Financial income (expenses)					
Financial income	25	19,547	22,883	21,116	25,383
Financial expenses	25	(22,839)	(15,896)	(23,877)	(16,076)
Foreign exchange gains, net		478	1,497	459	1,529
		(2,814)	8,484	(2,302)	10,836
Loss before taxation		(56,412)	(6,637)	(54,177)	(228)
Income tax and social contribution	16	18,405	10,205	16,808	4,554
Net Income (loss) for the year		(38,007)	3,568	(37,369)	4,326
Attributable to:					
Owners of the Company				(38,007)	3,568
Non-controlling interests				638	758
				(37,369)	4,326
Basic and diluted earnings (losses) per share (R$)	17			(0,52)	0,05

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

Indústrias Romi S.A.

Statement of comprehensive income
Years ended December 31
All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Net Income (loss) for the year	(38,007)	3,568	(37,369)	4,326
Other comprehensive Income				
Foreign exchange variation of investees located abroad	9,009	3,381	9,009	3,381
Net Comprehensive income (loss)	(28,998)	6,949	(28,360)	7,707
Attributable to:				
Owners of the Company			(28,998)	6,949
Non-controlling interests			638	758
			(28,360)	7,707

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

Indústrias Romi S.A.

Statement of changes in equity

All amounts in thousands of reais (A free translation of the original in Portuguese)

		Attributable to the controlling interests										
					Earnings Reserve							
	Note	**Capital**	**Capital reserve**	**Treasury shares**	**Retained earnings**	**Legal reserve**	**Total**	**Other Comprehensive cumulative Income (loss)**	**Retained earnings (accumulated deficit)**	**Controlling interest**	**Non-controlling interests**	**Total equity**
As at January 1, 2011		489,973	2,052		184,822	40,834	225,656	(17,639)		700,042	1,975	702,017
Total comprehensive income for the period												
Profit for the period									3,568	3,568	758	4,326
Foreign currency translation effects	8							3,381		3,381		3,381
Total comprehensive income for the period	17							3,381	3,568	6,949	758	7,707
Purchases of treasury shares												
Legal reserve	17					178	178		(178)			
Purchases of treasury shares	17			(4,599)						(4,599)		(4,599)
Interest on capital - Law 9249/95	17				(24,616)		(24,616)			(24,616)		(24,616)
Exchange rate variations on foreign subsidiary capital reductions					(9,010)		(9,010)	9,010				
Proposed dividends	17										(765)	(765)
Retained earnings					3,390		3,390		(3,390)			
Total contributions by and distributions to owners of the Company				(4,599)	(30,236)	178	(30,058)	9,010	(3,568)	(29,215)	(765)	(29,980)
As at December 31, 2011		489,973	2,052	(4,599)	154,586	41,012	195,598	(5,248)		677,776	1,968	679,744
Total comprehensive income for the period												
Loss for the period									(38,007)	(38,007)	638	(37,369)
Foreign currency translation effects	8							9,009		9,009		9,009
Total comprehensive income for the period								9,009	(38,007)	(28,998)	638	(28,360)
Total contributions by and distributions to owners of the Company												
Purchase of treasury shares	17			(13,251)						(13,251)		(13,251)
Absorption of losses for the year					(38,007)		(38,007)		38,007			
Dividends paid by subsidiaries											(863)	(863)
Total contributions by and distributions to owners of the Company				(13,251)	(38,007)		(38,007)		38,007	(13,251)	(863)	(14,114)
As at December 31, 2012		489,973	2,052	(17,850)	116,579	41,012	157,591	3,761		635,527	1,743	637,270

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

Indústrias Romi S.A.

Statement of cash flow
Years ended December 31
All amounts in thousands of reais (A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Cash flows from operating activities				
Loss before taxation	(56,412)	(6,637)	(54,177)	(228)
Adjustments for:				
Financial income and expenses and foreign exchange variations	7,663	6,810	9,799	6,912
Depreciation and amortization (Notes 11 and 12)	31,472	28,555	37,543	28,795
Allowance for doubtful accounts and for other receivables and provision for inventory losses (Notes 5, 6 and 7)	32,341	32,965	35,060	33,850
Cost of property, plant and equipment disposals (Notes 11 and 12)	145	(617)	685	(563)
Equity in subsidiaries and provision for net capital deficiency, net of dividends received (Note 8)	10,886	19,501		
Provision for tax, labor and civil risks (Note 15)	7,649	7,361	7,649	7,361
Negative goodwill on acquisitions of foreign subsidiaries (Note 3)			(8,094)	
Changes in operating assets and liabilities				
Trade accounts receivable (Note 5)	(15,377)	11,325	(22,587)	9,690
Related parties (Note 9)	(3,071)	(7,202)		
Onward lending of FINAME manufacturer financing (Note 6)	162,935	79,178	162,935	79,178
Inventory (Note 7)	54,571	(58,805)	74,266	(63,295)
Taxes recoverable	3,572	5,139	8,419	6,884
Judicial deposits (Note 15)	(1,697)	(6,203)	(1,697)	(6,203)
Other receivables	1,295	(28,382)	492	(27,149)
Trade accounts payable	(8,394)	(5,347)	(7,989)	(9,911)
Related parties (Nota 9)		151		
Payroll and related taxes	(5,839)	(10,040)	(6,532)	(10,915)
Taxes payable	3,903	(6,035)	(1,452)	(6,430)
Advances from customers	1,522	2,099	(10,604)	2,499
Other payables	(4,464)	(1,697)	(1,968)	(1,593)
Cash provided by operations	222,700	62,119	221,748	48,882
Income tax and social contribution paid	(596)	(3,742)	(2,109)	(5,684)
Net cash provided by operating activities	222,104	58,377	219,639	43,198

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

Indústrias Romi S.A.

Statement of cash flow
Years ended December 31
All amounts in thousands of reais **(Continuance)**

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Cash flows from investment activities				
Purchases of property, plant and equipment (Note 11)	(4,926)	(18,407)	(11,415)	(18,743)
Capital decreases of foreign subsidiaries (Note 8)		154,135		
Increase in intangible assets (Note 12)		(545)		(545)
Fixed asset disposals (Note 11)	239	1,516	239	1,996
Acquisitions of foreign subsidiaries (Note 3)			(46,830)	-
Cash and cash equivalents originating from acquisitions of foreign subsidiaries (Note 3)			5,939	-
Capital increases of foreign subsidiaries (Note 8)	(2,368)	(63,511)		-
Net cash (used in) provided by investment activities	(7,055)	73,188	(52,067)	(17,292)
Cash flows from financing activities				
Interest on capital and dividends paid (Note 17)	(11)	(34,184)	(874)	(34,957)
Purchases of treasury shares (Note 17)	(13,251)	(4,599)	(13,251)	(4,599)
New borrowing (Note 13)	82,917)	21,532	89,990	21,532
Payment of borrowing (Note 13)	(109,160)	(21,091)	(109,745)	(22,017)
Interest paid (Note 13)	(16,560)	(16,060)	(16,953)	(16,282)
New FINAME manufacturer financing (Note 14)	159,299	319,700	159,299	319,700
Payment of FINAME manufacturer financing (Note 14)	(313,733)	(323,777)	(313,733)	(323,777)
Interest paid - FINAME manufacturer financing (Note 14)	(43,147)	(50,408)	(43,147)	(50,408)
Net cash used in financing activities	(253,646)	(108,887)	(248,414)	(110,808)
Net increase (decrease) in cash and cash equivalents	(38,597)	22,678	(80,842)	(84,902)
Cash and cash equivalents at the beginning of the year	83,467	60,687	162,813	246,935
Foreign exchange losses on cash and cash equivalents of foreign subsidiaries	240	102	349	780
Cash and cash equivalents at the end of the period	45,110	83,467	82,320	162,813

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

Indústrias Romi S.A.

Statement of value added
Years ended December 31

All amounts in thousands of reais (A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2012	2011	2012	2011
Revenue				
Sales of products and services	560,989	720,365	717,201	762,436
Allowance for doubtful accounts and for other receivables	(24,052)	(19,097)	(24,052)	(19,490)
Other operating income (expenses), net	16	663	8,133	1,004
	536,953	701,931	701,282	743,950
Inputs acquired from third parties				
Materials used	(250,744)	(298,520)	(343,939)	(301,462)
Others costs of products and services	(19,190)	(21,683)	(22,418)	(40,004)
Electricity, third party services and other expenses	(44,358)	(38,682)	(64,809)	(36,232)
	(314,292)	(358,885)	(431,166)	(377,698)
Gross value added	222,661	343,046	270,116	366,252
Depreciation and amortization	(31,472)	(28,555)	(37,543)	(28,795)
Net value added generated by the Company	191,189	314,491	232,573	337,457
Value added received through transfers				
Equity in the earnings of subsidiaries	717	(9,219)		-
Financial income and net foreign exchange gains	20,023	24,380	22,457	26,912
Total value added to distribute	211,929	329,652	255,030	364,369
Distribution of value added				
Employees				
Payroll and related charges	130,526	161,645	168,198	188,030
Sales commission	3,130	3,692	3,130	3,692
Management profit sharing and fees	6,803	8,143	6,936	8,276
Employee profit sharing		108		108
Pension plans	1,726	2,543	1,726	2,543
Taxes				
Federal	66,126	89,577	68,001	96,649
State	13,865	14,228	13,865	14,228
Municipal	828	878	828	878
Interest	22,839	15,896	24,759	16,076
Rentals	4,093	4,758	4,093	4,182
Distributed dividends and interest on net equity		24,616	863	25,381
Profit (loss) for the year	(38,007)	3,568	(37,369)	4,326
Value added distributed	211,929	329,652	255,030	364,369

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

1 General information

Indústrias Romi S.A. (the "Parent company") and its subsidiaries (together referred to as the "Company" and/or as "Consolidated"), has been listed on the "New Market" of the São Paulo Stock Exchange ("Bovespa") since March 23, 2007, and is based in Santa Barbara D'Oeste, São Paulo. The company is engaged in the assembly and sale of capital goods in general, including machine tools, plastic injection molding machines, industrial equipment and accessories, tools, castings and parts, as well as providing systems analysis and developing data processing software related to the production, sale, and use of machine tools and plastic injectors; the manufacture and sale of rough cast parts and machined cast parts; export and import, and representation on its own account or on account of third parties, and the provision of related services. It also holds investments in other companies, and manages its own and/or third party assets.

The Company's industrial facilities consist of thirteen plants being three units located in the city of Santa Bárbara d'Oeste, in the State of São Paulo, two in Turin, Italy, and one located in Reutlingen, Germany. The last one is a high-precision tooling machine manufacturer (see Note 3) which was acquired by the Company on January 31, 2012. The Company also holds investments in subsidiaries in Brazil and abroad.

These financial statements were approved by the Company's Board of Directors and authorized for issue on February 5, 2013.

2 Summary of significant accounting policies

2.1. Basis of preparation

The financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration paid in exchange for assets.

The significant accounting policies applied to the financial statements for the years ended December 31, 2012 and 2011 are as follow:

(a) Consolidated financial statements

The consolidated financial statements have been prepared and are being presented in accordance with the accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee ("CPC"), as well as according to the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

(b) Parent company financial statements

The parent company financial statements have been prepared in accordance with the accounting practices adopted in Brazil issued by the CPC, and are disclosed together with the consolidated financial statements.

In the parent company financial statements, subsidiaries are recorded based on the equity accounting method. The same adjustments are made in the parent company and consolidated financial statements to reach the same profit or loss and equity attributable to the owners of the parent entity. In the case of Indústrias Romi S.A., the Brazilian accounting practices applicable to the parent company financial statements differ from the IFRS applicable to the separate financial statements only in relation to the measurement of investments in subsidiaries, jointly-controlled subsidiaries and associates based on the equity accounting method, instead of at cost or fair value in accordance with IFRS.

(c) Changes in accounting policies and disclosures

There are no new CPCs/IFRS pronouncements or interpretations effective from 2012 that are expected to have a material impact on the Company's financial statements.

2.2 Investments in subsidiaries - Consolidated

(a) Parent company:

Investments in subsidiaries are accounted for using the equity method from the date on which control is acquired. Under this method, investments in subsidiaries are recognized in the financial statements at the acquisition cost, and are periodically adjusted to the amount corresponding to the Company's share of the profits (losses) of the subsidiaries, with a balancing item in the operating profit (loss), except for the foreign exchange differences on translating these investments, which are recorded in a separate line item in equity called "Carrying value adjustments". These effects are recognized in income and expenses upon the sale or disposal of the investment.

After reducing the carrying amount of the investor's share to nil, additional losses are considered and a liability (a provision for net capital deficiency) is recognized only to the extent that the investor has incurred a legal or constructive obligation to make payments on behalf of the subsidiary.

Of the acquisition price, the amount exceeding the fair value of the acquiree's equity on the transaction date is treated as goodwill based on future earnings. Additionally, investment balances may be reduced due to the recognition of impairment losses (Note 2.11).

Dividends received from subsidiaries are recorded as a reduction of the investment balance.

(b) Consolidated:

The Company has fully consolidated the financial statements of the Company and all of its subsidiaries. Control of subsidiaries is deemed to exist when the Company directly or indirectly holds most of the voting rights at a Shareholders' Meeting, or has the power to determine the financial and operating policies, so as to obtain benefits from its activities.

Third party shares in the equity and profits of subsidiaries are presented separately in the consolidated balance sheet and in the consolidated statement of income, respectively, in the line item "Non-controlling interests".

Intragroup transactions and balances are eliminated upon consolidation, and any gains or losses on these transactions are also eliminated. Where necessary, adjustments are made to the subsidiaries' financial statements in order to bring them into line with the IFRS and the accounting policies adopted by the Company.

2.2.1 Business combinations

The Company applies the acquisition method to account for business combinations in which the Company acquires control, measuring goodwill as the fair value of the consideration transferred, less the fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. Transaction costs other than those associated with debt securities or equity interests, which the Company incurs in connection with a business combination, are recognized as expenses as they are incurred.

The excess of the consideration transferred plus the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. When the consideration transferred is less than the fair value of the net assets of the subsidiary acquired (negative goodwill), the difference is recognized directly in the statement of income (Note 26).

2.3 Translation of foreign currency balances

Assets and liabilities, except for investments, are translated into the local currency (R$) at the exchange rate prevailing at the end of the reporting period.

Gains and losses resulting from exchange differences arising on the translation of these assets and liabilities at the end of the reporting period are recognized as finance income or costs in the statement of income.

(a) Functional currencies of subsidiaries

The individual and consolidated financial statements are presented in Brazilian Reals (R$), which is the functional currency of the parent company and of its subsidiaries located in Brazil.

The functional currency of each foreign subsidiary is determined based on the primary economic environment in which the subsidiary operates, and when their functional currency is different from the reporting currency, the subsidiaries' financial statements are translated into Reais (R$) at the end of the reporting period.

- **Transactions and balances**

Foreign currency transactions are initially recognized at the exchange rate prevailing on the transaction date. Foreign currency denominated monetary assets and liabilities are translated into the functional currency using the exchange rate prevailing at the end of the reporting period. All differences are recorded in the statement of income. Non-monetary items measured at their historical costs in foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates prevailing on the date when the fair value was determined.

- **Translation of foreign subsidiaries' financial statements**

The assets and liabilities of foreign subsidiaries (none of which has the currency of a hyper-inflationary economy) are translated into Reais at the exchange rates prevailing at the end of the reporting period, and their statement of income accounts are translated at the exchange rates prevailing on the transaction dates. Exchange differences arising on the translation of these balances are separately recognized in equity, in the line item "Carrying value adjustments".

Fair value adjustments resulting from acquisitions of foreign entities are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of 90 days or less, with an immaterial risk of changes in value, and are carried at cost plus income earned through the end of the reporting period. The balance is presented net of bank overdrafts in the statement of cash flow. In the balance sheet, bank overdrafts are shown within "Borrowing" under current liabilities, if applicable.

2.5 Financial assets

(a) 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, in the applicable cases, those with maturities longer than 12 months after the end of the reporting period, which are classified as non-current assets. The Company's loans and receivables comprise cash and cash equivalents (Note 4), trade receivables (Note 5), receivables – onward lending of FINAME manufacturer financing (Note 6) and other receivables. Loans and receivables are carried at amortized cost using the effective interest method.

(b) Impairment of financial assets

Financial assets are assessed for indications of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flow of the investment has been adversely affected. Such evidence includes the history of loss, the creditworthiness of the customer(s), the situation of the corporate group to which they belong, the debt collateral, and assessment of the Company's legal counsel, and is considered sufficient by the Company's management to cover possible losses on receivables.

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the respective loss is recognized in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recorded loss is recognized in the statement of income.

2.6 Trade receivables and receivables – onward lending of FINAME manufacturer financing

Trade receivables refer mainly to amounts receivable from the sale of goods in the normal course of the Company's activities. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for the impairment of trade receivables.

For details on transactions involving the onward lending of FINAME manufacturer financing, see Note 6.

2.7 Inventories

Inventory is stated at the lower of its net realizable value (estimated selling price in the normal course of business less estimated costs to make the sale) and its average production cost or average purchase price.

Management periodically assesses the need to recognize a provision for slow-moving or obsolete inventory, and when indicators of this are identified, the provision is recognized in "Cost of sales and services". The Company calculates the cost of its inventory by absorption, using the weighted moving average method. The cost of finished goods and work in progress includes design costs, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

2.8 Property, plant and equipment

Carried at cost less depreciation, plus capitalized interest incurred during the construction of new units, when applicable. Depreciation is calculated on a straight-line basis, taking into consideration the estimated useful lives of the assets.

Subsequent costs are included in the asset's residual value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these costs will flow to the Company and these benefits can be measured reliably.

The residual value of replaced items is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives of property, plant and equipment items by category are set out in Note 11.

An asset's residual value is written down immediately to its recoverable amount when its residual value is greater than its recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the assetss and are recognized within "Other operating income (expenses), net" in the statement of income.

2.9 Investment property

Investment property represents land and buildings held to earn rental income and/or for capital appreciation, as disclosed in Note 10. Investment property is recognized at its acquisition or construction cost, less accumulated depreciation, calculated using the straight line method at rates that take into consideration the useful lives of the assets.

2.10 Intangible assets

Carried at their acquisition cost, less accumulated amortization and impairment losses, where applicable. Intangible assets (assignments of rights and others) are amortized considering their actual use or a method that reflects the economic benefits of the intangible assets. The residual value of an intangible asset is written down immediately to its recoverable amount when the residual balance exceeds the recoverable amount (Note 2.11.).

Intangible assets acquired in the course of a business combination (technology, customer relationships, portfolios of orders) are carried at fair value as at the acquisition date, less accumulated amortization and impairment losses, when applicable. Intangible assets with finite useful lives are amortized over their useful lives using an amortization method that reflects the economic benefit of the intangible asset.

Intangible assets are assessed annually for indicators of impairment if events or changes in circumstances indicate that their carrying amounts may not be recoverable.

The Company reviews the amortization period and amortization method of its intangible assets with finite useful lives at the end of each reporting period.

Expenditure on research and development is recognized in the statement of income for the year as it is incurred, under "Research and development".

2.11 Allowance for asset impairment and reversal of allowances – non-financial assets

At the end of the reporting period, the Company analyzes whether there is evidence that the carrying amount of an asset will not be recovered. If such evidence is identified, the Company estimates the recoverable amount of the asset.

The recoverable amount of an asset is the higher of (a) its fair value less cost to sell and (b) its value in use. The value in use is equivalent to the discounted cash flow (before tax) arising from the continuous use of the asset up to the end of its useful life.

Regardless whether or not there is evidence of impairment, goodwill balances arising from business combinations and intangible assets with indefinite useful lives are tested for impairment at least once a year, in December. When the carrying amount of an asset exceeds its recoverable amount, the Company recognizes an impairment loss in its profit or loss account.

Except for impairments of goodwill, the reversal of previously recognized losses is permitted. Reversal in these circumstances is limited to the depreciated balance of the asset at the reversal date, assuming that the reversal has not been recorded.

2.12 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

2.13 Financial liabilities and equity instruments

(a) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

(b) Borrowing and FINAME manufacturer financing

Borrowing is recognized initially at its fair value, net of transaction costs incurred, and subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the total amount payable is recognized in the statement of income over the period of the borrowing using the effective interest method.

Borrowing is classified under current liabilities unless the Company has an unconditional right to defer settlement of the related liabilities for at least 12 months after the reporting period.

For details of FINAME manufacturer financing, see Note 14.

(c) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

2.14 Discounting to present value

Assets and liabilities arising from short-term transactions, when they are material, are discounted to their present values based on discount rates that reflect the best market assessments. The adjustment to present value is measured on a *pro rata* basis from the point of origin of each transaction.

The reversals of the adjustments of monetary assets and liabilities were recognized as finance income or costs.

The discount rate used was approximately 8.2% per year (10.9% as at December 31, 2011), which is based on the average rate published by the National Association of Investment Banks - ANBID.

2.15 Current and deferred income tax and social contribution

The current income tax and social contribution expenses are calculated according to the legal tax bases effective on the reporting date in the countries where the parent company and its subsidiaries operate and generate taxable profits. Management periodically evaluates the positions taken in relation to tax matters that are subject to interpretation or controversy, and recognize a provision when the Company expects to pay income tax and social contributions according to their tax bases. Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, at the tax rates prevailing at the end of the reporting period.

Deferred income tax and social contribution are fully recognized on differences between the assets and liabilities recognized for tax purposes and the corresponding amounts recognized in the financial statements. However, deferred income tax and social contribution are not recognized if they are generated on the initial recognition of assets and liabilities on transactions that do not affect the tax bases, except for business combinations.

Deferred income tax and social contribution are determined based on the tax rates (and laws) in effect at the end of the reporting period and applicable when the related income tax and social contribution liabilities are realized, and are recognized only to the extent that it is probable that there will be a positive tax base against which the temporary differences can be utilized and the tax losses can be offset. Deferred income tax and social contribution assets are reviewed at the end of each reporting period and written down to the extent that their realization is no longer probable.

Income tax and social contribution expenses include current and deferred taxes. Current and deferred taxes are recognized in profit or loss unless they are related to the business combination or items recognized directly in equity or in other comprehensive income.

The Company only recognizes a provision for tax issues if a past event gives rise to a present obligation. The Company determines whether a present obligation exists at the end of the reporting period taking into consideration all of the available evidence, including, for example, the opinion of legal counsel. The Company also takes into consideration whether it is probable that there will be an outflow of funds and a reliable estimate of this can be made.

2.16 Employee benefits

The Company has several employee benefit plans, including pension plans (defined contributions), healthcare and dental care.

Post-employment pension plans are characterized as a defined contribution plan, for which the Company has no legal obligation in the event that the plan does not have sufficient assets to pay the employees' vested benefits as a result of their past service (Note 18).

Contributions to defined contribution pension plans are recognized as expenses when actually incurred, i.e. when the employees provide services to the Company (Note 18).

2.17 Other current and non-current assets and liabilities

These are carried at their realizable amounts (assets) and at known or estimated amounts plus incurred charges and monetary variations (liabilities) when applicable.

2.18 Share capital

Common shares are classified as equity.

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

Where the Company purchases its own shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of taxes) is deducted from the equity attributable to the Company's shareholders until the shares are canceled or reissued. Where these shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax and social contribution effects, should be included in the equity attributable to the Company's shareholders.

2.19 Distribution of dividends and interest on capital

The distribution of dividends and interest on capital to the Company's shareholders is recognized as a liability in the financial statements at the year-end based on the Company's bylaws. Any amount that exceeds the required minimum is only distributed on the date when it is approved by the Board of Directors' meeting.

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

2.20 Revenue recognition

Revenue represents the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of value added tax, returns, rebates and discounts, after eliminating sales within the Group. Taxes on sales are recognized when sales are billed and discounts are recognized when known.

(a) Sales of goods

Revenue from the sale of goods is recognized when the sales amount can be measured reliably, the Company no longer controls the goods sold or has any other responsibility related to the ownership of the goods, the costs incurred or to be incurred in relation to the transaction can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the Company has transferred to the buyer all of the the risks and rewards of ownership of the goods. Freight on sales is recorded as selling expenses.

(b) Finance income

Interest income is recognized on an accruals basis, using the effective interest method.

2.21 Provisions

Provisions for tax, labor and civil risks are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount of this outflow can be reliably estimated.

The amount recognized as a provision represents the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of the relevant cash flow.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Warranties

Accrued warranty costs are recognized on the date when the goods are sold, based on management's best estimate of the costs to be incurred for the provision of the warranty services.

2.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight line basis over the period of the lease. The Company is only party to operating leases.

2.23 Critical accounting estimates and judgments used in the preparation of the financial statements

The preparation of financial statements involves the use of estimates. The determination of these estimates took into consideration the experiences of past and current events, assumptions concerning future events, and other objective and subjective factors. Significant items which are subject to these estimates and assumptions include:

(a) Useful lives of long-lived assets.

(b) Impairment testing of long-lived assets.

(c) Inventory realization and obsolescence.

(d) Analysis of the credit risk to determine the allowance for doubtful accounts.

(e) The fair value measurement of financial instruments.

(f) Deferred income tax assets on tax losses carried forwards and the analysis of other risks used to determine other provisions, including contingencies arising from administrative and judicial proceedings, and the other assets and liabilities at the end of the reporting period.

(g) The valuation of the assets acquired and liabilities assumed in business combinations.

The actual results may differ from these estimates. These estimates and assumptions are periodically reviewed.

2.24 Standards, interpretations and amendments to accounting standards.

(a) Standards, interpretations and amendments to existing standards effective as at December 31, 2012 and that did not have a material impact on the Company's financial statements

The interpretations and amendments to existing standards were issued and became effective as at December 31, 2012. However, they did not have a material impact on the Company's financial statements.

IFRS:

Standard	Subject
Amendments to IFRS 7	Financial Instruments: disclosures of transfers of financial assets
Amendments to IFRS 1	First time adoption of IFRS: on the removal of fixed dates and hyperinflation
Amendment to IAS 12	Income taxes and deferred taxes

CPC/CVM:

Standard	Subject
CPC 18(R1)/ Resolution 688	Investments in associates and subsidiaries
CPC 30(R1)/ Resolution 692	Revenue
ICPC 09(R1)/Resolution 687	Individual financial statements, separate financial statements, consolidated financial statements and the application of the equity method
CPC 40(R1)/ Resolution 684	Financial instruments: disclosure
ICPC 08(R1)/Resolution 683	Accounting for proposed dividend payments

(b) Standards, interpretations and amendments to existing standards that are not yet effective and were not adopted early by the Company

The following new standards, amendments to and interpretations of existing standards were issued by the IASB but are not effective for 2012. The early adoption of these standards, even though encouraged by IASB, has not been implemented in Brazil by the Brazilian Accounting Pronouncements Committee (CPC).

IFRS:

Standard	Subject
IAS 1	Approval of financial statements
IAS 19	Employee benefits
IFRS 7	Financial instruments: disclosure
IFRS 9	Financial instruments
IFRS 10	Consolidated financial statements
IFRS 12	Disclosure of interests in other entities
IFRS 13	Fair value measurement
Other amendments	IAS 12 (income taxes), IAS 19 (employee benefits), IAS 1 (presentation of financial statements), IAS 32 (financial instruments – presentation), IFRS 7 (financial instruments – disclosure),

CPC/CVM:

Standard	Subject
CPC 36(R3)/ Resolution 698	Consolidated financial statements
CPC 45/ Resolution 697	Disclosure of interests in other entities
CPC 46/ Resolution 699	Fair value measurement
Instruction 527	Addresses the voluntary disclosure of non-accounting information - EBITDA or EBIT

Considering the current operations of the Company and its subsidiaries, management does not expect these new standards, interpretations and amendments to have a material effect on the financial statements from their adoption.

2.25 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker responsible for allocating resources and assessing the performance of the operating segments has been identified as the Board of Directors that makes the Company's strategic decisions.

3 Business combinations

The Company, on January 31, 2012, through its wholly-owned subsidiary Romi Europe GMBH ("Romi Europe") acquired all of the shares in Burkhardt + Weber Fertigungssysteme GmbH ("B+W") for € 20,500 thousand, equivalent to R$ 46,830 (the "consideration transferred"), entirely paid on the acquisition date.

The B+W acquisition is in line with the Company's strategic plan of expanding its portfolio of products with a higher technology content and globally expanding its operational and market bases. B+W produces and sells large scale tooling machines, with a high level of technology, precision and productivity, as well as machinery for special applications. It also has an investment in the associated company Riello Sistemi Trade Co., Ltd. ("Riello Shangai"), which is an exclusive sales and after-sales service company for B+W products in Asia.

Expenses incurred in connection with the B+W acquisition amounted to R$ 2,769, of which R$ 1,750 during the year ended December 31, 2012, recorded in the results of operations for the year in "General and administrative expenses".

The assets acquired and liabilities assumed at the acquisition date are as follow:

Assets	**Opening balance - book value**	**Fair value adjustment**	**Adjusted opening balance**
Current			
Cash and cash equivalents	5,939		5,939
Trade receivables	7,767	(941)	6,826
Inventory	35,534	8,235	43,769
Taxes recoverable	809		809
Other receivables	644		644
	50,693	7,294	57,987
Non-current			
Deferred income tax	2,319		2,319
Investments	1,144		1,144
Property, plant and equipment, net	14,044	10,319	24,363
Intangible assets	322	36,055	36,377
	17,829	46,374	64,203
Total assets	68,522	53,668	122,190
Liabilities			
Current			
Trade payables	4,879		4,879
Borrowing	738		738
Payroll and related charges	2,280		2,280
Taxes payable	1,094		1,094
Advances from customers	40,185		40,185
Other payables	2,305		2,305
	51,481		51,481
Non-current			
Deferred income tax	123	15,662	15,785
	123	15,662	15,785
Total liabilities	51,604	15,662	67,266
Net assets acquired	16,918	38,006	54,924
Consideration transferred			46,830
Negative goodwill on acquisition			8,094

The negative goodwill on the acquisition, amounting to R$ 8,094, was recognized in the statement of income in "Other operating income (expenses), net" (Note 26). The bargain purchase that generated the

negative goodwill on the B+W acquisition was due to the indebtedness level and the eventual breaches of financial commitments that could aggravate the seller's financial position.

As at December 31, 2012 the procedures required to confirm the work performed by the Company's management and its consultants to support the market appraisal of the assets acquired and liabilities assumed were concluded, and did not result in any adjustment to the initially recognized amount.

- **Impact of the acquisition on the results of operations**

The consolidated losses for the year ended December 31, 2012 were reduced by the profit attributed to B+W in the same period, amounting to R$ 9,558 (including the negative goodwill on the acquisition amounting to R$ 8,094) already reduced by the realization of the fair value of certain assets, mainly inventory, investment property and intangible assets. The consolidated revenue for the year ended December 31, 2012 includes R$ 120,160 related to B+W sales from the date of acquisition.

Had this business combination occurred on January 1, 2012, the consolidated revenue for the year ended December 31, 2012 would have been increased by R$ 8,900 and the loss for the same period would have decreased by R$ 1,143 (unaudited).

Due to the seasonality of its business, as well as the amortization of a significant portion of the fair value adjustments into the net results for the period, the Company's management believes that the revenue and the net results of operations, as a result of the *pro forma* information presented above, should not be taken as an indication of the consolidated performance on an annualized basis.

4 Cash and cash equivalents

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Cash	2,715	5,072	20,596	57,160
Bank Deposit Certificates ("CDBs") (a)	34,381	64,025	45,781	75,295
Short-term investments backed by debentures (a)	6,378	14,203	14,307	28,315
Short-term investments in foreign currency – US$ (time deposits)	1,389	-	1,389	1,876
Other	247	167	247	167
Total cash and cash equivalents	45,110	83,467	82,320	162,813

(a) These investments are substantially pegged to the Interbank Deposit Certificate (CDI) interest rate.

5 Trade accounts receivable

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Current:				
Domestic customers	92,372	66,944	93,702	67,948
Foreign customers	5,154	7,873	38,187	24,393
Allowance for doubtful accounts	(1,682)	(1,292)	(6,321)	(5,403)
	95,844	73,525	125,568	86,938
Non-current:				
Domestic customers	13,243	11,649	13,243	11,649
Foreign customers	1,789	2,005	1,789	2,005
Allowance for doubtful accounts	(1,190)	(446)	(1,190)	(446)
	13,842	13,208	13,842	13,208

Trade accounts receivable from customers are recorded at their amortized costs, which approximate of their fair values.

The parent company and consolidated balances of trade accounts receivable from domestic customers as at December 31, 2012 and December 31, 2011, are as follow:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Not yet due	88,327	67,577	116,428	79,151
Past due:				
1 to 30 days	3,213	3,471	3,251	4,468
31 to 60 days	850	528	1,921	766
61 to 90 days	376	447	430	1,119
91 to 180 days	2,190	921	2,702	1,070
181 to 360 days	951	1,116	1,098	1,181
Over 360 days	1,619	757	6,059	4,586
	9,199	7,240	15,461	13,190
Total	97,526	74,817	131,889	92,341
Allowance for doubtful accounts	(1,682)	(1,292)	(6,321)	(5,403)
Total current	95,844	73,525	125,568	86,938

The balance of non-current trade accounts receivable at December 31, 2012, consolidated and parent company, are distributed as follows:

	Parent company and Consolidated
Receivables:	
2014	10,481
2015	3,722
2016	829
Total - non-current	15,032

The changes in the allowance for doubtful accounts, parent company and consolidated, are as follow:

	Parent company	Consolidated
As at January 1, 2011	1,607	1,878
Additional allowance recorded	143	3,947
Receivables written off	(12)	(3)
Foreign exchange rate variations		27
As at December 31, 2011	1,738	5,849
Additional allowances recorded	1,165	1,334
Receivables written off	(31)	(113)
Foreign exchange rate variations		441
As at December 31, 2012	2,872	7,511

The additions to and realization of the provision for impairment of receivables have been included in "General and administrative expenses".

The maximum exposure to credit risk as at the balance sheet date is equal to the carrying amount of each class of receivables mentioned above. The guarantees are disclosed in Note 13. The other receivables on the balance sheet do not contain impaired assets.

6 Receivables – onward lending of FINAME manufacturer financing

	Parent company and consolidated	
	2012	**2011**
Current		
FINAME not yet due	287,228	317,634
FINAME awaiting release (a)	2,557	3,890
FINAME past due (b)	39,791	31,548
	329,576	353,072
Allowance for doubtful accounts	(11,943)	(11,384)
	317,633	341,688
Non-current		
FINAME not yet due	306,751	457,438
FINAME awaiting release (a)	10,229	23,338
	316,980	480,776
Allowance for doubtful accounts	(4,175)	(1,785)
	312,805	478,991
Total	630,438	820,679

The item “Receivables – onward lending of FINAME manufacturing financing” refers to sales to customers financed using funds from the National Bank for Economic and Social Development (“BNDES”) (Note 14). These receivables are carried at their amortized costs, which approximate their fair values.

FINAME manufacturer financing refers to funds specifically linked to sales transactions, with terms of up to 60 months, with the option of a grace period of up to 12 months and interest of between 2.5% and 6.5% per year, prefixed or increased by the Long Term Interest Rate (“TJLP”), in accordance with the terms defined by the BNDES at the time of the transaction. As part of the measures adopted by the federal government to foster investment and consumption, the Investment Support Program (“PSI”) line of the National Bank for Economic and Social Development (BNDES) that finances capital goods, investments and technology, was extended to December 31, 2013. Up to June 30, 2013 the fixed interest rate is 3.0% per year and then 3.5% from that date to December 31, 2013.

The financing terms are also based on the customer's characteristics. Funds are released by the BNDES by identifying the customer and the sale, as well as checking that the customer has fulfilled the terms of Circular 195 of July 28, 2006 issued by the BNDES, through a financial agent, with the formalization of a financing agreement in the name of the Company and consent of the customer to be financed. The amounts, periods and charges of the transaction are fully reflected in the amounts to be received by the Company from the bank mediating the agreement to which the Company is the debtor. The Company retains title to the financed equipment until the final settlement of the obligation by the customer.

Receivables – onward lending of FINAME manufacturer financing include:

(a) FINAME transactions awaiting release: refers to FINAME manufacturer financing transactions which meet the specified terms and have been approved by all parties involved. The preparation of documentation, the issue of the sales invoice, and the delivery of the equipment to the customer have all taken place. The crediting of the related funds to the Company's account by the agent bank is pending at the end of the reporting period, in view of the normal operating terms of the agent.

(b) FINAME past due: refers to amounts receivable not settled by customers by their due dates. The Company records provisions for possible losses on the realization of these balances, at the amount of the difference between the expected value of the sale of the collateral (machinery) recovered through the guarantee and the value of the receivable from the customer. In instances in which the machine guaranteed cannot be located, a full loss provision is made for balance of the receivable. The machines seized as part of the implementation process are recorded at their book value, not exceeding their market value, under the category of "Other receivables", pending a final court decision, following which they are repossessed and transferred to inventory. As at December 31, 2012, the balance of repossessed machinery under "Other receivables" in the parent and consolidated financial statements amounted to R$ 22,031 (R$ 28,574 as at December 31, 2011) in current assets and R$ 22,777 (R$ 10,479 as at December 31, 2011) in non-current assets.

As at December 31, 2012 and 2011, the balances of "Receivables – onward lending of FINAME manufacturer financing" in the parent and consolidated FS were as follow:

	Parent company and consolidated	
	2012	**2011**
Not yet due	289,785	321,524
Past due:		
1 to 30 days	6,224	6,488
31 to 60 days	3,160	3,612
61 to 90 days	2,726	2,657
91 to 180 days	7,518	5,078
181 to 360 days	8,920	5,233
Over 360 days	11,243	8,480
	39,791	31,548
Total – current	329,576	353,072

The expected realization of the non-current receivables relating to the onward lending of FINAME manufacturer financing, parent and consolidated, is as follows:

	Parent company and consolidated
Non-current	
2014	194,554
2015	93,509
2016	25,731
2017 and after	3,186
Total - non-current	316,980

The changes in the allowance for doubtful accounts, Parent and consolidated, are as follow:

	Parent company and consolidated	
	2012	**2011**
Opening balance	13,169	7,951
Additional allowance recorded	2,949	5,227
Receivables written off	-	(9)
Closing balance	16,118	13,169

The additions to and realization of the provision for impaired receivables have been included in "General and administrative expenses".

The maximum exposure to credit risk at the balance sheet date is equal to the carrying value of each class of receivables mentioned above.

7 Inventories

	Parent company		**Consolidated**	
	2012	**2011**	**2012**	**2011**
Finished products	85,816	86,309	105,680	105,777
Work in process	76,932	91,511	107,830	99,384
Raw materials and components	69,833	90,923	87,322	105,154
Imports in transit	854	3,935	854	4,040
Total	233,435	272,678	301,686	314,355

The inventory balances, parent and consolidated, as at December 31, 2012 are net of the amounts of R$46,282 and R$54,188 respectively (R$31,984 and R$38,127 respectively as at December 31, 2011) corresponding to the provision for slow-moving inventory with a remote probability of being realized through sale or use.

The changes in the provision to bring inventory to its net realizable value, parent and consolidated, are as follow:

	Parent company	**Consolidated**
As at January 1, 2011	17,633	23,766
Inventory sold or written off	(12,425)	(13,305)
Provision recorded or transfer of provision resulting from machines repossessed during the period	26,776	27,666
As at December 31, 2011	31,984	38,127
Inventory sold or written off	(23,141)	(23,141)
Provision recorded or transfer of provision resulting from machines repossessed during the period	37,439	39,202
As at December 31, 2012	46,282	54,188

The changes in the provision for inventory losses by class of inventory were as follow:

	Parent company		**Consolidated**	
	2012	**2011**	**2012**	**2011**
Finished products (a)	24,292	16,801	28,328	22,944
Work in progress	8,053	6,020	8,053	6,020
Raw materials and components	13,937	9,163	17,807	9,163
Total	46,282	31,984	54,188	38,127

(a) The amount of R$21,682 parent and consolidated (R$15,343 as at December 31, 2011) refers to the allowance for adjustments to the market value of used machinery, derived from title clause's execution process.

The cost of inventory recognized in the parent company's statement of income and included in "Cost of sales and services" amounted to R$ 250,744 (2011 - R$ 298,520).

The cost of inventory recognized in the consolidated statement of income and included in "Cost of sales and services" amounted to R$ 343,939 (2011 - R$ 301,462).

8 Investments in subsidiaries and associates

The following list shows the investments of the Company in its subsidiaries:

Subsidiary	Country	Main activity
Rominor Comércio, Empreendimentos e Participações S.A. ("Rominor")	Brazil	Ventures and investments in general
Romi Machine Tools, Ltd. ("Romi Machine Tools")	United States of America	Distribution of machine tools and cast and machined products in North America
Interocean Comércio Importadora e Exportadora S.A. ("Interocean")	Brazil	Trading company, not operating during the periods presented
Romi A.L. S.A. ("Romi A.L.") – formerly Favel S.A.	Uruguay	Sales representation for Latin America
Romi Europa GmbH ("Romi Europa")	Germany	Technical assistance and support to dealers in Europe, Asia, Africa and Oceania
Subsidiaries of Romi Europe:		
-Burkhardt + Weber Fertigungssysteme GmbH ("B+W") (note 3)	Germany	Production and sale of large scale tooling machines with high technology, precision and productivity, as well as machinery for specialized applications
Associate B+W:		
-Riello Sistemi (Riello Shangai) Trade	China	Sales and after-sales service agent and direct technical assistance for machine tools produced by B+W.
Subsidiary B+W:		
-Burkhardt+Weber / Romi (Shanghai) Co., Ltd. (ii)	China	Sales and after-sales service agent and direct technical assistance for machine tools produced by B+W.
Sandretto Mexico - S. de RL. de CV	Mexico	Sale of machinery, machine tools, machinery for plastics, casts and machined products in that marketplace.
Romi Italy S.r.l. ("Romi Italy") (i)	Italy	Development of projects, production and sales, distribution, import and export of machinery and equipment for the processing plastic raw materials and the distribution of machine tools
Subsidiaries of Romi Italy:		Distribution of machinery for plastics, spare parts, services and technical assistance.
- Sandretto UK Ltd.	United Kingdom	
-Sandretto Industries S.A.S.	France	
-Metalmecanica Plast B.V.	The Netherlands	
-Italprensas Sandretto S.A.	Spain	

(i) The Company's management, based on negotiations with the Workers' Union and with the Italian public administration agencies obtained an agreement to postpone until the first half of 2013 the restructuring of Romi Italy to reflect the current market situation (the "restructuring"). This is intended to avoid operating shutdowns in this subsidiary. Up to the date of these financial statements the Company had not disclosed details of the restructuring plan to those that will be affected. As it was not possible to estimate with reasonable assurance the amounts to be disbursed, or the conditions that are essential to comply with the criteria for recognition of a provision for restructuring costs, no provision for restructuring costs was recognized for the period.

(ii) This subsidiary was established with capital of € 220 thousand, and up to December 31, 2012 € 80 thousand had already been paid up.

	Romi Italy and subsidiaries:	Romi Europe and subsidiaries	Rominor	Romi Machine Tools	Interocean	Romi A.L.	Sandretto Mexico	Total
								2012
Investments:								
Number of shares held	(a)	(a)	6,191,156	3,000	78	13,028	1,188,000	
Ownership interest	100.00%	100.00%	93.07%	100.00%	100.00%	100.00%	100.00%	
Current assets	43,624	68,670	19,762	6,365	21	2,563	25	
Non-current assets	12,531	74,623	5,794	153				
Current liabilities	12,679	51,064	400	5,029	13	17		
Non-current liabilities	30,585	25,511		6,379				
Equity (net capital deficiency) of subsidiary	12,891	66,718	25,156	(4,890)	8	2,546	25	
Changes in investments:								
Opening balance as at December 31, 2011	24,039	51,257	26,443	(3,548)	12	1,996	17	100,216
Foreign exchange variations on foreign investments	2,329	6,849		(378)		201	8	9,009
Capital increase (b)	2,336						36	2,372
Dividends proposed and paid (c)			(11,603)					(11,603)
Share of profits (losses) of subsidiaries	(15,813)	8,612	8,573	(964)	(4)	349	(36)	717
Equivalent value - closing balance	12,891	66,718	23,413	(4,890)	8	2,546	25	
Investments in subsidiaries	12,891	66,718	23,413		8	2,546	25	105,601
Total investments in subsidiaries								105,601
Provision for net capital deficiency of subsidiary				(4,890)				(4,890)
Investments in associates								
30% interest in Riello Sistemi (Shangai) Trade Co.,Ltd acquired through a business combination.								1,944
Total investments in associates – consolidated								1,944

(a) The subsidiaries' capital is not divided into quotas or shares in their articles of organization.

(b) The Company increased the capital of its subsidiary Romi Italy by €1,000 thousand, equivalent to R$ 2,336, to strengthen working capital..

(c) The Annual General Meeting of shareholders of the subsidiary Rominor, held on March 12, 2012, approved the distribution of dividends of R$ 7,802, from the profits reserve for 2011, of which R$ 7,261 related to the Company's ownership. On October 23, 2012, the board of directors' meeting of the subsidiary Rominor approved the advance payment of dividends from the profits for the first half of 2012, amounting to R$ 4,342, totaling R$ 11,603 in the year.

	Romi Italy and subsidiaries	Romi Europe	Rominor	Romi Machine Tools	Interocean	Romi A.L.	Sandretto Mexico	Helen Acquisition Corp.	2011 Total
Investments:									
Number of shares held	(a)	(a)	6,191,156	3,000	78	13,028	1,188,000	100	-
Ownership interest	99.999%	100%	93.0711%	100%	100%	100%	100%	100%	-
Current assets	48,701	51,237	25,769	9,440	24	1,996	17	-	-
Non-current assets	11,773	852	5,852	210	-	-	-	-	-
Current liabilities	22,068	205	3,210	7,212	12	-	-	-	-
Non-current liabilities	14,367	627	-	5,986	-	-	-	-	-
Equity (net capital deficiency) of subsidiary	24,039	51,257	28,411	(3,548)	12	1,996	17	-	-
Changes in investments:									
Opening balance as at December 31, 2011	26,800	1,104	26,534	(2,561)	17	1,430	-	153,636	206,960
Foreign exchange variations on foreign investments	2,773	304	-	(400)	-	223	2	479	3,381
Capital increase	13,767	49,692	-	-	-	-	52	-	63,511
Dividends proposed and paid	-	-	(10,282)	-	-	-	-	-	(10,282)
Share of profits (losses) of subsidiaries	(19,301)	157	10,191	(587)	(5)	343	(37)	20	(9,219)
Capital reduction	-	-	-	-	-	-	-	(154,135)	(154,135)
Equivalent value - closing balance	24,039	51,257	26,443	(3,548)	12	1,996	17	-	-
Investments in subsidiaries	24,039	51,257	26,443	-	12	1,996	17	-	103,764
Total investments in subsidiaries									103,764
Provision for net capital deficiency of subsidiary	-	-	-	(3,548)	-	-	-	-	(3,548)

9 Related party transactions

The balances and transactions with related parties at December 31, 2012 and 2011 are as follow:

Parent company

(i) Balances

	Receivables (current)		Loans receivable (non-current)		Total receivables		Payables (current)	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Direct subsidiaries:								
Romi Europe	873	60	696	627	1,569	687	102	207
Rominor		2,421				2,421		96
Romi Italy	3,379	11,870	23,992	7,581	27,371	19,451		
Romi Machine Tools	4,688	6,330	6,378	5,986	11,066	12,316	62	
Interocean			10		10			
Romi A.L.							271	77
Indirect subsidiaries:								
Sandretto Industries S.A.S.	147				147			
Italprensas Sandretto S.A.	25				25			
Sandretto UK Ltd.	667				667			
Total	9,779	20,681	31,076	14,194	40,855	34,875	435	380

(ii) Transactions

	Sales revenue		Operating expenses		Finance income	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Direct subsidiaries:						
Romi Europe	1,482	138	787	837	14	
Rominor			837	864		
Romi Italy	3,552	7,364			308	
Romi Machine Tools	9,483	6,583			119	171
Romi A.L.			397	249		
Total	14,517	14,085	2,021	1,950	441	171

In the consolidated financial statements, receivables and payables refer to trading transactions between B+W and its associate Riello Shangai.

Loans receivable have predetermined maturities, are payable in the long term and bear semi-annual LIBOR plus interest of 1% per annum and foreign exchange variations. The loan agreements between the Company and its subsidiaries are generally intended to increase working capital so as to provide financial support to these subsidiaries.

The subsidiary Rominor is the guarantor of some of the FINAME manufacturing financing transactions involving the Company, and the financing is collateralized by promissory notes and sureties (Note 14). The Company has seven buildings rented to its subsidiary Rominor, which are used by the sales branch operations in Brazil.

The Company entered into trading transactions with certain subsidiaries for the supply and purchase of equipment, parts and pieces, and does not have any material transactions with related parties with other than of this nature. Decisions regarding transactions between the Company and its subsidiaries are made by management. Trade notes mature in the short term.

(iii) Management compensation

Management compensation for the years ended December 31, 2012 and 2011 was as follows:

	2012	**2011**
Fees and charges	6,270	7,417
Profit sharing		132
Private pension plan	446	498
Healthcare plan	87	96
Parent company	6,803	8,143
Fees and charges of subsidiaries	133	133
Consolidated	6,936	8,276

The amounts shown above are comply with the limits established by the Board of Directors.

10 Investment property

Management decided, based on the completion of the property register review and regularization, as well as the perspectives of short and medium-term expansion of operations, to reclassify certain property, totaling R$ 14,202 in the parent company and R$ 16,103 in the consolidated statements, previously recorded as Property, Plant and Equipment to Investment Property for future rental income and capital appreciation.

The investment property is stated at historical cost, and for fair value disclosure purposes the Company contracted an independent expert, who applied a methodology accepted by the “Brazilian Institute of Engineering Appraisals” as well as recent transactions with similar property and assessed the fair value less cost to sell this property at R$ 117,681 in the Parent Company and R$ 141,700 Consolidated.

11 Property, plant and equipment

Changes in property, plant and equipment in the parent company and consolidated financial statements are as follow:

									Parent company
	Land (a)	**Buildings and yards**	**Machinery and equipment**	**Furniture and fixtures**	**Vehicles**	**Information technology**	**Construction in progress**	**Advances**	**Total**
Cost of property, plant and equipment, gross									
Balance as at January 1, 2011	19,586	162,762	208,099	7,828	2,416	20,870	7,997	837	430,395
Additions		88	11,974	195	204	1,096	6,223	(415)	19,365
Disposals	(138)		(4,470)	(49)	(84)	(178)			(4,919)
Transfers		704	1,151	79		2,644	(4,578)		
Balance as at December 31, 2011	19,448	163,554	216,754	8,053	2,536	24,432	9,642	422	444,841
Additions		36	2,180	6	42	419	2,332		5,015
Disposals			(560)	(21)	(25)	(598)		(88)	(1,292)
Transfers	(14,202)	7,265	1,187	504	46	473	(9,475)		(14,202)
Balance as at December 31, 2012	5,246	170,855	219,561	8,542	2,599	24,726	2,499	334	434,362
Accumulated depreciation									
Balance as at January 1, 2011		33,152	105,913	5,359	1,663	12,489			158,576
Depreciation		8,364	14,776	454	284	3,002			26,880
Disposals			(3,714)	(48)	(85)	(175)			(4,022)
Transfers				(8)		8			
Balance as at December 31, 2011		41,516	116,975	5,757	1,862	15,324			181,434
Depreciation		8,527	17,195	477	256	3,273			29,728
Disposals			(86)	(19)	(13)	(589)			(707)
Transfers				(1)		1			
Balance as at December 31, 2012		50,043	134,084	6,214	2,105	18,009			210,455
Property, plant and equipment, net									
Balance as at December 31, 2011	19,448	122,038	99,779	2,296	674	9,108	9,642	422	263,407
Balance as at December 31, 2012	5,246	120,812	85,477	2,328	494	6,717	2,499	334	223,907

									Consolidated
Cost of property, plant and equipment, gross	**Land (a)**	**Buildings and yards**	**Machinery and equipment**	**Furniture and fixtures**	**Vehicles**	**Information technology**	**Construction in progress**	**Advances**	**Total**
Balance as at January 1, 2011	26,333	174,857	212,126	8,389	2,989	21,976	7,997	837	455,504
Additions		110	12,197	244	204	1,140	6,223	(415)	19,703
Disposals	(333)	(293)	(5,283)	(428)	(294)	(373)			(7,004)
Transfers		704	1,151	79		2,644	(4,578)		
Exchange differences	152	840	361	64	58	177			1,652
Balance as at December 31, 2011	26,152	176,218	220,552	8,348	2,957	25,564	9,642	422	469,855
Additions	1,240	37	2,362	472	167	652	6,573		11,503
Disposals		(50)	(758)	(25)	(98)	(601)		(90)	(1,622)
Transfers	(16,103)	7,265	1,187	504	46	473	(9,475)		(16,103)
Assets from the acquisition of investments, at fair value (Note 3)	8,833	7,880	5,586	1,881		183			24,363
Exchange differences	1,777	2,363	1,318	360	38	119			5,975
Balance as at December 31, 2012	21,899	193,713	230,247	11,540	3,110	26,390	6,740	332	493,971
Accumulated depreciation									
Balance as at January 1, 2011		36,874	108,208	5,878	2,150	13,376			166,486
Depreciation		8,608	15,123	476	315	3,080			27,602
Disposals		(41)	(4,458)	(422)	(295)	(355)			(5,571)
Transfers				(8)		8			
Exchange differences		87	206	55	52	142			542
Balance as at December 31, 2011		45,528	119,079	5,979	2,222	16,251			189,059
Depreciation		9,129	18,679	972	272	3,408			32,460
Disposals			(203)	(19)	(17)	(590)			(829)
Transfers				(1)		1			
Exchange differences		88	220	13	32	71			424
Balance as at December 31, 2012		54,745	137,775	6,944	2,509	19,141			221,114
Property, plant and equipment, net									
Balance as at December 31, 2011	26,152	130,690	101,473	2,369	735	9,313	9,642	422	280,796
Balance as at December 31, 2012	21,899	138,968	92,472	4,596	601	7,249	6,740	332	272,857

The property, plant and equipment transferred to assets and classified as Investment property total R$ 14,202 in the parent company financial statements (R$ 16,103 consolidated) and refer to land intended to earn rental or for capital appreciation (Note 10).

Due to the financing agreements with the BNDES for investments in property, plant and equipment, the Company pledged as collateral machinery and equipment amounting to R$55,463 as at December 31, 2012 (R$52,492 as at December 31, 2011). These items refer to land, facilities, machinery and equipment.

Depreciation rates

The Company depreciates property, plant and equipment items on a straight line basis using the following depreciation rates:

Buildings	25 years
Machinery and equipment	10 to 15 years
Furniture and fixtures	10 years
Information technology	5 years
Vehicles	5 years
Yards	10 years

During the year, the Company reviewed the recoverable amounts of long-lived assets and no impairment losses were identified.

Of the amount of R$ 29,728 (2011 - R$ 26,880) related to depreciation expenses, R$ 22,834 (2011 - R$ 21,168) was recognized in the statement of income in "Cost of sales and services", R$ 1,327 (2011 - R$ 621) in "Selling expenses", R$ 5,358 (2011 - R$ 4,945) in "General and administrative expenses" and R$ 209 (2011 - R$ 146) in “Research and development” - Parent company.

Of the amount of R$ 32,460 (2011 - R$ 27,602) related to depreciation expenses, R$ 25,432 (2011 - R$ 21,890) was recognized in the statement of income in "Cost of sales and services ", R$ 1,327 (2011 - R$ 621) in "Selling expenses", R$ 5,492 (2011 - R$ 4,945) in "General and administrative expenses" and R$ 209 (2011 - R$ 146) in “Research and development” - Consolidated.

12 Intangible assets

Changes in intangible assets are as follow:

	Parent company			Consolidated						
	Assignment of rights	**Other**	**Total**	**Assignment of rights**	**Technology (a)**	**Customer relationship (b)**	**Portfolio of orders ©**	**Trademarks**	**Other**	**Total**
Gross cost										
Balance as at January 1, 2011	4,713	4,312	9,025	4,713					4,312	9,025
Additions	1,913		1,913	1,913						1,913
Balance as at December 31, 2011	6,626	4,312	10,938	6,626					4,312	10,938
Assets from the acquisition of investments, at fair value (Note 3)					10,955	11,117	1,923	12,060	322	36,377
Exchange differences					2,046	2,055	420	1,922	58	6,501
Write-offs	(219)		(219)	(219)						(219)
Balance as at December 31, 2012	6,407	4,312	10,719	6,407	13,001	13,172	2,343	13,982	4,692	53,597
Accumulated amortization										
Balance as at January 1, 2011	367	1,308	1,675	367					1,308	1,675
Amortization	1,131		1,131	1,131						1,131
Balance as at December 31, 2011	1,498	1,308	2,806	1,498					1,308	2,806
Exchange differences					80	60	75			215
Amortization	1,556	188	1,744	1,556	734	541	1,655		597	5,083
Balance as at December 31, 2012	3,054	1,496	4,550	3,054	814	601	1,730		1,905	8,104
Intangible assets, net										
Balance as at December 31, 2011	5,128	3,004	8,132	5,128					3,004	8,132
Balance as at December 31, 2012	3,353	2,816	6,169	3,353	12,187	12,571	613	13,982	2,787	45,493

The Company amortizes intangible assets on a straight line basis using the following finite useful lives:

Assignments of rights	5 years
Technology	5 years
Customer relationships	15 years
Portfolios of orders	1 year

(a) Technology: refers to the know-how related to products and processes that are technologically feasible, which assure competitive advantages in relation to the product quality and efficiency

(b) Portfolio of orders: refers to sales orders outstanding as at the acquisition date.

(c) Customer relationships: refers to contractual rights arising from: (i) The Company's practice in establishing contracts with its customers, (ii) The history of customer relationships, (iii) The high costs for the customer, in the event of a change of contract supplier, (iv) The likelihood of occurrence of new businesses in the future.

According to management's assessment, conducted with the support of its consultants, through the application of procedures for measuring the useful lives of trademarks, it was concluded that the useful lives of the trademarks are indefinite and, therefore, the trademark will be assessed annually for impairment purposes, in accordance with the applicable accounting standards.

The amount of R$ 1,744 (2011 - R$ 1,131) related to amortization expenses was recognized in the statement of income in “Research and development” - Parent company.

Of the amount of R$ 5,083 (2011 - R$ 1,131) related to depreciation expenses, R$ 3,339 (2011 - zero) was recognized in the statement of income in "Cost of sales and services " and R$ 1,744 (2011 - R$ 1,131) in “Research and development” - Consolidated.

13 Borrowing

Changes in borrowing in the parent company and consolidated financial statements are as follow:

	Current		Non-current					
	2012	**2011**	**2012**	**2011**	**Maturity**	**Principal amortization**	**Financial charges**	**Collateral**
Export financing (a)	17,512	76,128	52,040	17,298	6/15/2015	Bullet payment	TJLP + 3.5% per year and fixed interest of 8% per year.	Promissory note and surety of the subsidiary Rominor
Property, plant and equipment - local currency	29,944	30,385	68,189	97,870	11/15/2017	Monthly	TJLP + interest of 1.3% to 2% per year	Collateral transfers of machinery and mortgages of buildings and land
Sundry FINAME	4,933	4,483	5,244	7,600	6/15/2020	Monthly	TJLP to 12.5% per year + interest of 1,3% per year, paid monthly with principal amortization	Collateral transfer of financed machinery/bonds/promissory notes
Working capital (b)	4,947		15,833		8/15/2015	Monthly	TJLP + interest of 3.1% per year	Surety of the subsidiary Rominor
Import financing (FINIMP) (c)	8,220				3/11/2013	Bullet payment	Libor + interest of 2.58% + commission of 2% per year	No collateral
Refinanced drafts - local and other currencies	2,049	1,326	1,484	1,008	6/15/2013	Monthly	LIBOR + 1% spread	Customer pledge contract
Parent company	67,605	112,322	142,790	123,776				
Other	2,587	716						
Burkhardt + Weber (B+W) - administrative office construction financing - € (d)			9,700		6/30/2027	Quarterly	2% per year	Property, plant and equipment (building)
Consolidated	70,192	113,038	152,490	123,776				

(a) Refers to borrowing and financing with the same characteristics.

(i) In October 2010 the Company received R$ 17,298 through a financing agreement entered into with BNDES, in an export financing to be settled in a bullet payment on December 16, 2013, bearing interest of 3.5% + TJLP. The Company undertakes to export, by the agreement settlement date, a amount equivalent to the contracted amount in local currency converted into U.S. Dollars at the exchange rate prevailing on the agreement date, totaling US$ 10,000 thousand. If the export is not completed within the deadline, the Company will be liable for a contractual fine of 10% of the unpaid amount. The Company expects to meet the export requirements set out in the financing agreement.

(ii) In May 2012 the Company received R$ 52,040 thousand through a financing agreement entered into with BNDES, under the Investment Support Program - BNDES PSI, to be settled in a bullet payment in June 2015, bearing fixed interest of 8% per year, payable quarterly over the agreement term, with the first maturity in September 2012. The Company undertakes to export, up to the agreement settlement date, an amount equivalent to US$ 25,000 thousand. This borrowing is secured by its subsidiary Rominor. If the export is not completed by the deadline, the Company will be liable for a contractual fine of 10% of the unpaid amount. The Company expects to meet the export requirements set out in the financing agreement. There are no clauses stipulating compliance with financial indicators.

(b) On June 28, 2012, the Company signed a Credit Facility Agreement up to the limit of R$ 20 million ("credit") to be provided with funds from the Industrial Financing Agency – FINAME or the National Bank of Economic and Social Development (BNDES). This credit is intended solely for working capital financing. The principal and interest will be settled within 24 months, after a grace period of 12 months, with the first payment on August 15, 2013. Financial charges correspond to the Long-term Interest Rate (TJLP) plus a spread of 3.1% per year. When TJLP exceeds 6% per year, the difference will be capitalized and required together with the payment of the installments of the principal. This borrowing is secured by its subsidiary Rominor. There are no clauses stipulating compliance with financial indexes.

(c) In March 2012 the Company entered into an Import Financing Agreement ("FINIMP") amounting to R$ 6,659, equivalent to US$ 3,846 thousand, restated by the U.S. Dollar exchange variations, with maturity in March 2013, bearing financial charges equivalent to the LIBOR rate plus a spread of 2.58% per year, plus commission of 2% per year. There are no guarantees for this financing or clauses requiring compliance with financial indicators.

(d) On July 5, 2012, Burkhardt + Weber entered into a Financing Agreement with Commerzbank in Reutlingen (Germany) in the amount of R$ 9,361 thousand (equivalent to € 3.6 million) , which is supported by KfW Bank (Kredit-anstalt für Wiederaufbau), with quarterly installments beginning on September 30, 2014 and ending on June 30, 2027 (15 years). The financing is secured by the building of B+W, which as at December 31, 2012 totaled R$ 9,361 (equivalent to € 3.6 million).

The amount released is intended solely for the construction of the facilities of the new plant of B+W. The financing has a grace period of 24 months and fixed interest of 2.4% per year, due quarterly, including during the grace period. There are no clauses stipulating compliance with financial indicators.

The maturities of financing recorded in non-current liabilities as at December 31, 2012 in the parent company and consolidated financial statements were as follow:

	Parent company	Consolidated
2014	38,120	38,494
2015	76,795	77,541
2016	14,842	15,588
2017	12,075	12,821
2018 and thereafter	958	8,046
Total	142,790	152,490

The fair value of the borrowing items equals their carrying amounts, as the impact of discounting is not significant.

14 FINAME manufacturer financing

	Parent company and consolidated	
	2012	2011
Current:		
FINAME manufacturer financing	285,440	307,734
Non-current:		
FINAME manufacturer financing	302,279	447,020
Total	587,719	754,754

The agreements related to FINAME Manufacturer Financing are guaranteed by promissory notes and sureties, and the main guarantor is the subsidiary Rominor. The balances are directly related to the balances of the receivables from the onward lending of FINAME Manufacturer Financing (see Note 6), considering that the loans are directly linked to sales to specific customers. The contractual terms related to the amounts, charges and periods financed under the program are fully passed on to the financed customers, and the monthly payments by the customers are fully used for the repayment of the related financing agreements. The Company, therefore, acts as an agent for the financing, but remains the main debtor in these transactions.

The balances of the line item 'FINAME manufacturer financing' and, consequently, of the line items 'Receivables – onward lending of FINAME manufacturer financing' as at December 31, 2012 and 2011, were adjusted for inflation through the end of the reporting period. The difference of R$42,719 between these line items as at December 31, 2012 (R$65,925 as at December 31, 2011) refers to past-due trade notes, renegotiations in progress, and FINAME transactions not yet disbursed by the agent bank. Management understands that there are no risks related to the realization of these receivables since the amounts are collateralized by the financed machinery.

The non-current maturities of the FINAME Manufacturer Financing at December 31, 2012, Parent company and consolidated, are as follow:

	Parent company and consolidated
2014	190,359
2015	88,588
2016	21,874
2017 and after	1,458
Total	302,279

The fair value of the FINAME manufacturer financing equals the carrying amount, as the impact of discounting is not significant.

15 Provision for tax, labor and civil risks

The management of the Company and its subsidiaries, based on the opinion of legal counsel, recognized a provision for tax, labor and civil lawsuits as follows:

	Parent company and consolidated	
	2012	**2011**
Tax	40,802	32,813
Civil	1,152	495
Labor	1,582	2,227
Judicial deposits (d)	(35,111)	(30,669)
Total	8,425	4,866
Current liabilities	1,905	2,474
Non-current liabilities	6,520	2,392
	8,425	4,866

The Management of the Company and its subsidiaries, based on the opinion of its legal counsel, classified the tax, civil and labor lawsuits, involving the risk of loss classified by management as possible, for which no provision was recognized as follows:

	2012	**2011**
Tax		
ICMS on the activation of machinery	150	142
Social security contributions - Cooperatives	1.766	1.496
Offsetting of IRPJ - 2002 and 2003	1.267	-
Civil		
Losses and damages	5.796	2.994
Labor	1.988	1.272
Total	10.967	5.904

For lawsuits classified as probable losses, Management recognized a provision for losses. The changes in the provision in the year ended December 31, 2012 are as follow:

	Parent company and consolidated				
	2011	**Additions**	**Utilizations/reversals**	**Inflation adjustment**	**2012**
Tax	32,813	7,815		174	40,802
Civil	495	859	(233)	31	1,152
Labor	2,227	1,223	(2,015)	147	1,582
Judicial deposits (d)	(30,669)	(4,442)			(35,111)
	4,866	5,455	(2,248)	352	8,425

Based on management's and its legal counsel's assessment, the subsidiaries are not parties to any ongoing lawsuits or exposed to material contingent risks.

As at December 31, 2012, the main lawsuits, which were classified by management as probable losses based on the opinion of legal counsel and, therefore, included in the provision for risks, are as follow:

(a) Tax lawsuits

Refer to the provisions for:

(i) Social Integration Program ("PIS") and Social Contributions on Revenue ("COFINS") related to State Value-Added Tax ("ICMS") on sales, which amounted to R$ 6,280 (R$ 5,491 as at December 31, 2011) and R$ 28,926 (R$ 25,294 as at December 31, 2011), respectively.

(ii) National Institute of Social Security ("INSS") contributions on services provided by cooperatives, amounting to R$ 2,271 (R$ 2,002 as at December 31, 2011).

(iii) During the year ended December 31, 2012, the Company was assessed by the tax authorities, who disallowed part of the offsetting during the period from June to September 2010, related to social security contributions unduly paid on the directors' fees and independent contractors' fees in the period from October 1989 to July 1994. The authorities alleged that the calculations for the period between the payment date judged undue to the credit offset made was performed in disagreement with the requirements of the court and the law. Although the Company's management has presented a defense at the lower administrative court, grounded on the expectation of probable losses, it decided to accrue the amount of R$ 2,537, based on the best estimates of the outcome of these assessments.

(iv) Income tax withholding by a government entity, offset in the income tax return, but rejected by the tax authorities, in the amount of R$ 28.

(v) The other labor lawsuits total R$ 760 (2011 – R$ 26).

(b) Civil lawsuits

These refer mainly to claims filed in court by customers relating to the review of contractual terms.

(c) Labor lawsuits

The Company has recorded a provision for contingencies for labor lawsuits in which it is the defendant, for which main types of claim are as follow: (i) Additional overtime due to reduction of the lunch break, (ii) A 40% fine on FGTS (severance pay funds) prior to retirement, (iii) a 40% fine on FGTS on the elimination of the inflation effects of the Verão and Collor economic plans, and (iv) indemnities for occupational accidents and the joint liability of outsourced companies.
The tax, civil and labor lawsuits assessed as possible losses involve matters similar to those above. The Company's management believes that the outcomes of ongoing lawsuits will not result in disbursements higher than those recognized in the provision. The amounts involved do not qualify as legal obligations.

(d) Judicial deposits

The Company has judicial deposits amounting to R$ 36,808 (R$ 30,669 as at December 31, 2011), of which R$ 35,111 (R$ 30,669 as at December 31, 2011) refers to PIS and COFINS levied on ICMS on sales, as mentioned in item (a) (i) and the other deposits are of different nature and classified in non-current assets.

16 Income tax and social contribution

Income tax is calculated at the rate of 15% on the taxable profits plus a 10% surcharge on taxable profit exceeding R$240, and social contribution are calculated at the rate of 9% on taxable profits. The subsidiary Rominor pays income tax and social contribution on a presumed profit basis.

The table below shows a reconciliation of the tax effect on the parent company's profit (loss) before income tax and social contribution by applying the prevailing tax rates as at December 31, 2012 and 2011:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Losses before income tax and social contribution	(56,412)	(6,637)	(54,177)	(228)
Standard rates (income tax and social contribution)	34%	34%	34%	34%
Income tax and social contribution standard rates	19,180	2,257	18,420	78
Reconciliation with the effective rate:				
Shares of the profits (losses) of subsidiaries and provision for the net capital deficiencies of subsidiaries	244	(3,134)	-	
Negative goodwill on acquisitions of foreign investments	-		2,751	
Interest on capital	-	8,369	-	8,369
Management profit sharing	-	(70)	-	(70)
Other additions (deductions), net (a)	(1,019)	2,783	(4,363)	(3,823)
Current and deferred income tax and social contribution benefits (expenses)	18,405	10,205	16,808	4,554

(a) The amounts in the consolidated financial statements refer basically to the differences in the calculation of income tax and social contribution between the actual taxable profit and presumed profit basis, due to the fact that the subsidiary Rominor is a taxpayer on a presumed profit basis during the reporting periods, and due to the non-recognition of deferred taxes on the tax losses of foreign subsidiaries.

The breakdown of income tax and social contribution benefits and expenses is as follows:

	2012		2011	
	Parent company	**Consolidated**	**Parent company**	**Consolidated**
Current		(2,697)	(4,800)	(10,451)
Deferred	18,405	19,505	15,005	15,005
Total	18,405	16,808	10,205	4,554

Deferred income tax and social contribution:

				2012				**2011**
	Temporary differences	**Income tax**	**Social contribution**	**Total**	**Temporary differences**	**Income tax**	**Social contribution**	**Total**
Assets (i)								
Inventory - provision for losses	46,282	11,563	4,164	15,727	31,984	7,989	2,878	10,867
Repossession of machinery	34,661	8,659	3119	11,778	26,180	6,539	2,356	8,895
Tax loss	29,106	6,800	2,620	9,420	6,231	1,212	561	1,773
Investments	1639	410	147	557	601	150	54	204
Discount to present value - trade receivables and trade payables	1,524	381	137	518	1,948	487	175	662
Provision for tax, labor and civil risks	43,536	10,876	750	11,626	35,535	8,876	428	9,304
Contingent commissions	260	65	23	88	340	85	31	116
Management profit sharing	322		29	29	322	-	29	29
Other temporary differences in assets	10,778	2,693	971	3,664	9,274	2,316	835	3,151
Deferred income tax and social contribution, net - Parent company and consolidated	168,108	41,447	11,960	53,407	112,415	27,654	7,347	35,001
Liabilities (ii)								
Temporarily non-deductible differences in liabilities:								
Write-off of subsidiary Rominor's negative goodwill (ii)	4,563	1,025	378	1,403	4,199	943	348	1,291
Write-off of negative goodwill on acquisitions of subsidiaries (ii)	19,029	4,757	1,713	6,470	19,029	4,757	1,713	6,470
Goodwill on the acquisition of Burkhardt + Weber (B+W)	54,288	15,814	-	15,814	-	-	-	-
Deferred income tax and social contribution liabilities - consolidated	77,880	21,596	2,091	23,687	23,228	5,700	2,061	7,761

(i) The recorded deferred tax assets are limited to the amounts for which the utilization is supported by future taxable profit projections, based on management's best judgment and expectations. Future taxable profit projections include estimates related to the performance of the Brazilian and global economies, the selection of foreign exchange rates, sales volumes and prices, tax rates, etc., which may differ from the actual amounts. As the income tax and social contribution results depend not only on the taxable profits, but also on the Company's and its Brazilian and foreign subsidiaries' tax and corporate structure, the expected realization of temporarily non-deductible differences, the existence of non-taxable income, non-deductible expenses, and several other variables, there is no direct correlation between the Company's and its subsidiaries' profits and the actual income tax and social contribution payable. Accordingly, changes in the realization of temporarily non-deductible differences should not be considered indicative of future earnings of the Company and its subsidiaries.

(ii) Income tax and social contribution liabilities refer to the write-off of negative goodwill, recognized in accordance with the accounting practices adopted in Brazil, arising on the acquisitions of the subsidiaries Rominor and Sandretto Italy, as part of the adoption of CPCs. Taxes payable on gains arising from the write-off of negative goodwill will be recognized in profit or loss when the negative goodwill is realized, which will occur when the investment is sold or liquidated.

As at December 31, 2012, the expected realization of deferred income tax and social contribution, recorded in non-current assets, Parent company and consolidated, was as follows:

	Consolidated	
	2012	**2011**
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	2,513	14,666
Deferred tax assets to be recovered after more than 12 months	50,894	20,335
	53,407	35,001
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	(581)	-
Deferred tax liabilities to be settled after more than 12 months	(23,106)	(7,761)
	(23,687)	(7,761)

Breakdown of and changes in deferred income tax and social contribution:

	Asset		Liability	
	Parent company	**Consolidated**	**Parent company**	**Consolidated**
Balance as at December 31, 2011	35,001	35,001	1,291	7,761
Changes in the year				
Additions	18,406	18,406	112	-
Additions through acquisition of investments		2,319		15,785
Realization		(2,319)		(3,419)
Exchange differences				3,560
Balance as at December 31, 2012	53,407	53,407	1,403	23,687

Deferred income tax and social contribution, assets and liabilities, are as follow:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Deferred income tax and social contribution assets	53,407	35,001	53,407	35,001
Deferred income tax and social contribution liabilities	(1,403)	(1,291)	(1,403)	(1,291)
Deferred income tax and social contribution assets, net	52,004	33,710	52,004	33,710
Deferred income tax and social contribution liabilities, net			(22,284)	(6,470)

17 Equity

Share capital

As at December 31, 2011 and 2010, the Company's subscribed and paid-up capital is represented by 489,973 book entry, registered common shares, without par value, all with the same rights and benefits.

Legal reserve

As required by Article 193 of Law 6,404/76, the balance of the line item "Legal reserve" is equivalent to 5% of the profit for the year, limited to 20% of the share capital.

Interest on capital

Due to the financial situation. the Company did not distribute interest on capital in 2012. In 2011 the Company elected to pay interest on capital amounting to R$ 24,616 with withholding income tax of R$ 2,773.

In 2011, the Company's Board of Directors approved the allocation of the interest on capital referred to above as mandatory minimum dividends.

The distribution of interest on capital in 2011 is broken down as follows:

Earnings	Event – Date	Amount - R$ 000		Gross amount per share - R$	Payment date
		Gross	Net		
2011					
Interest on capital	Board meeting - 3/15/2011	8,971	7,962	0,12	4/20/011
Interest on capital	Board meeting - 6/07/2011	8,223	7,298	0,11	7/20/2011
Interest on capital	Board meeting - 9/13/2011	7,422	6,583	0,10	10/21/2011
Total		24,616	21,843		

Dividends

The Company's bylaws provide for the payment of a minimum dividend of 25% of the profit for the year adjusted as set forth by the Corporate Law. Management's proposal for the distribution of dividends and the recognition of profit reserves submitted to the Annual Shareholders' Meeting is as follows:

	2011
Adjusted profit for the year	3,568
(-) Recognition of legal reserves	(178)
Profits available for distribution	3,390
Recognition of profit reserve	3,390
Breakdown of interest on capital:	
Prior years' profits reserve	24,616
	24,616
Interest on capital, net of withholding income tax	21,843

Earnings (losses) per share

(a) Changes in the number of shares

Common shares issued	2012	2011
Shares as at December 31, 2012 and 2011	74,757,547	74,757,547
Treasury shares	2,999,900	742,400
Outstanding shares	71,757,647	74,015,147

(b) Earnings (losses) per share

Basic earnings (losses) per share are calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of outstanding common shares during the year, excluding common shares purchased by the Company and held as treasury shares.

	2012	2011
Profit (loss) attributable to the controlling shareholders	(38,007)	3,568
Weighted average number of shares outstanding (in thousands)	72,551	74,518
Basic and diluted earnings (losses) per share (Parent company and consolidated)	(0.52)	0.05

Basic and diluted earnings (losses) per share are the same, since the Company does not have any instruments diluting the earnings (losses) per share.

Profit reserve

The balance of the line item "Profit reserve" refers to the amount of retained earnings that will be used to meet the working capital requirements and enable the investments intended to increase and modernize the production capacity, introduce new products, and invest in subsidiaries, according to the investment plan approved by management to be submitted to the Annual Shareholders' Meeting. The balance of R$ 38,007 related to the loss for the year was absorbed by the profit reserve, pursuant to Article 189, sole paragraph of law 6,404/76, going from R$ 195,598 as at December 31, 2011 to R$ 157,591 as at December 31, 2012.

Purchase of treasury shares

The Board of Directors, at its meeting held on August 22, 2011, approved the purchase of its own shares (the "Program"), to be held in treasury for subsequent sale or cancellation during a reduction of capital.

This program follows the requirements of the Company's bylaws, CVM Instructions 10/80 and 268/97 and the other provisions of the law.

The Company's goal with the program is to maximize value for its shareholders through the investment of part of its financial resources available within the total amount of revenue and capital revenue.

Under the program, purchases of shares, which initially were to be made during the period from August 22, 2011 to February 18, 2012 (180 days), has been postponed for the same period of time (180 days). On August 16, 2012, the program ended, with 2,999,900 common shares acquired, representing 8.28% of the outstanding common shares on the market. The total value acquired was R$ 17,850 (R$ 4,599 as at December 31, 2011), representing an average acquisition value of R$ 5.95 per share (R$ 6.19 per share as at December 31, 2011). These acquired shares impacted the calculation of the earnings per share for the year.

Cumulative translation adjustments

The Company recognizes in this line item the cumulative effect of the translation of the financial statements of its subsidiaries that use a functional currency different from the Parent company's functional currency. In the statement of changes in equity, the balance sheet and the statement of comprehensive income, this amount is allocated to "Other comprehensive income".

This cumulative effect is reversed to the income statement as a gain or loss only in the event of a disposal or write-off of the investment.

18 Pension Plan

The Company has a defined contribution pension plan managed by an authorized pension plan entity, effective since October 1, 2000, for all its employees and Management, which are referred to as "Plano Gerador de Benefício Livre -PGBL", classified as a defined contribution plan.

The nature of the plan allows the Company, at any time and at its sole and exclusive discretion, to suspend or permanently discontinue its contributions to the plan.

The plan is funded by the Company and its participants, according to the type of benefit for which they are eligible.

The amount of contributions made by the Company in the year ended December 31, 2011 was R$2,543 (R$2,161 for the year ended December 31, 2010). The amount incurred on the private pension plan was recorded in the statements for the years ended December 31, 2011 and 2010 under the line items "Cost of sales and cost of services", "Selling expenses", and "General and administrative expenses", based on the reference cost center of each employee.

19 Insurance

The insured amounts are determined and contracted on a technical basis and are considered sufficient to cover potential losses arising from permanent assets and inventory. It is the policy of the Company and its subsidiaries to maintain insurance coverage for assets exposed to risks, at amounts considered sufficient by Management to cover potential losses, according to the nature of activities and a risk assessment by specialized consultants.

As at December 31, 2012, the insurance coverage effective through December 2013 was as follows:

Coverage	Coverage amount
Fire, windstorm, electrical damage and theft:	
Buildings	136,935
Machinery and equipment	319,232
Inventory	303,923

20 Financial instruments and operating risks

(a) General considerations

The Company enters into transactions with financial instruments whose risks are managed by means of financial position strategies and risk exposure limits. All transactions are recognized in the accounting records and restricted to the instruments listed below:

- Cash and cash equivalents: carried at amortized cost plus income earned through the end of the reporting period, which approximate their fair values.

- Trade receivables: commented on and presented in Notes 5 and 6.
- Borrowing and FINAME manufacturer financing: commented on and presented in Notes 13 and 14.

The Company believes that the other financial instruments, such as payables for the acquisition of subsidiaries and related parties, which are recognized in the financial statements at their carrying amounts, are substantially similar to those would have been obtained if they were traded in the market. However, as there is no active market for these instruments, there may be differences if the Company decides to settle them in advance.

(b) Risk factors that may affect the Company's business

Commodity price risk: related to the possibility of fluctuations in the prices of the products sold by the Company, or of the raw materials and other inputs used in its production process. Sales revenue and principally the cost of sales and services affected by changes in the international prices of products or raw materials may change. In order to minimize this risk, the Company constantly monitors price fluctuations in the domestic and foreign markets.

Interest rate risk: arises from the possibility of the Company incurring losses (or earning gains) due to fluctuations in the interest rates charged on the Company's assets or liabilities obtained in the market. In order to mitigate the possible impact resulting from interest rate fluctuations, the Company has a diversification policy, alternating between fixed rates and floating rates (such as LIBOR and CDI), and periodically renegotiates its contracts to adjust them to the market.

Exchange rate risk: arises from the possibility of fluctuations in exchange rates affecting financial expenses or income and the liability or asset balances of contracts denominated in a foreign currency. In addition to trade receivables arising from exports from Brazil and investments abroad, which form a natural hedge against currency fluctuations, the Company assesses its exchange exposure.

The Company has financial instruments pegged to the U.S. Dollar and the Euro. The instruments exposed to exchange fluctuations are represented by trade receivables, direct investments, import and export financing, trade payables and loan agreements with subsidiaries located in the United States of America and in Europe.

Credit risk: arises from the possibility of the Company's and its subsidiaries not receiving amounts generated by sales transactions or receivables from financial institutions generated by financial investments.

Quality of credit: due to its customer portfolio and the fact that these customers do not have a risk rating granted by ratings agencies, the Company makes a detailed analysis of the financial situation of its customers, the establishment of a credit limit and the ongoing monitoring of its debt balance. In addition, collateral is required from customers for all FINAME manufacturer financing transactions. No credit limit was exceeded during the year, and management does not expect any losses as a result of the defaults of these counterparties higher than the amounts already accrued.

In relation to financial investments, the Company carries out transactions only with financial institutions whose credit rating assigned by risk rating agencies, such as Austin, Moody's and Fitch, is at least AA+ or equivalent. Additionally, each financial institution has a maximum investment balance limit, determined by the Company's management.

Liquidity risk: the Company's debt and cash management policy provides for the use of credit facilities, whether or not backed by export receivables, to manage the appropriate levels of short-, medium- and long-term liquidity. The maturity date of the non-current portion of the borrowing is presented in Notes 13 and 14.

The table below divides the Company's financial liabilities into the relevant maturity groupings based on the remaining period to maturity as at the balance sheet date. The amounts disclosed in the table represent the contractual undiscounted cash flow. The balances due within 12 months are equal to the balances to be carried forward as the impact of discounting is not significant.

				Consolidated
	Less than one year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
As at December 31, 2012				
Borrowing	83,847	46,260	112,905	8,968
Trade payables	41,431			
As at December 31, 2011				
Borrowing	125,720	43,849	68,409	13,608
Trade payables	41,025			

<u>Risk related to FINAME manufacturer financing transactions:</u> liabilities related to FINAME manufacturer transactions are backed by the balances of the line item "Receivables – onward lending of FINAME manufacturer financing". In turn, the equipment related to these receivables is sold with the Company's retention of title registered at the notary's office in order to reduce the risk of loss.

<u>Capital management risk:</u> the Company's objectives when managing capital are to safeguard its 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. The Company manages its capital structure, including its debt-to-equity ratio, net of cash and cash equivalents, observing the approval levels and indebtedness limits established and approved by the Board of Directors, as follow: These limits are periodically reviewed by the Board of Directors:

	Parent company		**Consolidated**	
	2012	**2011**	**2012**	**2011**
Total borrowing	798,11	990,852	810,401	991,568
Less: cash and cash equivalents (Note 5)	(45,110)	(83,467)	(82,320)	(162,813)
FINAME manufacturer financing (Note 6)	(630,438)	(820,679)	(630,438)	(820,679)
Net debt	122,566	86,706	97,643	8,076
Total equity	635,527	677,776	635,527	677,776
Total capital	758,093	764,482	733,170	685,852
Gearing ratio - %	16%	11%	13%	1%

Additional sensitivity analysis required by the Brazilian Securities Commission ("CVM")

(i) Exchange rate fluctuations

Exchange rate fluctuations may positively or adversely affect the financial statements due to an increase or decrease in the balances of trade payables to suppliers of imported components, in trade receivables from export customers, and in borrowing and financing denominated in foreign currency.

As at December 31, 2012 and 2011, the foreign currency denominated balances were subject to changes in foreign exchange rates. Assets and liabilities exposed to exchange rate fluctuations recognized in the balance sheet are as follow:

	Parent company
Cash and cash equivalents	657
Trade receivables - current	6,943
Receivables from related parties	40,110
Other receivables	1,085
Payables to related parties	(426)
Borrowing	(3,430)
Trade payables	(5,600)
Other payables	(2,515)
Net asset exposure	36,824

Presented below is the gain (loss) that would have been recognized in profit for the year ended December 31, 2012 according to the following scenarios:

Description			Parent company
	Probable scenario	Scenario II	Scenario III
Net asset exposure	(1,555)	(10,373)	(18,410)

The probable scenario considers future U.S. Dollar and Euro rates, based on quotations obtained from the Brazilian Central Bank. Scenarios II and III project a decrease in exchange rates of 25% and 50%, respectively. The probable Scenarios, II and III, are presented in conformity with CVM Instruction 475/08. Management uses the probable scenario in the assessment of possible changes in exchange rates and presents this scenario in compliance with IFRS 7 - Financial Instruments: Disclosure.

(ii) Interest rate fluctuations

Finance income from financial investments and the finance costs of borrowing are impacted by changes in interest rates, such as the TJLP and the CDI.

As at December 31, 2012 and 2011, three scenarios covering an increase or decrease in interest rates were estimated. The exposure to interest rate risk of the transactions linked to the CDI and TJLP variation is as follows:

	Parent company	Consolidated
Bank deposit certificate "CDB" (Note 4)	34,381	45,781
Total borrowing and financing linked to TJLP	(146,602)	(146,602)
Net liability exposure	(112,221)	(100,821)

The sensitivity analysis considers the exposure of borrowing and financing linked to TJPL, net of financial investments, indexed to CDI.

The tables below show the incremental loss that would have been recognized in profit for the year ended December 31, 2012 according to the following scenarios:

Description			Parent company
	Probable scenario	Scenario II	Scenario III
Net liability exposure	(4,875)	(6,094)	(7,313)

Description			Consolidated
	Probable scenario	Scenario II	Scenario III
Net liability exposure	(4,061)	(5,077)	(6,092)

The probable scenario considers the future interest rates according to quotations obtained from BM&FBOVESPA. Scenarios II and III consider an increase in interest rates of 25% and 50%, respectively.

As the FINAME manufacturer financing is specifically linked to sales transactions payable to the Company, but whose interest rates, under the FINAME Manufacturer system rules, are fully passed on to customers, the Company understands that there is no financial impact on profits arising from fluctuations in this financing interest rate.

(c) Financial instruments per category

The main financial assets and liabilities, Parent company and consolidated, are show below:

	Carrying amount		Fair value	
	2012	**2011**	**2012**	**2011**
Financial assets				
Loans and receivables:				
Cash and cash equivalents	82,320	162,813	82,320	162,813
Trade receivables - current	125,568	86,938	125,568	86,938
Onward lending of FINAME manufacturer financing	317,633	341,688	317,633	341,688
Trade receivables - non-current	13,842	13,208	13,842	13,208
Receivables – onward lending of FINAME manufacturer financing - non-current	312,805	478,991	312,805	478,991
Other assets - current and non-current	9,594	4,807	9,594	4,807
Financial liabilities at amortized cost				
Borrowing – current	70,192	113,038	70,192	113,038
Borrowing – non-current	152,490	123,776	152,490	123,776
FINAME manufacturer financing- current	285,440	307,734	285,440	307,734
FINAME manufacturer financing - non-current	302,279	447,020	302,279	447,020
Trade payables - current	41,516	41,172	41,516	41,172
Other payables – current	16,877	7,170	16,877	7,170
Other payables - non-current	325	4,347	325	4,347

21 Segment reporting - consolidated

The Board of Directors is the chief operating decision maker. The Board of Directors considers the business both from a geographical and a product perspective.

To manage its business, the Company is organized into three business units, on which the Company's segmented reporting is based. The main segments are: machine tools, plastic injectors and cast and machined products.

The segment reporting for the years ended December 31, 2012 and 2011 - Consolidated is as follows:

	December 31, 2012				
	Machine tools	Plastic injection machines	Cast and machined products	Eliminations Eliminations between segments	Total
Net operating revenue	440,358	90,981	86,222	-	617,561
Cost of sales and services	(318,872)	(65,415)	(101,425)	-	(485,712)
Transfers remitted	12,349	-	16,572	(28,921)	-
Transfers received	(13,580)	(7,673)	(7,668)	28,921	-
Gross profit (loss)	120,255	17,893	(6,299)	-	131,849
Operating income (expenses)					
Selling expenses	(48,713)	(22,046)	(3,274)	-	(74,033)
General and administrative	(65,291)	(15,655)	(6,175)	-	(87,121)
Research and development	(14,844)	(6,697)	-	-	(21,541)
Management fees	(5,322)	(991)	(623)	-	(6,936)
Other operating income (expenses), net	6,366	(459)	-	-	5,907
Operating loss	(7,549)	(27,954)	(16,372)	-	(51,875)
Inventory	206,028	75,923	19,735		301,686
Depreciation and amortization	23,680	2,604	11,259		37,543
Property, plant and equipment, net	159,744	12,822	100,291		272,857
Intangible assets	42,849	2,644	-		45,493

	Europe	North America	Latin America	Brazil	Africa and Asia	Total
Net operating revenue per geographical region	112.623	15.092	12.679	434.188	42.979	617.561

	December 31, 2011				
	Machine tools	**Plastic injection machines**	**Cast and machined products**	**Eliminations between segments and other**	**Total**
Net operating revenue	407,107	126,336	97,611	-	631,054
Cost of sales and services	(262,192)	(77,794)	(118,456)	-	(458,442)
Transfers remitted	21,332	-	30,301	(51,633)	-
Transfers received	(24,641)	(16,305)	(10,687)	51,633	-
Gross profit	141,606	32,237	(1,231)	-	172,612
Operating income (expenses)					
Selling expenses	(43,654)	(28,349)	(2,930)	-	(74,933)
General and administrative	(50,921)	(17,726)	(6,739)	-	(75,386)
Research and development	(18,247)	(7,838)	-	-	(26,085)
Management fees	(6,054)	(1,389)	(833)	-	(8,276)
Other operating income (expenses), net	811	193	-	-	1,004
Operating loss	23,541	(22,872)	(11,733)	-	(11,064)
Inventory	206,550	87,013	20,792		314,355
Depreciation and amortization	16,151	3,110	9,534	-	28,795
Property, plant and equipment, net	156,939	12,221	111,636	-	280,796
Intangible assets	4,757	3,375	-	-	8,132

	Europe	**North America**	**Latin America**	**Brazil**	**Africa and A sia**	**Total**
Net operating revenue per geographical region	43,315	20,532	12,435	554,767	5	631,054

22 Future commitments

On January 26, 2012, the Company and Centrais Elétricas Cachoeira Dourada S.A., belonging to Endesa, decided to amend the contract for the supply of electricity entered into on May 1, 2007, in order to adjust the volume of electricity originally contracted to the current needs of the Company. As a result, the supply of electricity has been extended for another year, up to December 31, 2014, and reflects the following commitments which will be adjusted annually by the General Market Price Index ("IGP-M").

Year of supply	**Amount**
2014	11,141
2015	9,982
Total	21,123

The Company's management believes that this agreement is compatible with the electricity requirements for the contracted period.

23 Net operating revenue

Net operating revenue for the years ended December 31, 2012 and 2011 is broken down as follows:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Domestic market	524,850	680,901	531,467	691,410
Foreign market	36,140	44,725	185,734	76,287
Gross sales revenue	560,990	725,626	717,201	767,697
(-) Taxes on sales	(97,259)	(129,168)	(99,640)	(131,382)
(-) Other deductions	-	(5,261)		(5,261)
Net sales revenue	463,731	591,197	617,561	631,054

24 Expenses by nature

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Depreciation and amortization	31,472	28,555	37,543	28,795
Personnel expenses	154,120	188,149	199,415	214,534
Raw materials and consumables	203,590	335,660	277,743	338,923
Freight	12,491	13,383	15,303	14,604
Other expenses	115,416	32,015	145,339	46,266
Total	517,089	597,762	675,343	643,122
Classified as:				
Cost of sales and services	365,243	436,136	485,712	458,442
Selling expenses	56,947	62,724	74,033	74,933
General and administrative expenses	67,409	66,059	87,121	75,386
Research and development	20,687	24,700	21,541	26,085
Management profit sharing and fees	6,803	8,143	6,936	8,276
Total	517,089	597,762	675,343	643,122

25 Finance income (costs)

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Finance income:				
Income from financial investments	5,171	15,292	6,990	15,432
Interest on trade receivables	4,759	7,591	4,509	9,951
Interest on Eletrobrás lawsuit (a)	6,312		6,312	-
Other	3,305		3,305	-
Total	19,547	22,883	21,116	25,383
Finance costs:				
Interest on financing	(17,132)	(15,370)	(18,049)	(16,062)
Other	(5,707)	(526)	(5,828)	(14)
Total	(22,839)	(15,896)	(23,877)	(16,076)

(a) In 2012 the Company received a favorable decision regarding its claim to receive an adjustment for inflation on the amounts paid as compulsory loans on electricity in connection with the credits set up from 1988 to 1994.

26 Other operating income, net

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Provision for losses on Eletrobrás shares	(929)		(929)	
Gains on sales of assets	239	663	239	1,004
Negative goodwill on acquisition of B+W (Note 3)	-		8,094	
Other	(267)		(1,497)	
	(957)	663	5,907	1,004

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Indústrias Romi S.A.

Management Report - 2012

Dear Sirs:

We submit to the examination of Shareholders, Customers, Suppliers, Capital Markets and Society in General the Management Report and Financial Statements of Indústrias Romi SA ("Romi" or "Company"), for the fiscal year ended 31 December 2012, together with the Independent Auditors' Report.

Globally, 2012 was a year marked by flat economic growth in relation to 2011, with the European crisis dragging on, deceleration in China, and a period of recovery in the US.

In Brazil, in an attempt to shield the country from the effects of the global economy's deceleration, the Federal Government made important changes regarding the management of the economy, lowering interest rates and taxes. The actions taken in the year include reducing the tax burden on payroll, reduction in the interest rate for FINAME financing, under the PSI program, to 2.5% p.a. between September and December 2012, accelerated depreciation tax incentives, and raising import taxes for certain products that can be manufactured locally, with the aim of increasing the competitiveness of manufacturing and consumption, seeking to maintain a satisfactory growth trajectory.

Among the main events of the year were the acquisition of Burkhardt + Weber (B+W), a traditional German manufacturer of machine tools, recognized worldwide for the high degree of technological sophistication of its products, with high precision and productivity.

1- OPERATIONAL PERFORMANCE

Net Operating Revenue

In 2012, Romi's consolidated net operating revenue showed a decrease of 2.14% compared with the year 2011, reaching R $ 617.6 million. This figure was reached due to the acquisition of B+W, which contributed net operating revenue of R$ 120.2 million.

The year 2012 was marked by a drop in sales, due to the aspects discussed above in relation to Brazilian economic scenario and the consequent poor performance of the domestic industry, which discourages new investment. On the other hand, government measures taken in 4Q12 positively impacted the quarter. The decrease in the production of motor vehicles and the introduction of the Euro 5 standard for the truck segment has caused a decline in the volume traded by the Machine Tools and Rough and Machined Cast Iron Parts segments throughout the year. In the case of Plastic Machines, Romi has been experiencing strong competition from imported products, mainly from China.

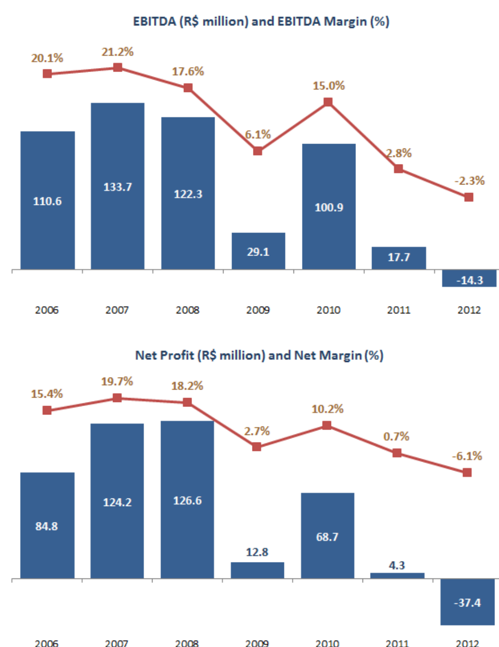
In 2012, foreign markets sales accounted for 30.0% of net operating revenue (US $ 95.2 million), up 108.5% compared with 2011 when exports accounted for 12% (US $ 45.7 million). During this period, Europe accounted for 61.4% of sales in foreign markets, (56.8% in 2011), U.S. accounted for 8.2% (26.9% in 2011), Latin America 6.9% (16, 3% in 2011), and Africa and Asia together 23.4% (0.0% in 2011), increasing its representation in relation to the year 2011 due to sales of subsidiary B+W.

Margins

In 2012, the Company's gross margin decreased by 60 basis points compared to 2011, from 27.4% to 21.4%. Operating margin in 2012 was 66 bps lower than that obtained in the previous year, going from a negative margin of 1.8% to 8.4%.

The operating cash generation, measured as EBITDA (Earnings Before Income Interest, Taxes, Depreciation and Amortization) in 2012 was a negative R$ 14.3 million negative, with a negative EBITDA margin of 2.3%.

Due to the fact that Romi's operating expenses are more fixed than variable in nature, any drop in sales affects the Company's margins directly. Given the decrease in sales in 2012, operating adjustments were made, besides the ongoing implementation of operating efficiency projects to optimize planning and production processes, inventory levels and operating expenses. As every year the annual collective bargaining agreement was negotiated in November, which represented an increase of 6.6% on the payroll.



Net Profit

The net loss in 2012 was R$ 37.4 million, lower than that obtained in 2011, impacted by the downturn in sales in the period, and consequently a lower dilution of fixed costs, since the costs of the Company have more fixed than variable features.

2- INVESTMENTS

Throughout the year 2012, R$ 11.4 million was invested in maintenance, productivity and the upgrading of production facilities. Also, in the year 2012 the Company acquired all of the shares of Burkhardt + Weber Fertigungssysteme (B+W), for an amount of € 20.5 million, equivalent to R$ 46.8 million.

3- EXTERNAL AUDIT

In accordance with CVM Instruction 381/03, we inform that the Company and its subsidiaries embrace as a formal procedure to consult its independent auditors PricewaterhouseCoopers Auditores Independentes (“Price”) to ensure that the provision of other services by Price will not affect the independence and objectivity required for the performance of independent audit services. Romi also requires formal statements of their independence as auditors in order for them to perform non-audit services. During 2012, Price only audited the financial statements of the Company. The company's policy on hiring the services of independent auditors ensures that there is no conflict of interest, loss of independence or objectivity.

4- ARBITRATION

Romi's shares are listed on the Novo Mercado of BM&FBovespa, a differentiated listing segment that includes companies which spontaneously stand out by adopting the highest standards of corporate governance. Consequently, the Company is subject to the Market Arbitration Chamber (established by BM&FBOVESPA). Thus its shareholders, officers and members of the Fiscal Council resolve to resolve through arbitration any dispute or controversy that may arise between them, related to or arising from, in particular, the validity, effectiveness, interpretation, violation and its effects of the provisions of the Corporation Law, in its Bylaws, the rules issued by the National Monetary Council, the Central Bank of Brazil and the Brazilian Securities Commission, as well as other rules applicable to the operation of the capital markets in general, beyond those contained in the Listing Rules of the Novo Mercado, the Participation Agreement, the Novo Mercado and the Rules of Market Arbitration.

Management