

(A free translation of the original in Portuguese)

**Magnesita Refratários S.A.**  
**Quarterly Information (ITR) and**  
**Review Report of Independent Accountants**  
**on June 30, 2010**

**PricewaterhouseCoopers**

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## **Review Report of Independent Accountants**


To the Management and Stockholders  
Magnesita Refratários S.A.

- 1 We have reviewed the accounting information included in the Quarterly Information (ITR) of Magnesita Refratários S.A. and subsidiaries (parent company and consolidated), for the quarter ended June 30, 2010, comprising the balance sheet and the statements of operations, of changes in stockholders' equity and of cash flows, explanatory notes and the performance report. This Quarterly Information is the responsibility of the Company's management.
- 2 Our review was carried out in accordance with specific standards established by the Institute of Independent Auditors of Brazil (IBRACON), in conjunction with the Federal Accounting Council (CFC), and mainly comprised: (a) inquiries of and discussions with management responsible for the accounting, financial and operating areas of the Company with regard to the main criteria adopted for the preparation of the Quarterly Information; and (b) a review of information and of subsequent events which have, or could have, significant effects on the financial position and operations of the Company and its subsidiaries.
- 3 Based on our limited review, we are not aware of any material modifications that should be made to the accounting information included in the Quarterly Information referred to above in order that it be stated in accordance with the accounting practices adopted in Brazil applicable to the preparation of Quarterly Information, in accordance with the standards issued by the Brazilian Securities Commission (CVM).

Magnesita Refratários S.A.

- 4 As mentioned in Note 2 (b), the CVM has approved several Pronouncements, Interpretations and Technical Guidance issued by the Brazilian Accounting Pronouncements Committee (CPC) to be effective as from 2010, which altered the accounting practices adopted in Brazil. As permitted by CVM Resolution 603/09, the Company's management has opted to present its Quarterly Information (ITR) by using the accounting standards adopted in Brazil until December 31, 2009. As required by the Resolution, the Company disclosed this fact in Note 2 (b), as well as the description of the significant changes that may affect its financial statements at the end of the year and the clarifications of the reasons that prevent it from estimating the possible effects on stockholders' equity and statement of operations.

Belo Horizonte, August 13, 2010

  
PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5 "F" MG

  
Aníbal Manoel Gonçalves de Oliveira  
Contador CRC 1RJ056588/O "S" MG

**REGISTRATION WITH THE CVM DOES NOT IMPLY ANY ANALYSIS OF THE COMPANY. COMPANY MANAGEMENT IS RESPONSIBLE FOR THE ACCURACY OF THE INFORMATION PROVIDED.**

**01.01 - IDENTIFICATION**

<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65
<b>4 - State Registration Number (NIRE)</b>		
35300337875		

**01.02 - HEAD OFFICE**

1 - ADDRESS				2 - SUBURB OR DISTRICT	
Praça Louis Ensck, 240				Cidade Industrial	
3 - POSTAL CODE		4 - MUNICIPALITY			5 - STATE
32210-902		Contagem			MG
6 - AREA CODE	7 - TELEPHONE	8 - TELEPHONE	9 - TELEPHONE		10 - TELEX
31	3368-1035	3368-1069	-		
11 - AREA CODE	12 - FAX	13 - FAX	14 - FAX		
31	3368-1051	3368-1036	-		
15 - E-MAIL					
adriana.lana@magnesita.com.br					

**01.03 - INVESTOR RELATIONS OFFICER (Company Mail Address)**

<b>1 - NAME</b> Flavio Rezende Barbosa				
<b>2 - ADDRESS</b> Praça Louis Ensck, 240			<b>3 - SUBURB OR DISTRICT</b> Cidade Industrial	
<b>4 - POSTAL CODE</b> 32210-902		<b>5 - MUNICIPALITY</b> Contagem		<b>6 - STATE</b> MG
<b>7 - AREA CODE</b> 31	<b>8 - TELEPHONE</b> 3328-1000	<b>9 - TELEPHONE</b> -	<b>10 - TELEPHONE</b> -	<b>11 - TELEX</b>
<b>12 - AREA CODE</b>	<b>13 - FAX</b> -	<b>14 - FAX</b> -	<b>15 - FAX</b> -	
<b>16 - E-MAIL</b> RI@magnesita.com.br				

**01.04 - GENERAL INFORMATION/INDEPENDENT ACCOUNTANT**

CURRENT YEAR		CURRENT QUARTER			PRIOR QUARTER		
1-BEGINNING	2-END	3-QUARTER	4-BEGINNING	5-END	6-QUARTER	7-BEGINNING	8-END
1/1/2010	12/31/2010	2	4/1/2010	6/30/2010	1	1/1/2010	3/31/2010
9 - INDEPENDENT ACCOUNTANT						10 - CVM CODE	
PricewaterhouseCoopers Auditores Independentes						00287-9	
11 - PARTNER RESPONSIBLE					12 - INDIVIDUAL TAXPAYERS' REGISTRATION NUMBER (CPF) OF THE PARTNER RESPONSIBLE		
Aníbal Manoel Goncalves de Oliveira					851.939.507-44		

**01.01 - IDENTIFICATION**

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02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**01.05 - CAPITAL COMPOSITION**

Number of shares (Units)	Current Quarter 6/30/2010	Prior quarter 3/31/2010	Same quarter in prior year 6/30/2009
<b>Paid-up capital</b>			
1 - Common	258,211,934	257,954,378	213,082,583
2 - Preferred	0	0	0
3 - Total	258,211,934	257,954,378	213,082,583
<b>Treasury Stock</b>			
4 - Common	0	0	0
5 - Preferred	0	0	0
6 - Total	0	0	0

**01.06 - CHARACTERISTICS OF THE COMPANY**

<b>1 - TYPE OF COMPANY</b> Commercial, Industrial and Other
<b>2 - SITUATION</b> Operating
<b>3 - NATURE OF OWNERSHIP</b> Local Private
<b>4 - ACTIVITY CODE</b> 1030 - Mineral Extraction
<b>5 - MAIN ACTIVITY</b> Mining, manufacture, sale, export of refractories
<b>6 - TYPE OF CONSOLIDATION</b> Full
<b>7 - TYPE OF REPORT OF THE INDEPENDENT ACCOUNTANT</b> Without exceptions

**01.07- COMPANIES EXCLUDED FROM THE CONSOLIDATED FINANCIAL STATEMENTS**

1 - ITEM	2 - CNPJ	3 - NAME
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**01.08 - DIVIDENDS APPROVED AND/OR PAID DURING AND AFTER THE QUARTER**

1 - ITEM	2 - EVENT	3 - DATE APPROVED	4 - AMOUNT	5 - DATE OF PAYMENT	6 - TYPE AND CLASS OF SHARE	7 - AMOUNT PER SHARE
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**FEDERAL GOVERNMENT SERVICE  
BRAZILIAN SECURITIES COMMISSION (CVM)  
QUARTERLY INFORMATION (ITR)  
COMMERCIAL, INDUSTRIAL AND OTHER COMPANIES**

**Unaudited**

**External Disclosure  
Corporate Legislation  
June 30, 2010**

**01.01 - IDENTIFICATION**

<b>1 - CVM CODE</b> 02084-2	<b>2 - COMPANY NAME</b> MAGNESITA REFRATÁRIOS S.A.	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b> 08.684.547/0001-65
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**01.09 - SUBSCRIBED CAPITAL AND ALTERATIONS IN THE CURRENT YEAR**

<b>1 - ITEM</b>	<b>2 - DATE OF ALTERATION</b>	<b>3 - CAPITAL</b> (IN THOUSANDS OF REAIS)	<b>4 - AMOUNT OF THE ALTERATION</b> (IN THOUSANDS OF REAIS)	<b>5 - NATURE OF ALTERATION</b>	<b>7 - NUMBER OF SHARES ISSUED</b> (IN UNITS)	<b>8 - SHARE PRICE ON ISSUE DATE</b> (IN REAIS)
01	6/24/2010	2,388,845	2,813	Private subscription in cash	257,556	10.9200000000

**01.10 - INVESTOR RELATIONS OFFICER**

<b>1 - DATE</b> 8/13/2010	<b>2 - SIGNATURE</b>
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<b>01.01 - IDENTIFICATION</b>		
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02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## 02.01 - Balance Sheet - Assets (R\$ thousand)

<b>1 - Code</b>	<b>2 - Description</b>	<b>3 - 6/30/2010</b>	<b>4 - 3/31/2010</b>
1	Total assets	3,854,786	3,814,359
1.01	Current assets	1,087,727	859,781
1.01.01	Cash and cash equivalents	309,157	147,132
1.01.01.01	Cash and banks	37,839	40,420
1.01.01.02	Marketable securities	271,318	106,712
1.01.02	Credits	333,514	302,793
1.01.02.01	Customers	333,514	302,793
1.01.02.01.01	Trade accounts receivable - domestic market	228,983	210,779
1.01.02.01.02	Trade accounts receivable - foreign market	105,661	93,251
1.01.02.01.03	Allowance for doubtful accounts	(1,130)	(1,237)
1.01.02.02	Sundry credits	0	0
1.01.03	Inventories	310,647	278,619
1.01.03.01	Finished products	110,404	104,803
1.01.03.02	Work in process	34,872	33,043
1.01.03.03	Raw materials	121,681	99,785
1.01.03.04	Warehouse (replacement materials and other)	43,690	40,988
1.01.03.05	Provision for losses	0	0
1.01.04	Other	134,409	131,237
1.01.04.01	Other credits	1,618	1,021
1.01.04.02	Taxes recoverable	43,490	42,279
1.01.04.03	Receivables from sale of properties	22,942	22,205
1.01.04.04	Restricted bank deposit	0	0
1.01.04.05	Amounts receivable - Eletrobrás	65,189	65,189
1.01.04.06	Prepaid expenses	1,170	543
1.02	Non-current assets	2,767,059	2,954,578
1.02.01	Long-term receivables	404,005	334,247
1.02.01.01	Sundry credits	0	0
1.02.01.02	Receivables from related companies	53,685	409
1.02.01.02.01	Associated and similar companies	0	0
1.02.01.02.02	Subsidiaries	53,685	409
1.02.01.02.03	Other related companies	0	0
1.02.01.03	Other	350,320	333,838
1.02.01.03.01	Special and escrow deposits	9,987	9,502
1.02.01.03.02	Tax credits	192,068	175,071
1.02.01.03.03	Taxes on purchases of property, plant and equipment	1,873	1,810
1.02.01.03.04	Receivables from sale of properties	57,518	58,581
1.02.01.03.05	Goodwill on merger of stockholder	88,874	88,874
1.02.01.03.06	Other	0	0
1.02.02	Permanent assets	2,363,054	2,620,331
1.02.02.01	Investments	656,907	887,008
1.02.02.01.01	Investments in associated and similar companies	0	0
1.02.02.01.02	Investments in associated and similar companies - goodwill	0	0
1.02.02.01.03	Investments in subsidiaries	655,764	885,601
1.02.02.01.04	Investments in subsidiaries - goodwill	0	0
1.02.02.01.05	Other investments	1,143	1,407
1.02.02.02	Property, plant and equipment	345,773	376,189
1.02.02.02.01	Land	12,564	10,761
1.02.02.02.02	Buildings, improvements and mineral deposits	151,778	151,235
1.02.02.02.03	Machinery, facilities and equipment	658,912	654,956
1.02.02.02.04	Transportation equipment	12,150	12,150
1.02.02.02.05	Furniture and fixtures and other	18,435	17,724
1.02.02.02.06	Construction in progress	31,100	54,875
1.02.02.02.07	Accumulated depreciation	(539,166)	(525,512)
1.02.02.03	Intangible assets	1,360,374	1,357,134
1.02.02.03.01	Software and others	57,507	29,402
1.02.02.03.02	Goodwill on acquisition of investments	1,600,683	1,623,789
1.02.02.03.03	Accumulated amortization	(297,816)	(296,057)
1.02.02.04	Deferred charges	0	0

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## 02.02 - Balance Sheet - Liabilities and Stockholders' Equity (R\$ thousand)

<b>1 - Code</b>	<b>2 - Description</b>	<b>3 - 6/30/2010</b>	<b>4 - 3/31/2010</b>
2	Total liabilities and stockholders' equity	3,854,786	3,814,359
2.01	Current liabilities	371,054	630,794
2.01.01	Loans and financing	206,733	446,419
2.01.02	Debentures	0	0
2.01.03	Suppliers	75,917	80,680
2.01.04	Taxes, fees and contributions	17,630	24,670
2.01.05	Dividends payable	410	830
2.01.06	Provisions	70,364	78,195
2.01.06.01	Salaries and social security charges	48,818	52,384
2.01.06.02	Advances from customers	2,061	2,469
2.01.06.03	Foreign agent commissions	1,674	2,399
2.01.06.04	Liabilities on the transfer of rights	9,067	9,867
2.01.06.05	Freights and insurance payable	1,797	333
2.01.06.06	Royalties payable	0	620
2.01.06.07	Attorney's and consultant's fees payable	0	197
2.01.06.08	Third parties' services payable	2,705	5,764
2.01.06.09	Other accounts payable	4,242	4,162
2.01.06.10	Forward financial instrument	0	0
2.01.07	Payables to related companies	0	0
2.01.08	Other	0	0
2.02	Non-current liabilities	1,313,610	981,881
2.02.01	Long-term liabilities	1,313,610	981,881
2.02.01.01	Loans and financing	994,312	689,638
2.02.01.02	Debentures	0	0
2.02.01.03	Provisions	319,298	292,243
2.02.01.03.01	Contingencies	93,126	93,957
2.02.01.03.02	Post-employment liabilities	24,567	23,060
2.02.01.03.03	Negative goodwill	19,256	19,256
2.02.01.03.04	Deferred taxes	182,349	155,970
2.02.01.03.05	Payables to related companies	0	0
2.02.01.04	Payables to related companies	0	0
2.02.01.05	Advance for future capital increase	0	0
2.02.01.06	Other	0	0
2.03	Deferred income	0	0
2.05	Stockholders' equity	2,170,122	2,201,684
2.05.01	Paid-up capital	2,388,845	2,386,032
2.05.01.01	Paid-up capital	2,388,845	2,386,032
2.05.01.02	Unpaid capital	0	0
2.05.01.03	Share issue expenses	0	0
2.05.02	Capital reserves	101,851	100,363
2.05.02.01	Special reserve Law 8200	5,973	5,973
2.05.02.02	Special reserve - goodwill on merger	88,874	88,874
2.05.02.03	Stock options granted	8,204	6,716
2.05.02.04	Share premium reserve	26	26
2.05.02.05	Share issue expenses	(1,226)	(1,226)
2.05.03	Revaluation reserves	0	0
2.05.03.01	Own assets	0	0
2.05.03.02	Subsidiaries/Associated and similar companies	0	0
2.05.04	Revenue reserves	3,495	3,076
2.05.04.01	Legal	0	0
2.05.04.02	Statutory	0	0
2.05.04.03	Contingencies	0	0
2.05.04.04	Unrealized profits	0	0
2.05.04.05	Retained profits	3,495	3,076
2.05.04.06	Special for undistributed dividends	0	0
2.05.04.07	Other revenue reserves	0	0
2.05.05	Carrying value adjustments	(214,502)	(153,640)
2.05.05.01	Adjustments of marketable securities	0	0
2.05.05.02	Cumulative translation adjustments	(214,502)	(153,640)
2.05.05.03	Business combination adjustments	0	0
2.05.06	Retained earnings/accumulated deficit	(109,567)	(134,147)
2.05.07	Advance for future capital increase	0	0



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02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**03.01 - Statement of Operations (R\$ thousand unless otherwise indicated)**

1 - Code	2 - Description	3 - 4/1/2010 to 6/30/2010	4 - 1/1/2010 to 6/30/2010	5 - 4/1/2009 to 6/30/2009	6 - 1/1/2009 to 6/30/2009
3.01	Gross sales and/or service revenues	392,823	779,435	307,421	570,092
3.02	Deductions from gross revenues	(91,232)	(180,644)	(64,497)	(121,834)
3.03	Net sales and/or service revenues	301,591	598,791	242,924	448,258
3.04	Cost of products and/or services sold	(193,099)	(377,557)	(150,573)	(288,372)
3.05	Gross profit	108,492	221,234	92,351	159,886
3.06	Operating expenses/income	(73,451)	(162,994)	(97,691)	(227,735)
3.06.01	Selling	(32,102)	(62,706)	(20,640)	(44,316)
3.06.02	General and administrative	(33,151)	(62,242)	(20,477)	(50,085)
3.06.03	Financial	(27,153)	(56,752)	(35,595)	(70,836)
3.06.03.01	Financial income	9,261	22,324	(18,879)	(15,251)
3.06.03.01.01	Financial income	5,858	9,808	1,646	7,200
3.06.03.01.02	Exchange/monetary variation gains	3,403	12,516	(20,525)	(22,451)
3.06.03.02	Financial expenses	(36,414)	(79,076)	(16,716)	(55,585)
3.06.03.02.01	Financial expenses	(32,639)	(67,462)	(61,102)	(99,208)
3.06.03.02.02	Exchange/monetary variation losses	(3,775)	(11,614)	44,386	43,623
3.06.04	Other operating income	7,274	25,495	6,678	17,087
3.06.05	Other operating expenses	(3,904)	(7,773)	(9,091)	(12,747)
3.06.06	Equity in the results of investees	15,585	984	(18,566)	(66,838)
3.07	Operating profit (loss)	35,041	58,240	(5,340)	(67,849)
3.08	Non-operating income	0	0	0	0
3.08.01	Income	0	0	0	0
3.08.02	Expenses	0	0	0	0
3.09	Profit (loss) before taxation and profit sharing	35,041	58,240	(5,340)	(67,849)
3.10	Provision for income tax and social contribution on net income	(1,079)	(954)	(2,099)	(2,444)
3.11	Deferred income tax	(9,382)	(17,679)	(4,506)	(3,675)
3.12	Statutory profit sharing/contributions	0	0	0	0
3.12.01	Profit sharing	0	0	0	0
3.12.02	Contributions	0	0	0	0
3.13	Reversal of interest on capital	0	0	0	0
3.15	Net income (loss) for the period	24,580	39,607	(11,945)	(73,968)
	Number of shares (units), excluding treasury shares	258,211,934	258,211,934	213,082,583	213,082,583
	Net income per share - R\$	0.09519	0.15339		
	Loss per share - R\$			(0.05606)	(0.34713)

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02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

#### **04.01 - Statement of Cash Flows - Indirect Method (R\$ thousand)**

<b>1 - Code</b>	<b>2 - Description</b>	<b>3 - 4/1/2010 to 6/30/2010</b>	<b>4 - 1/1/2010 to 6/30/2010</b>	<b>5 - 4/1/2009 to 6/30/2009</b>	<b>6 - 1/1/2009 to 6/30/2009</b>
4.01	Net cash from operating activities	3,373	128,732	(1,347)	(10,330)
4.01.01	Cash provided by operations	69,454	163,213	11,947	45,626
4.01.01.01	Net income (loss) for the period	24,580	39,607	(11,945)	(73,968)
4.01.01.02	Interest and monetary/exchange variations, net	34,130	74,462	(13,657)	20,815
4.01.01.03	Depreciation and depletion	13,700	27,133	13,258	25,602
4.01.01.04	Amortization of intangible assets	1,759	2,591	1,219	1,765
4.01.01.05	Equity in the results of investees	(15,585)	(984)	18,566	66,838
4.01.01.06	Deferred income tax and social contribution	9,382	17,679	4,506	3,675
4.01.01.07	Share options	1,488	2,725	0	899
4.01.02	Changes in assets and liabilities	(66,081)	(34,481)	(13,294)	(55,956)
4.01.02.01	Accounts receivable	(30,721)	(15,041)	(34,254)	(15,667)
4.01.02.02	Inventories	(32,028)	(43,406)	15,395	(18,851)
4.01.02.03	Taxes recoverable	(1,211)	6,760	6,976	(1,238)
4.01.02.04	Receivables from sale of property, plant and equipment	326	(6,186)	1,643	(1,077)
4.01.02.05	Restricted bank deposits	0	24,485	0	0
4.01.02.06	Suppliers	(4,763)	(3,378)	21,574	10,016
4.01.02.07	Advances from customers	(408)	(301)	(5,851)	(1,774)
4.01.02.08	Taxes payable	(7,040)	(7,673)	7,723	3,054
4.01.02.09	Cash – merged companies	19,435	19,435	0	0
4.01.02.10	Other	(9,671)	(9,176)	(26,500)	(30,419)
4.01.03	Other	0	0	0	0
4.02	Net cash from investing activities	124,563	109,768	2,692	(2,689)
4.02.01	Disposals of PP&E, intangible assets and investments	435	441	1,253	1,388
4.02.02	Payment of capital in subsidiary	0	(11,250)	0	0
4.02.03	Additions to fixed assets and intangible assets	(9,072)	(12,623)	(3,561)	(9,077)
4.02.04	Dividends received	0	0	5,000	5,000
4.02.05	Capital decrease in subsidiary	133,200	133,200	0	0
4.03	Net cash from financing activities	34,089	(117,838)	(7,003)	(106,301)
4.03.01	New loans and financing	105,934	149,934	69,770	146,991
4.03.02	Payment of loans and financing	(62,790)	(142,549)	(50,957)	(111,573)
4.03.03	Payment of interest on loans and financing	(12,287)	(128,675)	(25,816)	(141,719)
4.03.04	Unclaimed interest on capital	419	639	0	0
4.03.05	Capital increase	2,813	2,813	0	0
4.04	Exchange variation on cash and cash equivalents	0	0	0	0
4.05	Increase (decrease) in cash and cash equivalents	162,025	120,662	(5,658)	(119,320)
4.05.01	Opening balance of cash and cash equivalents	147,132	188,495	125,098	238,760
4.05.02	Closing balance of cash and cash equivalents	309,157	309,157	119,440	119,440

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<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**05.01 - Statement of Changes in Stockholders' Equity from 4/1/2010 to 6/30/2010 (R\$ thousand)**

<b>1 - Code</b>	<b>2 - Description</b>	<b>3 - Capital</b>	<b>4 -Capital reserves</b>	<b>5 - Revaluation reserves</b>	<b>6 - Revenue reserves</b>	<b>7 - Retained earnings/ accumulated losses</b>	<b>8 - Carrying value adjustments</b>	<b>9 - Total stockholders' equity</b>
5.01	Opening balance	2,386,032	100,363	0	3,076	(134,147)	(153,640)	2,201,684
5.02	Prior-year adjustments	0	0	0	0	0	0	0
5.03	Adjusted balance	2,386,032	100,363	0	3,076	(134,147)	(153,640)	2,201,684
5.04	Net income (loss) for the period	0	0	0	0	24,580	0	24,580
5.05	Appropriations	0	0	0	0	0	0	0
5.05.01	Dividends	0	0	0	0	0	0	0
5.05.02	Interest on capital	0	0	0	0	0	0	0
5.05.03	Other appropriations	0	0	0	0	0	0	0
5.06	Realization of revenue reserves	0	0	0	0	0	0	0
5.07	Carrying value adjustments	0	0	0	0	0	(60,862)	(60,862)
5.07.01	Adjustments of marketable securities	0	0	0	0	0	0	0
5.07.02	Cumulative translation adjustments	0	0	0	0	0	(60,862)	(60,862)
5.07.03	Business combination adjustments	0	0	0	0	0	0	0
5.08	Increase/decrease in capital	2,813	0	0	0	0	0	2,813
5.09	Increase/realization of capital reserves	0	0	0	0	0	0	0
5.10	Treasury shares	0	0	0	0	0	0	0
5.11	Other capital transactions	0	0	0	0	0	0	0
5.12	Other	0	1,488	0	419	0	0	1,907
5.12.01	Share options granted	0	1,488	0	0	0	0	1,488
5.12.02	Unclaimed interest on capital	0	0	0	419	0	0	419
5.13	Closing balance	2,388,845	101,851	0	3,495	(109,567)	(214,502)	2,170,122

**01.01 - IDENTIFICATION**

1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**05.02 - Statement of Changes in Stockholders' Equity from 1/1/2010 to 6/30/2010 (R\$ thousand)**

1 - Code	2 - Description	3 - Capital	4 -Capital reserves	5 - Revaluation reserves	6 - Revenue reserves	7 - Retained earnings/ accumulated losses	8 - Carrying value adjustments	9 - Total stockholders' equity
5.01	Opening balance	2,386,032	99,126	0	2,856	(149,174)	(118,507)	2,220,333
5.02	Prior-year adjustments	0	0	0	0	0	0	0
5.03	Adjusted balance	2,386,032	99,126	0	2,856	(149,174)	(118,507)	2,220,333
5.04	Net income (loss) for the period	0	0	0	0	39,607	0	39,607
5.05	Appropriations	0	0	0	0	0	0	0
5.05.01	Dividends	0	0	0	0	0	0	0
5.05.02	Interest on capital	0	0	0	0	0	0	0
5.05.03	Other appropriations	0	0	0	0	0	0	0
5.06	Realization of revenue reserves	0	0	0	0	0	0	0
5.07	Carrying value adjustments	0	0	0	0	0	(95,995)	(95,995)
5.07.01	Adjustments of marketable securities	0	0	0	0	0	0	0
5.07.02	Cumulative translation adjustments	0	0	0	0	0	(95,995)	(95,995)
5.07.03	Business combination adjustments	0	0	0	0	0	0	0
5.08	Increase/decrease in capital	2,813	0	0	0	0	0	2,813
5.09	Increase/realization of capital reserves	0	0	0	0	0	0	0
5.10	Treasury shares	0	0	0	0	0	0	0
5.11	Other capital transactions	0	0	0	0	0	0	0
5.12	Other	0	2,725	0	639	0	0	3,364
5.12.01	Share options granted	0	2,725	0	0	0	0	2,725
5.12.02	Unclaimed interest on capital	0	0	0	639	0	0	639
5.13	Closing balance	2,388,845	101,851	0	3,495	(109,567)	(214,502)	2,170,122

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

### 08.01 - Consolidated Balance Sheet - Assets (R\$ thousand)

<b>1 - Code</b>	<b>2 - Description</b>	<b>3 - 6/30/2010</b>	<b>4 - 3/31/2010</b>
1	Total assets	5,080,953	5,057,876
1.01	Current assets	1,707,145	1,620,390
1.01.01	Cash and cash equivalents	459,756	448,079
1.01.01.01	Cash and banks	166,640	303,959
1.01.01.02	Marketable securities	293,116	144,120
1.01.02	Credits	466,374	455,631
1.01.02.01	Customers	466,374	455,631
1.01.02.01.01	Trade accounts receivable - domestic market	234,541	215,758
1.01.02.01.02	Trade accounts receivable - foreign market	240,443	248,901
1.01.02.01.03	Allowance for doubtful accounts	(8,610)	(9,028)
1.01.02.02	Sundry credits	0	0
1.01.03	Inventories	601,950	530,344
1.01.03.01	Finished products	296,979	266,667
1.01.03.02	Work in process	46,297	44,423
1.01.03.03	Raw materials	203,417	167,496
1.01.03.04	Warehouse (replacement materials and other)	73,843	71,100
1.01.03.05	Provision for losses	(18,586)	(19,342)
1.01.04	Other	179,065	186,336
1.01.04.01	Other credits	17,687	21,340
1.01.04.02	Taxes recoverable	67,253	72,522
1.01.04.03	Receivables from sale of properties	22,942	22,205
1.01.04.04	Restricted bank deposit	0	0
1.01.04.05	Amounts receivable - Eletrobrás	65,189	65,189
1.01.04.06	Prepaid expenses	5,994	5,080
1.02	Non-current assets	3,373,808	3,437,486
1.02.01	Long-term receivables	433,256	397,894
1.02.01.01	Sundry credits	0	0
1.02.01.02	Receivables from related companies	0	0
1.02.01.02.01	Associated and similar companies	0	0
1.02.01.02.02	Subsidiaries	0	0
1.02.01.02.03	Other related companies	0	0
1.02.01.03	Other	433,256	397,894
1.02.01.03.01	Special and escrow deposits	15,872	17,528
1.02.01.03.02	Tax credits	244,055	231,101
1.02.01.03.03	Taxes on purchases of property, plant and equipment	1,872	1,810
1.02.01.03.04	Receivables from sale of properties	57,518	58,581
1.02.01.03.05	Goodwill on merger of stockholder	88,874	88,874
1.02.01.03.06	Other	25,065	0
1.02.02	Permanent assets	2,940,552	3,039,592
1.02.02.01	Investments	1,522	1,885
1.02.02.01.01	Investments in associated and similar companies	0	0
1.02.02.01.02	Investments in subsidiaries	0	0
1.02.02.01.03	Other investments	1,522	1,885
1.02.02.02	Property, plant and equipment	819,566	880,729
1.02.02.02.01	Land	58,803	58,079
1.02.02.02.02	Buildings, improvements and mineral deposits	435,644	448,330
1.02.02.02.03	Machinery, facilities and equipment	947,384	955,971
1.02.02.02.04	Transportation equipment	15,035	15,345
1.02.02.02.05	Furniture and fixtures and other	44,230	43,697
1.02.02.02.06	Construction in progress	61,932	82,579
1.02.02.02.07	Accumulated depreciation	(743,462)	(723,272)
1.02.02.03	Intangible assets	2,119,464	2,156,978
1.02.02.03.01	Software and other	59,764	31,756
1.02.02.03.02	Goodwill on acquisition of investments	2,359,702	2,423,408
1.02.02.03.03	Accumulated amortization	(300,002)	(298,186)
1.02.02.04	Deferred charges	0	0

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**08.02 - Consolidated Balance Sheet - Liabilities and Stockholders' Equity (R\$ thousand)**

<b>1 - Code</b>	<b>2 - Description</b>	<b>3 - 6/30/2010</b>	<b>4 - 3/31/2010</b>
2	Total liabilities and stockholders' equity	5,080,953	5,057,876
2.01	Current liabilities	601,230	871,144
2.01.01	Loans and financing	223,837	464,163
2.01.02	Debentures	0	0
2.01.03	Suppliers	187,439	183,469
2.01.04	Taxes, fees and contributions	53,762	65,248
2.01.05	Dividends payable	432	852
2.01.06	Provisions	135,760	157,412
2.01.06.01	Salaries and social charges	80,391	92,293
2.01.06.02	Advances from customers	2,061	2,469
2.01.06.03	Foreign agent commissions	1,674	2,399
2.01.06.04	Liabilities on the transfer of rights	9,067	9,867
2.01.06.05	Freights and insurance payable	2,694	1,441
2.01.06.06	Royalties payable	0	620
2.01.06.07	Attorneys' and consultant's fees payable	1,182	1,117
2.01.06.08	Third-parties' services payable	12,369	17,211
2.01.06.09	Provision for warranty indemnification payable	7,890	8,890
2.01.06.10	Contract retentions payable	8,716	7,513
2.01.06.11	Other accounts payable	9,716	13,592
2.01.06.12	Forward financial instrument	0	0
2.01.07	Payables to related companies	0	0
2.01.08	Other	0	0
2.02	Non-current liabilities	2,296,094	1,970,312
2.02.01	Long-term liabilities	2,296,094	1,970,312
2.02.01.01	Loans and financing	1,025,634	705,804
2.02.01.02	Debentures	0	0
2.02.01.03	Provisions	569,134	572,805
2.02.01.03.01	Contingencies	93,137	97,529
2.02.01.03.02	Post-employment liabilities	208,516	227,037
2.02.01.03.03	Negative goodwill	19,256	19,256
2.02.01.03.04	Deferred income tax and social contribution	234,814	214,919
2.02.01.03.05	Other	13,411	14,064
2.02.01.04	Payables to related parties	0	0
2.02.01.05	Advance for future capital increase	0	0
2.02.01.06	Other	701,326	691,703
2.02.01.06.01	Issue of debt securities	701,326	691,703
2.03	Deferred income	0	0
2.04	Minority interest	14,590	15,807
2.05	Stockholders' equity	2,169,039	2,200,613
2.05.01	Paid-up capital	2,388,845	2,386,032
2.05.01.01	Paid-up capital	2,388,845	2,386,032
2.05.01.02	Unpaid capital	0	0
2.05.01.03	Share issue expenses	0	0
2.05.02	Capital reserves	101,851	100,363
2.05.02.01	Special reserve Law 8200	5,973	5,973
2.05.02.02	Special reserve - goodwill on merger	88,874	88,874
2.05.02.03	Stock options granted	8,204	6,716
2.05.02.04	Share premium reserve	26	26
2.05.02.05	Share issue expenses	(1,226)	(1,226)
2.05.03	Revaluation reserves	0	0
2.05.03.01	Own assets	0	0
2.05.03.02	Subsidiaries/Associated and similar companies	0	0
2.05.04	Revenue reserves	3,495	3,076
2.05.04.01	Legal	0	0
2.05.04.02	Statutory	0	0
2.05.04.03	Contingencies	0	0
2.05.04.04	Unrealized profits	0	0
2.05.04.05	Retained profits	3,495	3,076
2.05.04.06	Special for undistributed dividends	0	0
2.05.04.07	Other revenue reserves	0	0
2.05.05	Carrying value adjustments	(214,502)	(153,640)
2.05.05.01	Adjustments of marketable securities	0	0
2.05.05.02	Cumulative translation adjustments	(214,502)	(153,640)
2.05.05.03	Business combination adjustments	0	0
2.05.06	Retained earnings/accumulated deficit	(110,650)	(135,218)
2.05.07	Advance for future capital increase	0	0

**01.01 - IDENTIFICATION**

1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**09.01 - Consolidated Statement of Operations (R\$ thousand unless otherwise indicated)**

1 - Code	2 - Description	3 - 4/1/2010 to 6/30/2010	4 - 1/1/2010 to 6/30/2010	5 - 4/1/2009 to 6/30/2009	6 - 1/1/2009 to 6/30/2009
3.01	Gross sales and/or service revenues	646,235	1,304,496	520,935	1,031,445
3.02	Deductions from gross revenues	(94,495)	(186,841)	(66,706)	(126,216)
3.03	Net sales and/or service revenues	551,740	1,117,655	454,229	905,229
3.04	Cost of products and/or services sold	(352,528)	(722,273)	(309,985)	(631,636)
3.05	Gross profit	199,212	395,382	144,244	273,593
3.06	Operating expenses/income	(155,883)	(330,805)	(137,868)	(338,603)
3.06.01	Selling	(63,571)	(124,643)	(47,577)	(99,714)
3.06.02	General and administrative	(61,500)	(115,575)	(50,426)	(113,567)
3.06.03	Financial	(43,805)	(116,311)	(32,902)	(115,151)
3.06.03.01	Financial income	22,830	40,822	(16,098)	(6,111)
3.06.03.01.01	Financial income	6,424	10,981	2,594	9,222
3.06.03.01.02	Exchange/monetary variation gains	16,406	29,841	(18,692)	(15,333)
3.06.03.02	Financial expenses	(66,635)	(157,133)	(16,804)	(109,040)
3.06.03.02.01	Financial expenses	(49,187)	(118,424)	(93,465)	(152,128)
3.06.03.02.02	Exchange/monetary variation losses	(17,448)	(38,709)	76,661	43,088
3.06.04	Other operating income	24,565	42,786	15,146	28,661
3.06.05	Other operating expenses	(11,572)	(17,062)	(22,109)	(38,832)
3.06.06	Equity in the results of investees	0	0	0	0
3.07	Operating profit (loss)	43,329	64,577	6,376	(65,010)
3.08	Non-operating income	0	0	0	0
3.08.01	Income	0	0	0	0
3.08.02	Expenses	0	0	0	0
3.09	Profit (loss) before taxation and profit sharing	43,329	64,577	6,376	(65,010)
3.10	Provision for income tax and social contribution on net income	(8,667)	(9,412)	(3,505)	(8,332)
3.11	Deferred income tax	(10,641)	(16,625)	(14,587)	(116)
3.12	Statutory profit sharing/contributions	0	0	0	0
3.12.01	Profit sharing	0	0	0	0
3.12.02	Contributions	0	0	0	0
3.13	Reversal of interest on capital	0	0	0	0
3.14	Minority interest	547	625	(500)	(681)
3.15	Net income (loss) for the period	24,568	39,165	(12,216)	(74,139)
	Number of shares (units), excluding treasury shares	258,211,934	258,211,934	213,082,583	213,082,583
	Net income per share - R\$	0.09515	0.15168		
	Loss per share - R\$			(0.05733)	(0.34794)

**01.01 - IDENTIFICATION**

1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**10.01 - Consolidated Statement of Cash Flows - Indirect Method (R\$ thousand)**

1 - Code	2 - Description	3 - 4/1/2010 to 6/30/2010	4 - 1/1/2010 to 6/30/2010	5 - 4/1/2009 to 6/30/2009	6 - 1/1/2009 to 6/30/2009
4.01	Net cash from operating activities	(278)	103,422	(4,358)	(29,325)
4.01.01	Cash provided by operations	119,639	241,795	(30,139)	(25,817)
4.01.01.01	Net income (loss) for the period	24,568	39,165	(12,216)	(74,139)
4.01.01.02	Interest and monetary/exchange variations, net	51,134	122,173	(65,367)	(19,298)
4.01.01.03	Depreciation and depletion	29,703	59,080	31,316	64,158
4.01.01.04	Amortization of intangible assets	2,652	2,652	1,041	1,766
4.01.01.05	Deferred income tax and social contribution	10,641	16,625	14,587	116
4.01.01.06	Share options	1,488	2,725	0	899
4.01.01.07	Minority interest	(547)	(625)	500	681
4.01.02	Changes in assets and liabilities	(119,917)	(138,373)	25,781	(3,508)
4.01.02.01	Accounts receivable	(35,523)	(58,706)	(28,327)	26,331
4.01.02.02	Inventories	(92,885)	(122,164)	70,519	53,518
4.01.02.03	Taxes recoverable	109	1,917	15,072	6,645
4.01.02.04	Receivables from sale of property, plant and equipment	326	(6,186)	1,643	(1,077)
4.01.02.05	Restricted bank deposits	0	24,485	0	0
4.01.02.06	Suppliers	25,143	36,204	10,651	(47,053)
4.01.02.07	Advances from customers	(1,123)	(868)	(7,363)	(1,219)
4.01.02.08	Taxes payable	(8,343)	(12,339)	(9,172)	(9,057)
4.01.02.09	Derivative instruments - swap fair value	(26,076)	(26,076)	0	0
4.01.02.10	Other	18,455	25,360	(27,242)	(31,596)
4.01.03	Other	0	0	0	0
4.02	Net cash from investing activities	(14,152)	(19,991)	(7,083)	(17,289)
4.02.01	Disposal of property, plant and equipment and investments	561	601	3,528	4,108
4.02.02	Additions to PP&E, intangible assets and investments	(14,713)	(20,592)	(10,611)	(21,397)
4.03	Net cash from financing activities	32,104	48,698	(3,236)	(66,890)
4.03.01	New loans and financing	105,934	890,119	99,348	213,112
4.03.02	Payments of loans and financing	(62,790)	(697,514)	(51,517)	(111,974)
4.03.03	Payment of interest on loans and financing	(14,273)	(147,359)	(51,067)	(168,028)
4.03.04	Unclaimed interest on capital	420	639	0	0
4.03.05	Capital increase	2,813	2,813	0	0
4.04	Exchange variation on cash and cash equivalents	(5,997)	(15,531)	(8,766)	(15,118)
4.05	Increase (decrease) in cash and cash equivalents	11,677	116,598	(23,443)	(128,622)
4.05.01	Opening balance of cash and cash equivalents	448,079	343,158	279,303	384,482
4.05.02	Closing balance of cash and cash equivalents	459,756	459,756	255,860	255,860



01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**11.01 - Consolidated Statement of Changes in Stockholders' Equity from 4/1/2010 to 6/30/2010 (R\$ thousand)**

1 - Code	2 - Description	3 - Capital	4 - Capital reserves	5 - Revaluation reserves	6 - Revenue reserves	7 - Retained earnings/ accumulated losses	8 - Carrying value adjustments	9 - Total stockholders' equity
5.01	Opening balance	2,386,032	100,363	0	3,076	(135,218)	(153,640)	2,200,613
5.02	Prior-year adjustments	0	0	0	0	0	0	0
5.03	Adjusted balance	2,386,032	100,363	0	3,076	(135,218)	(153,640)	2,200,613
5.04	Net income/loss for the period	0	0	0	0	24,568	0	24,568
5.05	Appropriations	0	0	0	0	0	0	0
5.05.01	Dividends	0	0	0	0	0	0	0
5.05.02	Interest on capital	0	0	0	0	0	0	0
5.05.03	Other appropriations	0	0	0	0	0	0	0
5.06	Realization of revenue reserves	0	0	0	0	0	0	0
5.07	Carrying value adjustments	0	0	0	0	0	(60,862)	(60,862)
5.07.01	Adjustments of marketable securities	0	0	0	0	0	0	0
5.07.02	Cumulative translation adjustments	0	0	0	0	0	(60,862)	(60,862)
5.07.03	Business combination adjustments	0	0	0	0	0	0	0
5.08	Increase/decrease in capital	2,813	0	0	0	0	0	2,813
5.09	Increase/realization of capital reserves	0	0	0	0	0	0	0
5.10	Treasury shares	0	0	0	0	0	0	0
5.11	Other capital transactions	0	0	0	0	0	0	0
5.12	Other	0	1,488	0	419	0	0	1,907
5.12.01	Share options granted	0	1,488	0	0	0	0	1,488
5.12.02	Unclaimed interest on capital	0	0	0	419	0	0	419
5.13	Closing balance	2,388,845	101,851	0	3,495	(110,650)	(214,502)	2,169,039

**01.01 - IDENTIFICATION**

1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**11.02 - Consolidated Statement of Changes in Stockholders' Equity from 1/1/2010 to 6/30/2010 (R\$ thousand)**

1 - Code	2 - Description	3 - Capital	4 - Capital reserves	5 - Revaluation reserves	6 - Revenue reserves	7 - Retained earnings/ accumulated losses	8 - Carrying value adjustments	9 - Total stockholders' equity
5.01	Opening balance	2,386,032	99,126	0	2,856	(149,815)	(118,507)	2,219,692
5.02	Prior-year adjustments	0	0	0	0	0	0	0
5.03	Adjusted balance	2,386,032	99,126	0	2,856	(149,815)	(118,507)	2,219,692
5.04	Net income/loss for the period	0	0	0	0	39,165	0	39,165
5.05	Appropriations	0	0	0	0	0	0	0
5.05.01	Dividends	0	0	0	0	0	0	0
5.05.02	Interest on capital	0	0	0	0	0	0	0
5.05.03	Other appropriations	0	0	0	0	0	0	0
5.06	Realization of revenue reserves	0	0	0	0	0	0	0
5.07	Carrying value adjustments	0	0	0	0	0	(95,995)	(95,995)
5.07.01	Adjustments of marketable securities	0	0	0	0	0	0	0
5.07.02	Cumulative translation adjustments	0	0	0	0	0	(95,995)	(95,995)
5.07.03	Business combination adjustments	0	0	0	0	0	0	0
5.08	Increase/decrease in capital	2,813	0	0	0	0	0	2,813
5.09	Increase/realization of capital reserves	0	0	0	0	0	0	0
5.10	Treasury shares	0	0	0	0	0	0	0
5.11	Other capital transactions	0	0	0	0	0	0	0
5.12	Other	0	2,725	0	639	0	0	3,364
5.12.01	Share options granted	0	2,725	0	0	0	0	2,725
5.12.02	Unclaimed interest on capital	0	0	0	639	0	0	639
5.13	Closing balance	2,388,845	101,851	0	3,495	(110,650)	(214,502)	2,169,039

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## **06.01 - Notes to the Quarterly Information**

**(All amounts in thousands of reais unless otherwise indicated)**

### **1 Operations**

Magnesita Refratários S.A. ("the Company") was formed on December 11, 2006, and its main objective is to hold interests in other companies. At the Extraordinary General Meeting held on August 6, 2007, its name was changed from "Sibaúma Participações S.A." to "RPAR Holding S.A." and the Extraordinary General Meeting held on March 17, 2008, approved the change of the company name from RPAR Holding S.A. to Magnesita Refratários S.A.

#### **Acquisition of Magnesita S.A.**

On September 27, 2007, the Company concluded the acquisition, directly and indirectly, of 70.7% of the voting common shares of Magnesita S.A. and 3.1% of its preferred shares, totaling 38.6% of the total capital of that company.

On December 11, 2007, the Company acquired, on the stock exchange, further preferred class A and class C shares of Magnesita S.A., which represent 16.83% of the outstanding preferred shares, through a voluntary public share offering, representing an increase of 7.98% of the total capital.

Between January 3 and 31, 2008, the Company acquired, on the stock exchange, 955,392,390 common shares and 2,951,731,751 class A preferred shares issued by Magnesita S.A., increasing its interest by 9.18% of capital.

At January 31, 2008, the Company carried out, on BM&FBOVESPA, a public auction for the acquisition of common shares of Magnesita S.A. (in conformity with article 254.A of Law 6404/76) and acquired 4,512,220,813 common shares, representing 10.61% of total capital.

#### **Merger of Magnesita S.A.**

On February 2, 2008, the Company presented a proposal for the merger into the Company of the subsidiaries Magnesita S.A. and Partimag S.A., which was made effective on February 21, 2008, considering the base date of December 31, 2007. The stockholders of Magnesita S.A. received shares of Magnesita Refratários S.A. In the case of Partimag S.A., a wholly-owned subsidiary of Magnesita Refratários S.A., the main assets of which consisted of its ownership interest in Magnesita S.A., the merger did not generate the issuance of shares.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**Merger of wholly-owned subsidiaries**

On April 30, 2008, at the Extraordinary General Meeting, the stockholders approved the merger into the Company of the following subsidiaries:

- Magnesita Service Ltda.;
- Risa Refratários e Isolantes Ltda.;
- Risa Materiais Cerâmicos Ltda.;
- Refratec Produtos Eletrofundidos Ltda.;
- Ikerá Indústria e Comércio Ltda.;
- Refratec Participações Ltda.; and
- São José Administração de Matérias Primas Ltda.

On April 28, 2010, at the Extraordinary General Meeting, the stockholders approved the merger into the Company of the following subsidiaries:

- Cerâmica São Caetano Ltda.;
- Refratec Participações Ltda.; and
- MSA Agropecuária Ltda.

These merger transactions did not result in an increase in the capital of the Company, since it already held all the capital quotas of the merged companies. Thus, there were no changes in the consolidated financial position of the Company in connection with these merger transactions.

**Acquisition of Insider**

On April 25, 2008, the Company executed an agreement for the acquisition of all the capital quotas of Insider - Insumos Refratários para Siderurgia Ltda. (subsequently merged into the subsidiary MAG-Sé Participações Ltda.), a company that manufactures high-tech monolithical and premolded refractories, which is based in the City of Coronel Fabriciano, State of Minas Gerais. The agreed acquisition for R\$ 55 million was concluded on October 30, 2008, at the total restated value of R\$ 57.4 million, according to the contractual conditions.

**Acquisition of LWB Group**

On September 7, 2008, the Company executed with Rearden L. Holdings 2 S.A.R.L., a company of Rhône Group, agreements to acquire ownership of all shares of the LWB Group ("LWB"), leader in the segment of dolomitic refractories, with industrial operations in North America, Europe and Asia.

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## **06.01 - Notes to the Quarterly Information**

**(All amounts in thousands of reais unless otherwise indicated)**

On November 5, 2008, the transaction closing date, the stockholders of LWB received from the Company the amount of R\$ 785.4 million: a portion corresponding to R\$ 297.8 million in cash and the remaining part, equivalent to R\$ 487.6 million, through 23,457,778 common shares issued by the Company, which represent 10.97% of its total capital. To calculate the amount of the transaction, R\$ 20.79 was considered the value per share of the Company.

The Company's stockholders agreement was amended to enable the inclusion of Rhône Group with 9.14% of the Company's shares and providing for participation in the Board of Directors through one member.

Thus, Magnesita Refratários S.A., a listed company registered in the BOVESPA's "New Market", became, along with its subsidiaries, a manufacturer of magnesian and dolomitic refractories with plants located in South America, North America, Europe and Asia.

### **Production Plants**

In addition to the plant located in Contagem, State of Minas Gerais (MG), Brazil, the Company has plants for the production of refractory materials through the following subsidiaries:

- MAG-Sé Participações Ltda. - Brazil
- Refractarios Argentinos S.A.I.C.y M - Argentina
- Magnesita Refractories Company - United States
- Magnesita Refractories GmbH - Germany
- Magnesita Refractories S.C.S. - France
- LCH Resource (Anhui) Co. Ltd. - China
- Shanxi LWB Taigang Refractories Co. Ltd. - China
- Sinterco S.A. - Belgium

In addition to these, the Company has other direct and indirect subsidiaries that are part of the consolidated quarterly information, including holding, commercial, mining or non-operating companies.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**

**(All amounts in thousands of reais unless otherwise indicated)**

**2 Presentation of the Quarterly Information and Significant Accounting Practices**

**(a) Presentation of the quarterly information**

This quarterly information was approved by the Board of Directors on August 10, 2010.

The quarterly information (parent company and consolidated) was prepared and is presented in accordance with accounting practices adopted in Brazil, in compliance with the requirements of Brazilian Corporation Law and the Brazilian Securities Commission (CVM). These accounting practices correspond to the standards and technical guidance which were in effect for the financial statements for the year ended December 31, 2009, that will be different from those that will be used to prepare the financial statements at December 31, 2010, as described in item 2 (b) below.

Pursuant to CVM Resolution 603, of November 10, 2009, public corporations are allowed to present their quarterly information (ITR) forms during 2010 in accordance with the accounting standards in effect up to December 31, 2009. In this event, it will be necessary for the companies to disclose this fact in the respective Note and resubmit the ITRs for 2010, as well as those for 2009, for comparison purposes, also adjusted to the 2010 standards, upon the presentation of the financial statements for the year starting January 1, 2010.

The preparation of quarterly information requires the use of estimates to record certain assets, liabilities, revenue and expenses. Therefore, the Company's quarterly information includes estimates related to the selection of the useful lives of property, plant and equipment, provisions for contingent liabilities, income tax and other similar liabilities. The actual results may differ from those estimated.

**(b) Standards and interpretations of standards in effect in 2010 not yet adopted**

During 2009, within the process of convergence with international standards, the Brazilian Accounting Pronouncements Committee (CPC) issued several standards and interpretations of standards that change the accounting practices adopted in Brazil, the application of which is mandatory for years beginning on or after January 1, 2010.

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

CVM, through its Resolution 603/09, extended until December 2010 the obligation to apply the CPC Pronouncements, Interpretations and Technical Guidance issued and approved by CVM in 2009, permitting public companies to present their ITR forms during 2010 in accordance with the accounting practices in effect up to December 31, 2009. In this event, it will be necessary for the companies to resubmit the ITR forms adjusted to the standards in effect in 2010, as well as those for 2009, presented for comparison purposes, also adjusted to the 2010 standards, upon the presentation of the financial statements for the year starting January 1, 2010.

Accordingly, the Company decided to present the ITR form for the quarter ended June 30, 2010 in accordance with the accounting practices in effect up to December 31, 2009, as it is currently analyzing the potential effects arising from the application of the new CPC Pronouncements, in view of the complexity of the calculations and guidelines related to these new accounting practices.

According to the Company's management, the following are the pronouncements and interpretations of standards that may have a more significant impact on the financial statements for 2010, as well as on those for 2009 presented for comparison purposes:

(i) **Pronouncements**

**CPC 22 - Segment Information**

To comply with the provisions of this CPC, the Company is analyzing the best way to disclose its financial information per segment.

**CPC 26 (R1) - Presentation of Financial Statements**

To comply with the provisions of this CPC, the Company is analyzing the best way to disclose its financial statements.

**CPC 27 - Property, Plant and Equipment**

To comply with the provisions of this CPC, the Company is hiring specialized consulting firms to review the useful lives of the main property, plant and equipment items, which may generate depreciation rates that are different from those currently practiced.

**CPC 25 - Provisions, Contingent Liabilities and Assets**

To comply with the provisions of this CPC, the Company is analyzing with experts the understanding that its mining activities do not generate environmental liabilities at the end of the exploration.

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## **06.01 - Notes to the Quarterly Information**

**(All amounts in thousands of reais unless otherwise indicated)**

### **CPC 37 - First-time Adoption of International Financial Reporting Standards**

The Company is analyzing the requirements of this CPC and expects to adopt, in 2010, the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), as required by the Brazilian Securities Commission (CVM).

#### **(ii) Interpretations**

### **ICPC 10 - Clarifications of CPC 27 and CPC 28**

This addresses matters related to the first-time adoption of Technical Pronouncements CPC 27 - Property, Plant and Equipment, CPC 28 - Investment Property, CPC 37 - First-time Adoption of International Financial Reporting Standards and CPC 43 - First-time Adoption of Technical Pronouncements CPC 15 to 40. Among other matters, it addresses the issue of the use of the depreciation rates established in tax law without considering the practice of (i) mandatory periodic review of useful life and (ii) determining the residual value, which are fundamental to define the amount to be depreciated pursuant to Technical Pronouncement CPC 27.

## **3 Consolidation Criteria**

The consolidated quarterly information at June 30, 2010 and March 31, 2010, respectively, include those of the Parent Company and the following subsidiaries:

	<b>6/30/2010</b>	<b>3/31/2010</b>
Cerâmica São Caetano Ltda.	-	100
Iliama Participações S.L. and its subsidiary	100	100
LWB Island Company Ltd. and its subsidiaries (LWB)	100	100
Magnesita Grundstucks Beteiligungs GmbH	100	100
Magnesita Refractories Corporation	100	100
MAG-Sé Participações Ltda.	100	100
MAG-Tec Ltda.	100	100
Massambaba Mineração Ltda.	-	100
MSA Agropecuária Ltda.	-	100
RASA - Refractorios Argentinos S.A.I.CyM and its subsidiary	100	100
Refractorios Magnesita Colombia S.A.	100	100
Refractorios Magnesita del Peru S.A.C.	100	100
Refractorios Magnesita Uruguay S.A.	100	100



<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

The fiscal years of the direct and indirect subsidiaries coincide with those of the Parent Company, and the accounting policies were applied on a standardized basis in the consolidated companies.

The quarterly information of subsidiaries operating abroad are converted into Reais (R\$) in conformity with the guidelines of Technical Pronouncement CPC 02 (R1) - Effects of Changes in Foreign Exchange Rates and Conversion of the Financial Statements, as follows:

- (i) Assets and liabilities based on the closing rate at the balance sheet date.
- (ii) Changes in stockholders' equity for the year considering the rates in force at the dates when they occurred; and the opening stockholders' equity of each balance sheet is represented by the closing stockholders' equity of the previous year, according to the conversion effective at that date.
- (iii) Income and expenses of the statement of operations at the average rates for the period.
- (iv) The foreign exchange variations related to items (i), (ii) and (iii) mentioned above are recognized in the specific account of stockholders' equity "Carrying value adjustment".

The process of consolidating the direct and indirect subsidiaries consists of the summation of the balances of the accounts of assets, liabilities, income and expenses, according to the nature of each balance, complemented by the following eliminations:

- (i) equity interests, reserves and accumulated results between companies;
- (ii) current account balances and other asset and/or liability intercompany balances including unrealized results; and
- (iii) identification of minority interest.

The reconciliation of Stockholders' equity and the Result for the quarter between the consolidated and parent company is as follows:

	<b>Stockholders' equity</b>		<b>Result for the period</b>	
	<b>6/30/2010</b>	<b>3/31/2010</b>	<b>1st half/10</b>	<b>1st half/09</b>
Consolidated	2,169,039	2,200,613	39,165	(74,139)
Unrealized profits in inventories	1,083	1,071	442	171
Parent company	2,170,122	2,201,684	39,607	(73,968)

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**4 Description of the Significant Accounting Practices Adopted**

The significant accounting practices adopted are as follows:

**(a) Determination of net income (loss)**

Net income (loss) is determined on the accrual basis of accounting and considers the earnings, charges and monetary variations based on official indices applicable to assets and liabilities. Income tax and social contribution are deducted from the results and deferred taxes were recognized on income tax and social contribution tax loss carryforwards as well as temporary differences, at the rates in effect for income tax and social contribution, to the extent their realization is probable.

Sales revenue is recognized when the significant risks and benefits of the ownership of the products are transferred to the purchaser. The Company's criterion of revenue recognition, therefore, is the date on which the product is delivered to the purchaser.

In certain cases, based on specific contractual provisions, the Company supplies the products on the industrial consignment basis, billing for such products in accordance with the customer's production phases.

Income from services rendered is recognized based on the stage of execution of the services at the balance sheet date, providing that all the costs related to the services can be reliably measured.

**(b) Cash and cash equivalents**

Cash and cash equivalents comprise cash, bank deposits and short-term investments with high liquidity and immaterial risk of change in value (Note 5).

**(c) Financial instruments**

**Classification and measurement**

The Company classifies its financial assets as measured at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

Financial assets measured at fair value through the profit and loss

These are financial assets held for active and frequent trading. Derivatives are also classified as held for trading and included in the category. Gains or losses arising from the changes in fair value of financial assets measured at fair value through profit or loss are recorded in the statement of operations in "financial result" in the period they occur.

Loans and receivables

These comprise loans granted and non-derivative receivables with fixed or determinable payments, that are not quoted in an active market. Loans and receivables are included in current assets or non-current assets, depending on whether they fall due within or after 12 months from the balance sheet date. The Company's loans and receivables comprise loans granted to associated companies, trade accounts receivable, other accounts receivable and cash and cash equivalents, except for certain short-term investments. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Fair value

The fair values of quoted investments are based on current bid prices. For financial assets without an active market or public quotation, the Company determines fair value through valuation techniques, which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

**Derivative instruments and hedge activities**

Initially, derivatives are recognized at fair value when the derivative agreement is signed and are subsequently remeasured at fair value, with the changes in fair value included in the statements operations, except when the derivative is designated as a hedge of cash flows.

Although the Company uses derivatives for protection, it has not designated any instruments as hedges for accounting purposes.

**(d) Trade accounts receivable and suppliers**

These are initially stated at present value. The balances related to the foreign market are adjusted based on foreign exchange variations up to the balance sheet date.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**(e) Allowance for doubtful accounts**

Calculated in an amount considered sufficient to cover the risk of losses on amounts receivable, based on individual analyses by customer.

**(f) Inventories**

These are stated at the lower of cost (production, average purchase or extraction) and net realizable amounts.

**(g) Income tax and social contribution**

Income tax and social contribution are provided for based on current legislation. The deferred tax assets are recognized on temporary differences as well as income tax and social contribution tax loss carryforwards, to the extent that their realization is probable. The current tax rates of 25% for income tax and 9% for social contribution are used to calculate deferred taxes. Deferred tax liabilities relate to the sale of property, plant and equipment receivable in long-term installments, the realization for tax purposes of goodwill and the accelerated fiscal depreciation of the companies in Europe.

**(h) Goodwill on downstream merger, net of provision**

With the merger into the Company of the holder of 10.97% of its capital, the goodwill arising from the acquisition of the related shares, recorded in intangible assets of the merged company, was reduced by a provision pursuant to CVM Instruction No. 349/01, and a special reserve was set up for this merged goodwill. The reserve will benefit all the stockholders when it is used for capital increase. The net balance of the goodwill represents the amount of the tax benefit expected from its amortization and is classified in non-current assets - long-term receivables.

**(i) Investments**

Investments in subsidiaries are accounted for by the equity method, with the equity in the results of the investees recognized in the statement of operations as operating income or expense. The foreign exchange variations of investments in subsidiaries abroad are recorded in the account "Carrying value adjustment", in the Company's stockholders' equity, and will be recorded in the statement of operations only when the investment is sold or written down as a loss.

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

To calculate equity in the results, unrealized gains or transactions between the Company and its subsidiaries are eliminated proportionately to the Company's interest; unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. When necessary, the accounting practices of the subsidiary and associated companies are adjusted to be consistent with the practices adopted by the Company.

Other investments are presented at acquisition cost, indexed for inflation through December 31, 1995, net of provision for losses, when applicable.

**(j) Property, plant and equipment**

These are stated at cost of purchase or formation, net of depreciation calculated in accordance with the expected useful lives and depletion, based on the straight-line method, at the rates described in Note 7.

Repairs and maintenance costs are allocated to the results of operations as they are incurred. The cost of major renovations is included in the book value of the asset when it is probable that the Company will realize future economic benefits that exceed the performance initially expected for the existing asset. Major renovations are depreciated over the remaining useful life of the related asset.

**(k) Intangible assets**

**Goodwill or negative goodwill**

Goodwill or negative goodwill on the acquisition of an investment is calculated as the difference between the purchase amount and book value of the stockholders' equity of the company acquired. Goodwill paid on the Company's acquisitions is supported by the expectations of future profitability, and up to December 31, 2008, was being amortized over periods of from 5 to 10 years (Note 8). As established in Technical Pronouncement CPC 13, as from January 1, 2009, the goodwill based on the expectation of future profitability is no longer systematically amortized but is subject to annual tests of recoverability as described in Note 4(o).

The negative goodwill recorded by the merged subsidiary Partimag S.A. (Note 1), on the acquisition of Magnesita S.A shares, has not been amortized as there is no specific economic basis for amortization.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**

**(All amounts in thousands of reais unless otherwise indicated)**

**Software**

Software licenses acquired and advisory services for their implementation are capitalized and amortized over their estimated useful lives (Note 8).

**(l) Contingent assets and provision for contingencies**

The recognition, measurement and disclosure of the contingent assets and liabilities and legal obligations are carried out in accordance with the criteria defined in CVM Resolution 489/05 (Note 12):

- Contingent assets - these are not recorded in the books, unless favorable unappealable court decisions characterize the gain as certain.
- Provisions for contingencies - tax and social security - these are recorded considering the opinion of legal advisors, the nature of lawsuits, similarity to prior proceedings, complexity and positioning of the courts, whenever a loss is assessed as probable, an outflow of resources to settle the liabilities is probable, and the amounts involved can be calculated with sufficient certainty.

Tax and social security contingent liabilities classified as possible losses are not recorded but are disclosed in the quarterly information, and those classified as remote losses do not need to be accrued or disclosed.

- Provision for contingencies - labor - considers the outstanding lawsuits and the historical average of unfavorable outcomes.

**(m) Post-employment liabilities**

The liability related to the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, adjusted for actuarial gains or losses and costs of past service. The defined benefit obligation is calculated annually by independent actuaries (Note 15).

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**(n) Variable compensation program**

The Company accrues its program of employee variable compensation in connection with the operating and financial goals disclosed to its employees and agreed with the workers' union, and the related expense was recorded as "General and administrative expenses" (Note 20).

As the goals are measured at the end of the year, the provisions in this quarterly information are accrued based on the partial performance determined at June 30, 2010.

**(o) Impairment of assets**

Property, plant and equipment and other non-current assets, including goodwill, are reviewed annually to identify evidence of impairment, and also whenever events or changes in circumstances indicate that the book value may not be recoverable. In this case, the recoverable value is calculated to verify if there is any loss.

In the event of loss, it is recognized at the amount by which the book value of the asset exceeds its recoverable value, which is the higher between the net sales price and the value in use of an asset. For evaluation purposes, assets are grouped at the lowest level for which there are separately identifiable cash flows.

**(p) Provisions**

Provisions are recognized when the Company has a legal or informal present obligation as a result of past events, it is probable that assets will be surrendered to settle the obligation, and a reliable estimate of the amount can be made.

**(q) Share-based remuneration**

The Company offers to its executives share-based remuneration plans, to be settled in Company stock, according to which the Company receives services in consideration for stock purchase options. The fair value of options granted is recognized as an expense, during the period in which the right is obtained, i.e., the period during which specific vesting conditions must be met. At the date of the balance sheet, the Company revises the estimated number of options which will vest and, subsequently, recognizes the impact of the change on the initial estimates, if any, on a prospective basis, in the statement of operations and the stockholders' equity.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**(r) Loans and financing**

Borrowings are initially recognized at fair value, upon receipt of funds, net of transaction costs. Subsequently, the borrowings are presented at amortized cost, that is, plus charges and interest in proportion to the period elapsed ("pro rata temporis").

**(s) Other assets and liabilities**

These are stated at known or estimated amounts, plus or minus, when applicable, the corresponding charges and monetary restatements or provisions for loss. The advances from customers are stated at historical values. The amounts related to vacation payable to employees are accrued proportionately to the vesting period and include the corresponding social security charges.

**5 Cash and Cash Equivalents**

The composition is as follows:

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>6/30/2010</b>	<b>3/31/2010</b>	<b>6/30/2010</b>	<b>3/31/2010</b>
Cash and banks	166,640	303,959	37,839	40,420
Marketable securities				
Fixed-income	293,116	144,120	271,318	106,712
	<u>459,756</u>	<u>448,079</u>	<u>309,157</u>	<u>147,132</u>

The consolidated item "Cash and banks" includes at June 30, 2010, R\$ 1,655 (R\$ 3,663 at 3/31/2010) in local currency and R\$ 164,985 (R\$ 300,296 at 3/31/2010) in foreign currency, and mainly represents deposits in bank current accounts. The "Marketable securities" were classified as trading securities and correspond to fixed income securities with earnings that approximate the variation of Interbank Deposit Certificates (CDI), and are available for immediate redemption. On consolidation, a part of these fixed income securities, amounting to R\$ 9,882 (R\$ 6,428 at 3/31/2010) is denominated in foreign currency, mainly the US dollar.



01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**6 Investments in Subsidiaries**

**(a) Information on investments (Parent Company)**

	At June 30, 2010			
	Investment in:			
	Unrealized profits	Investment in capital %	Adjusted net equity	Adjusted net income (loss)
Cerâmica São Caetano Ltda.				
Capital of R\$ 27,171 and 2,717,102,088 quotas (i)	2,686	100	-	(138)
Iliama Participações S.L.				
Capital of 3 thousand EUROS and 3,010 quotas		100	(36,042)	(2,147)
LWB Island Company Ltd.				
Capital of 285,429 thousand EUROS and 1,286 quotas		100	599,685	(7,663)
Magnesita Grundstücks Beteiligungs GmbH				
Capital of 25 thousand EUROS and 1 quota		100	63	(28)
Magnesita Refractories Corporation				
Capital of US\$ 650 thousand and 1 quota		100	229	(203)
MAG-Sé Participações Ltda.				
Capital of US\$ 1,590 and 1,590,000 quotas		100	67,547	7,137
MAG-Tec Ltda.				
Capital of R\$ 200 and 800,000 quotas		100	245	0
Massambaba Mineração Ltda.				
Capital of R\$ 1,001 and 1,001,000 quotas (i)		100	-	(88)
MSA Agropecuária Ltda. (i)				
Capital of R\$ 9,571 and 957,118,076 quotas (i)		34.2	-	0
RASA - Refractorios Argentinos S.A. I. C. y M.				
Capital of ARS 1,000 thousand and 1,000,000 shares		100	20,469	1,699
Refractários Magnesita Colômbia S.A				
Capital of COP 11,673,200 thousand and 1,167,320,000 quotas		100	4,499	1,475
Refractários Magnesita Del Peru S.A.C.				
Capital of PEN 6,890 thousand and 1,000 quotas		100	(1,011)	945
Refractários Magnesita Uruguay S..A.				
Capital of UYU 450 thousand and 450,000 quotas		100	80	(5)
Total in 2010 (1st half)	2,686		655,764	984
Total in 2010 (1st quarter)	2,686		885,601	(14,601)

(i) Companies merged on April 28, 2010.

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**

**(All amounts in thousands of reais unless otherwise indicated)**

**(b) Changes in investments**

Changes in the investment accounts during the 2nd quarter and 1st half of 2010 were as follows:

		<b>Parent company</b>
	<b>2nd Qtr./10</b>	<b>1st Half/10</b>
Balance of the beginning of the period	887,008	914,241
Capital increase in subsidiary (i)	-	11,250
Equity in the results of investees	15,585	984
Capital decrease in subsidiary (iii)	(185,666)	(185,666)
Merger of subsidiaries (iv)	(21,834)	(21,834)
Exchange variation of investments (ii)	(37,922)	(61,804)
Disposal of other investments	(264)	(264)
Balance at the end of the period	<u>656,907</u>	<u>656,907</u>

(i) Refers to capital increases in the subsidiaries Refractarios Magnesita Colombia and Magnesita Refractories Corporation.

(ii) Exchange variation of investments recognized in stockholders' equity (Note 4 (i)).

(iii) Refers to capital decrease in the subsidiary LWB Island Company Ltd for capital remittance to Brazil. The corresponding entries to this capital decrease were recorded in cash, totaling R\$ 133,200, and intercompany loan totaled R\$ 52,466.

(iv) Merger of Cerâmica São Caetano Ltda, Massambaba Mineração Ltda. and MSA Agropecuária Ltda. on April 28, 2010 (Note 1).

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**(c) Related-party transactions (Parent Company)**

**Balances and transactions**

The main balances receivable and payable at June 30, 2010 and the main transactions carried out during the 1st half of 2010, such as sales, purchases of services and products and dividends received, involving the Company's subsidiaries, were as follows:

	Balances			Transactions	
	Accounts receivable	Suppliers	Credits (Debits)	Sales	Purchase of products
MAG-Sé Participações Ltda.	672	920	(861)	1,162	1,202
RASA - Refractorios Argentinos S.A. I. C. y M.	18,909	-	-	6,053	1,295
Iliama Participações S.L.	9,372	-	52,466	-	-
Refractários Magnesita Uruguay S.A.	135	-	-	131	-
Refractários Magnesita Colômbia S.A.	12,574	-	-	8,158	-
Refractários Magnesita Del Peru S.A.C.	4,753	-	-	3,012	-
Refractários Magnesita Chile.	1,560	-	-	1,332	-
LWB companies	22,610	-	1,996	35,115	-
Other	-	-	84	-	-
Total at June 30, 2010	<u>70,585</u>	<u>920</u>	<u>53,685</u>	<u>54,963</u>	<u>2,497</u>
At March 31, 2010	<u>51,544</u>	<u>383</u>	<u>409</u>	<u>21,670</u>	<u>480</u>

Credits refer to interest-free loans to subsidiaries for their operating needs.

The purchases and sales of products and services between the parent company and its subsidiaries are transacted under conditions agreed by the parties. Considering that the percentage interest of the Company in its subsidiaries is 100%, they are eliminated in the consolidated financial statements.

**Remuneration of the key management personnel**

The compensation of the members of the Board of Directors and of the Executive Board in the 1st half of 2010 corresponded to R\$ 2,963 (R\$ 3,082 in the 1st half of 2009). In addition, the fair value of the stock options granted in the amount of R\$ 2,725 (R\$ 899 in the 1st half of 2009) is recorded in the statement of operations.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**7 Property, plant and equipment**

	Consolidated				Parent company				Annual depreciation rate - %
	Jun/10	Mar/10	Jun/10	Mar/10	Jun/10	Mar/10	Jun/10	Mar/10	
	Cost	Accumulated depreciation	Net	Net	Cost	Accumulated depreciation	Net	Net	
Land	58,803		58,803	58,079	12,564	-	12,564	10,761	
Mineral deposits	37,684	(3,488)	34,196	34,072	9,132	(1,766)	7,366	7,484	Based on volume
Buildings and improvements	397,960	(141,137)	256,823	273,790	142,646	(84,471)	58,175	58,604	2.5 to 10
Machinery, facilities and equipment, including IT	947,384	(565,082)	382,302	403,630	658,912	(432,525)	226,387	234,416	4 to 33
Transportation equipment	15,035	(13,048)	1,987	2,304	12,150	(10,922)	1,228	1,376	4 to 33
Furniture and fixtures and other	44,230	(20,707)	23,523	26,275	18,435	(9,482)	8,953	8,673	4 to 33
Construction in progress	61,932		61,932	82,579	31,100	-	31,100	54,875	
Total property, plant and equipment	<u>1,563,028</u>	<u>(743,462)</u>	<u>819,566</u>	<u>880,729</u>	<u>884,939</u>	<u>(539,166)</u>	<u>345,773</u>	<u>376,189</u>	

Changes in property, plant and equipment accounts in the 2nd quarter of 2010 were as follows:

	Consolidated	Parent company
At March 31, 2010	880,729	376,189
Additions	14,867	9,072
Disposals	(295)	(6)
Depreciation	(30,593)	(13,700)
Transfer to intangible assets	(27,894)	(28,104)
Merger of subsidiaries		2,322
Exchange variation (assets abroad)	(17,248)	-
At June 30, 2010	<u>819,566</u>	<u>345,773</u>

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**8 Intangible Assets**

	Consolidated				Parent company				Annual amortization rate - %
	Jun/10		Mar/10		Jun/10		Mar/10		
	Cost	Accumulated amortization	Net	Net	Cost	Accumulated amortization	Net	Net	
Software and other Goodwill on acquisition of investments (i)	59,764	(23,846)	35,918	9,726	57,507	(22,359)	35,148	8,802	20
Magnesita S.A.	1,316,509	(272,855)	1,043,654	1,043,654	1,316,509	(272,855)	1,043,654	1,043,654	
LWB (ii)	1,002,657	(2,602)	1,000,055	1,063,761	284,174	(2,602)	281,572	304,678	
Insider - Insumos Refratários para Siderurgia Ltda.	40,536	(699)	39,837	39,837	-	-	-	-	
Total intangible assets	2,419,466	(300,002)	2,119,464	2,156,978	1,658,190	(297,816)	1,360,374	1,357,134	

- (i) The goodwill paid on the acquisition of investments is supported by the expected future profitability and was tested at December 31, 2009 for indications of impairment. The impairment tests were carried out considering the following assumptions: (a) the method currently used by the Company to manage its operations (by geographic regions) and, consequently, the goodwill; (b) evaluation, based on the value in use, of the group of cash generating units; (c) preparation of the discounted cash flow at present value based on assumptions in line with the current market conditions; and (d) future projections in conformity with the Company's business plan. These tests did not indicate any decrease in the recoverable value of goodwill.
- (ii) In the consolidated, includes the amount of R\$ 718,482 (R\$ 759,085 at 3/31/2010) for goodwill presented in the financial statements of LWB, prior to the acquisition by the Company.

Changes in the intangible asset accounts in the 2nd quarter of 2010 were as follows:

	Consolidated	Parent company
March 31, 2010	2,156,978	1,357,134
Transfers to property, plant and equipment	28,104	28,104
Exchange variation (ii)	(63,694)	(22,940)
Amortization	(1,759)	(1,759)
Other	(165)	(165)
June 30, 2010	2,119,464	1,360,374

(i) As required by CPC 02, (R1) the goodwill arising from the expectation of future profitability paid on the LWB acquisition is expressed in the functional currency of LWB (Euro), as is the goodwill recorded in the LWB financial statements prior to its acquisition by the Company.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**9 Salaries, Provisions and Social Contributions**

	Consolidated		Parent company	
	6/30/2010	3/31/2010	6/30/2010	3/31/2010
Provision for vacation pay and payroll charges	19,781	18,113	19,700	17,723
Provision for 13th salary and payroll charges	7,081	3,363	7,081	3,360
Salaries payable	16,404	15,795	2,683	2,645
Rescissions payable	9,141	14,887	-	-
Provision for bonus and charges	19,606	31,093	14,953	23,832
Social charges payable	4,653	4,923	2,999	3,217
FGTS(*) payable	1,048	1,006	1,048	1,006
Other social charges payable	2,677	3,113	354	601
	<u>80,391</u>	<u>92,293</u>	<u>48,818</u>	<u>52,384</u>

(\*) Government Severance Indemnity Fund for Employees (FGTS)

**10 Loans and Financing**

		Annual average interest rate	Consolidated		Parent company	
	Currency		6/30/2010	3/31/2010	6/30/2010	3/31/2010
Export credit note	R\$	CDI+2.39%	1,013,400	984,604	1,013,400	984,604
(-) Unamortized transaction costs		-	(14,143)	(9,067)	(14,143)	(9,067)
Import financing	US\$	7.00%	4,750	4,595	4,750	4,595
Property, plant and equipment financing						
In local currency	R\$	TJLP+2.05%	745	800	745	800
Leasing	R\$	Interbank Deposit Certificate (CDI)	860	998	645	768
Advances on export invoices						
In foreign currency	US\$	6.05%	195,648	154,357	195,648	154,357
Other	US\$	7.25%	14,167	14,385	-	-
Other	€	6.67%	34,044	19,295	-	-
			<u>1,249,471</u>	<u>1,169,967</u>	<u>1,201,045</u>	<u>1,136,057</u>
Current			<u>223,837</u>	<u>464,163</u>	<u>206,733</u>	<u>446,419</u>
Non-current			<u>1,025,634</u>	<u>705,804</u>	<u>994,312</u>	<u>689,638</u>

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**(a) Export credit note**

The Company carries out export credit note transactions with the following characteristics:

- Creditor: Banco Bradesco S.A.
- Amount: R\$139,428
- Term: 5 years
- Grace period: 2 years
- Annual interest: CDI + 2.75% (up to 8/14/2009, CDI + 1.39%; from 8/15/2009 to 2/10/2010, CDI + 4.0%)
- Creditor: Banco Itaú BBA S.A.
- Amount: R\$828,260
- Term: 5 years
- Grace period: 3 years
- Annual interest: CDI + 2.75% (up to 4/8/2010, CDI + 4.0%; up to 8/14/2009, CDI + 1.39%)
- Creditor: Banco do Brasil S.A.
- Amount: R\$19,725
- Term: 2 years
- Annual interest: CDI + 1.6%
- Creditor: Banco do Brasil S.A.
- Amount: R\$25,987
- Term: 3 years
- Annual interest: CDI + 1.95%

The unamortized transaction costs correspond to the commission paid upon the renegotiation of the contracts and will be amortized over their terms.

The annual financial covenants are as follows:

	<u>Net Debt/Ebitda - maximum</u>	<u>Ebitda/Net Financial Expense - minimum</u>
1Q 2010	5.5	1.50
2Q 2010	5.0	1.75
3Q 2010	4.5	1.75
4Q 2010	4.5	2.00
1Q 2011	4.0	2.00
2Q 2011 onwards	3.5	2.00

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

At June 30, 2010 the Company was in compliance with the requirements.

During August 2010, the Company contracted export credit notes with Banco do Brasil S.A. in the amounts of R\$ 200,000, with the following characteristics:

- Creditor: Banco do Brasil S.A.
- Term: 5 years (3 annual installments of R\$ 66,667 as from 8/5/2013)
- Grace period: 3 years
- Annual interest: CDI + 1.5%
- Covenants: Net debt / Ebitda (4.75 up to 12/31/2010; 4.00 up to 12/31/2011; and 3.75 onwards)

After contracting this note, the Company settled the two export credit notes contracted with Banco do Brasil S.A. in the first quarter in the total amount of R\$ 46,289, of which R\$ 44,000 relates to principal and R\$ 2,289 to interest and charges. In addition, the Company also repaid R\$ 150,000 with Banco Itaú BBA S.A. referring to part of the export credit note contracted with this institution. Of this amount, R\$ 115,551 refers to principal and R\$ 34,449 to interest and charges due up to the payment date. After this partial repayment, the export credit note now has the following characteristics:

- Creditor: Banco Itaú BBA S.A.
- Principal: R\$ 691,025
- Annual interest: CDI + 2.75%
- Maturity: March 2012 (interest), February 2013 (principal of R\$ 157,691 and interest), March 2014 (principal of R\$ 266,667 and interest) and March 2015 (principal of R\$ 266,667 and interest)

**(b) Advances on export invoices**

Advances on export invoices refer to future exports of the Company, and were obtained from financial institutions. For these transactions, export trade notes have not yet been provided as guarantee at June 30, 2010. The creditors are the Banks: Bradesco, Banco do Brasil, Santander, HSBC, Itaú and Safra.



01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**c) Maturities**

At June 30, 2010, long-term maturity is as follows:

	<b>Consolidated</b>	<b>Parent company</b>
2011	20,904	2,499
2012	29,179	26,343
2013	330,957	328,565
2014	323,073	320,555
2015	321,521	316,350
	<u>1,025,634</u>	<u>994,312</u>

**11 Long-term Debt Securities (Consolidated)**

During the 1st quarter of 2010, the Company issued US\$ 400 million in debt securities denominated in US dollars, through its wholly-owned subsidiary Rearden G Holdings Eins GmbH ("Rearden"). These securities are unsecured and unsubordinated obligations of Rearden and are fully and unconditionally guaranteed by the Company, through subsidiary Mag-Sé Participações Ltda. and by other Company subsidiaries located abroad.

These debt securities have the following characteristics:

- Term: maturity in 2020
- Annual interest: 7.875%, paid semi-annually

The unamortized transaction costs of R\$ 20,710 correspond to expenses incurred in issuing the debt securities and will be amortized up to 2020 based on the internal rate of return (IRR), as per CPC08.

At June 30, 2010, the total of long-term debt securities is R\$ 701,326.

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

## 12 Provision for Contingencies

The Company and its subsidiaries are parties in lawsuits and administrative proceedings in various courts and government entities, resulting from the normal course of their operations, involving mainly tax matters, in addition to labor and social security aspects. The provisions for contingencies are determined based on the analysis of pending lawsuits, assessments and evaluations of risk. The composition is as follows:

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>6/30/2010</b>	<b>3/31/2010</b>	<b>6/30/2010</b>	<b>3/31/2010</b>
Tax - Provision	78,528	77,788	78,517	77,776
Tax - Judicial deposit	(4,711)	(4,711)	(4,711)	(4,711)
Labor - Provision	17,749	22,922	17,749	19,362
Labor - Judicial deposit	(321)	(321)	(321)	(321)
Social Security - Provision	1,892	1,851	1,892	1,851
	<u>93,137</u>	<u>97,529</u>	<u>93,126</u>	<u>93,957</u>
Current - Provision	942	942	942	942
Current - Judicial deposit	<u>(942)</u>	<u>(942)</u>	<u>(942)</u>	<u>(942)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-current - Provision	97,227	101,619	97,216	98,047
Non-current - Judicial deposit	<u>(4,090)</u>	<u>(4,090)</u>	<u>(4,090)</u>	<u>(4,090)</u>
	<u>93,137</u>	<u>97,529</u>	<u>93,126</u>	<u>93,957</u>

The changes in provisions in the 2nd quarter of 2010 are as follows:

	<b>Consolidated</b>	<b>Parent company</b>
Balance at March 31, 2010	97,529	93,957
Additions	641	641
Disposals	(5,173)	(4,740)
Monetary restatements	140	140
Merger of subsidiary	<u>-</u>	<u>3,128</u>
Balance at June 30, 2010	<u>93,137</u>	<u>93,126</u>

The Company's management, based on information provided by its legal advisors, recorded provisions at amounts considered sufficient to cover probable unfavorable outcomes for the lawsuits in progress, classified between short and long-term, in accordance with the expectation of their conclusion, as stated above.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**

**(All amounts in thousands of reais unless otherwise indicated)**

At June 30, 2010 and March 31, 2010, the Company and its subsidiaries do not have significant tax and social security lawsuits involving risks of unfavorable outcome classified by management as possible (for which there is no provision), based on the evaluation of its legal advisors.

Magnesita S.A., a merged company, received tax assessment notices from the social security authorities (INSS), in the total amount of R\$ 26,677 at June 30, 2008 values, related to certain matters for which it was considered necessary to record provisions, at June 30, 2008 values of R\$ 17,970. These tax assessment notices were issued without observing the five-year statute of limitations period. On June 12, 2008 the Federal Supreme Court (STF) issued the "Stare Decisis" No. 8, confirming the five-year statute of limitations period, and declaring the unconstitutionality of articles 45 and 46 of Law 8212/91. Considering this fact and the opinion of the lawyers who are defending these tax assessment notices, the Company reversed the provisions corresponding to the periods which were confirmed to have lapsed. The corresponding judicial deposits, not yet returned to the Company, were transferred to Non-current - Long-term receivables.

In 2006, a decision favorable to Magnesita S.A. was handed down on the lawsuit in which Magnesita S.A. was claiming its right to the full inflation indexation of the Eletrobrás compulsory loans, for which no appeal can be made regarding its merit. Eletrobrás was sentenced to pay an amount established in an expert appraisal report, as well as to deliver shares of its issuance to Magnesita S.A. Later, the Company filed a collection suit against Eletrobrás in order to receive the amounts related to the unappealable decision, and part of the amount claimed by the Company, of approximately R\$ 8,100, was recognized by Eletrobrás and recorded in the Company's financial statements for 2006. The collection lawsuit of the amount not recognized by Eletrobrás continued, and a judicial deposit of R\$ 69,687 was made in August 2007 by Eletrobrás. In the fourth quarter of 2009, based on the opinion of its legal advisors, the Company requested the release of the judicial deposit under the understanding that the term for Eletrobrás to appeal against the collection execution had expired. In January 2010, the Company obtained a favorable decision at the second judicial level with respect to the release of the judicial deposit, whose chances of reversal through new appeals, already filed by Eletrobrás (presently awaiting the court's decision), are considered minimal by its legal advisors. Accordingly, in the 4th quarter of 2009, the Company decided to record the restated amount of R\$ 65,189, net of lawyers costs, in the statement of operations, in "Other operating income (expenses), net", and "Receivables - Eletrobrás" in current assets.

For the labor lawsuits, the Company's management adopts the criterion of making provisions for all the outstanding lawsuits in amounts estimated as probable losses from unfavorable outcomes, based on average losses over the last three years.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**13 Income Tax and Social Contribution**

**(a) Deferred tax assets**

The Company recognizes, in long-term receivables, deferred tax assets referring to income tax (25%) and social contribution (9%) on temporary differences and tax loss carryforwards, the realization of which does not exceed the expected future taxable income. Deferred tax assets, by nature, are as follows:

	Consolidated		Parent company	
	6/30/2010	3/31/2010	6/30/2010	3/31/2010
Deferred taxes on temporary differences				
Provision for losses on permanent assets	890	890	890	890
Provision for contingencies	24,328	25,631	24,328	24,553
Post-employment liabilities	45,143	49,194	8,353	7,840
Provision for bonus	5,084	8,103	5,084	8,103
Other	18,713	16,652	3,516	3,054
	<u>94,158</u>	<u>100,470</u>	<u>42,171</u>	<u>44,440</u>
Deferred taxes on income tax and social contribution loss carryforwards	<u>149,897</u>	<u>130,631</u>	<u>149,897</u>	<u>130,631</u>
Total deferred tax assets	<u><u>244,055</u></u>	<u><u>231,101</u></u>	<u><u>192,068</u></u>	<u><u>175,071</u></u>

The realization of the deferred income tax and social contribution tax credits is subject to future events that will make the provisions deductible, in conformity with current tax legislation, as well as the generation of future taxable income.

Management estimates indicate that the provision for permanent assets should be realized over the next 3 (three) years. The provision related to the payment of bonuses will be realized during the next year. The provisions for contingencies should be realized in the next ten years, in accordance with the nature of the lawsuits in progress. The provision for post-employment liabilities will be realized as the benefits are paid from the Fund for Supplementary Retirement and Pensions.

The estimates of future results, combined with the history of their operations, indicate that the Company and its subsidiaries will generate future taxable income in an amount sufficient to offset the deferred taxes. The estimates of future taxable income include assumptions related to the performance of the Company, its market and the economy, among others. Actual results may differ from those estimates.

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

The recorded deferred tax assets are supported by a technical study, carried out in compliance with CVM Instruction 3371/02, which was approved by the Statutory Audit Board on March 3, 2010.

**(b) Reconciliation of the income tax and social contribution expense**

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>1st half/10</b>	<b>1st half/09</b>	<b>1st half/10</b>	<b>1st half/09</b>
Income (loss) before taxes, net of management profit sharing	64,577	(65,010)	58,240	(67,849)
Standard rate - %	34%	34%	34%	34%
Tax at the combined standard rate	(21,956)	22,103	(19,801)	23,069
Income tax and social contribution on:				
Recognition/reversal of contingent provision	804	(2,295)	804	(2,295)
Equity in the results of investees	-	-	335	(22,725)
Effect of different rates of subsidiaries located in other jurisdictions	(1,738)	(8,662)		-
Effect of the rule of limitation of interest deductibility in Germany	(5,728)	(13,249)		-
Other permanent differences, net	2,581	(6,345)	29	(4,168)
Effective expense	<u>(26,037)</u>	<u>(8,448)</u>	<u>(18,633)</u>	<u>(6,119)</u>
Current expense	(9,412)	(8,332)	(954)	(2,444)
Deferred expense	(16,625)	(116)	(17,679)	(3,675)

**(c) Deferred taxes - non-current liabilities**

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>6/30/2010</b>	<b>3/31/2010</b>	<b>6/30/2010</b>	<b>3/31/2010</b>
Deferred taxes on real estate profit	17,517	18,166	17,517	18,166
Deferred taxes on fiscal amortization of goodwill (i)	162,170	135,142	162,170	135,142
Social Contribution on Net Income (CSLL) on tax incentives	2,662	2,662	2,662	2,662
Deferred taxes on accelerated fiscal depreciation	52,465	58,949		-
	<u><b>234,814</b></u>	<u><b>214,919</b></u>	<u><b>182,349</b></u>	<u><b>155,970</b></u>

- (i) As from January 1, 2009, the goodwill attributable to expectation of future profitability is no longer amortized, according to the CPC 13 technical pronouncement. The Company has been recognizing under the terms of MP 449/08 (converted into Law 11941/09), through the Transitional Tax System, the fiscal amortization of this goodwill. The deferred tax effect of this amortization is recorded in non-current liabilities.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**14 Stockholders' Equity**

**(a) Capital**

At June 30, 2010 the Company's capital is R\$ 2,388,845, represented by 258,211,934 common shares, nominative and with no par value.

**(b) Dividends**

Stockholders are entitled to a minimum dividend corresponding to 25% of net income for the year, adjusted in conformity with the Brazilian Corporation Law and the Company's by-laws, observing all the provisions therein stipulated.

**(c) Capital reserves**

- Special reserve - Law 8200/91: this refers to the additional price-level indexation adjustments in 1991, related to the merged balance of the subsidiary Magnesita S.A. in conformity with Law 8200/91. This reserve may be used to increase capital or absorb accumulated losses.
- Special merged goodwill reserve: this corresponds to the goodwill arising from the merger of the stockholder of Magnesita Refratários S.A., net of the provision recorded under CVM Instruction 349/01. When this reserve is used for capital increase, the shares will be distributed to all the stockholders.
- Stock options granted: represents the value of the Company's stock options granted to management, in conformity with CPC 10/2008.

**(d) Revenue reserves**

- Reinvestment reserve: received upon merger of the subsidiary Magnesita S.A.

**(e) Carrying value adjustments**

Represents the exchange variation of investment in subsidiaries abroad and goodwill, in conformity with Law 11638/07, net of tax effects if applicable.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**15 Supplementary Retirement and Pension Plan**

**Parent company**

The Company sponsors Magnus Sociedade Previdenciária ("Magnus"), a not-for-profit civil entity, formed for the purpose of partially supplementing the retirement and pension allowances granted by the National Institute of Social Security (INSS).

The Company offers its employees a Defined Contribution (CD) benefit plan with contributions by the sponsor and the participant. The CD plan allows participants to constitute supplementary retirement funds, with transparency and low cost. In addition, there are no risks arising from actuarial liability, since the benefit to be granted will depend on the accumulated contributions and future profitability of the fund.

The employee contributions vary from 0.7% to 5.925% of the salaries and the sponsor contributions vary from 1.30% to 8.875% in accordance with the salary and the age of the participant. For 2010 the estimated cost to fund the Defined Contribution Plan is R\$ 6,026, to be appropriated to cost of products sold and services rendered, selling expenses or general and administrative expenses in accordance with the participants allocation in the Company structure. At June 30, 2010 Magnus had 7,501 active participants (March 31, 2010 - 5,644).

As regards the Defined Benefit Plan, Magnus adopts the financial capitalization system for retirement benefits. The costing plan, which is defined on an actuarial basis, is maintained exclusively through contributions of the sponsors and includes only the former employees that already enjoyed this benefit at the date of approval of the new Defined Contribution Plan, on July 27, 2009.

At June 30, 2010, Magnus had 235 retired participants and pensioners (March 31, 2010 - 232) and 795 awaiting the deferred benefit (March 31, 2010 - 633).

In accordance with CVM Resolution 371/01, an independent actuary (Mercer) carried out the actuarial valuation of the defined benefit plan in 2009 using the projected unit credit method to determine the present value of the obligations.

This liability, which corresponds to the beneficiaries of the Defined Benefit Plan, was recognized by the sponsor in long-term liabilities - post-employment liabilities, with the deferred gains or losses being recognized in accordance with CVM Resolution 371. The effects at December 31, 2009 were as follows:

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

				Parent company
	Present value of liabilities	Fair value of the assets	Net amount of unrecognized gains or (losses)	Recognized liability
At December 31, 2009	(184,437)	143,438	19,446	(21,553)

The Defined Benefit Plan's actuarial costs calculated for 2010 are as follows:

	6/30/2010
Current service cost	(340)
Interest cost	(19,911)
Earnings from plan assets	14,233
Contributions from former employees	46
Cost of amortization of actuarial losses	(54)
	(6,026)

The costs for 2010 are recorded proportionally in the first six months, and appropriated to results in other operating expenses. These costs, considering the procedures defined by CVM Resolution 371, represented R\$ 3,014 in the six-month period ended June 30, 2010.

The following main assumptions were adopted in the calculation of the plan's liability in 2009:

Actuarial assumptions	
Economic	
Discount rate	11.29% p.a.
Return on investments	10.49% p.a.
Salary increases	6.60% p.a.
Benefit adjustment	4.50% p.a.
Capacity factor	100.00%
Inflation	4.50% p.a.
Demographic	
General mortality	AT- 1983
Disability	RRB - 1983
Turnover	Magnus experience
Probability of entry into retirement	1st opportunity



01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**Subsidiaries in North America, Europe and China**

The subsidiaries in North America, Europe and China maintain retirement plans for their employees, and their actuarial liabilities, recognized in the consolidated quarterly information at June 30, 2010, are as follows:

Description	Region			
	Europe	United States	China	Total
Defined Benefit Plan	87,725	66,508	-	154,233
Premium for length of service	3,264	-	-	3,264
Early retirement plan	-	-	26,452	26,452
At June 30, 2010	90,989	66,508	26,452	183,949

**Defined Contribution Plans**

The subsidiary in the United States operates a defined contribution plan named "Thrift Savings Plan (401K)" with the objective of encouraging its employees to build their supplementary retirement fund over the years. All the employees of the subsidiary in the USA are eligible to participate in the plan. There is another defined contribution plan of a less significant amount for the employees located in the United Kingdom.

The total cost incurred for these plans was R\$ 1,264 in the 1st half of 2010 (R\$ 1,260 in the 1st half of 2009) calculated at the rates defined in the respective rules. Of this total amount, R\$ 477 was recorded in the costs of products sold, R\$ 354 in selling expenses and R\$ 433 in administrative expenses (1st half of 2009: R\$ 385, R\$ 354 and R\$ 521, respectively).

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**Defined Benefit Plans**

The subsidiaries in Europe and the United States also maintain defined benefit plans, the liabilities of which are calculated under the projected unit credit method by an independent actuary, as follows:

	Region			
	Europe		United States	
	6/30/2010	3/31/2010	6/30/2010	3/31/2010
Present value of actuarial liability	(87,725)	(96,267)	(210,807)	(240,091)
Fair value of the plan assets	-	-	153,273	166,039
Unrecognized actuarial gains/losses	-	-	(8,974)	(3,892)
Actuarial liability	<u>(87,725)</u>	<u>(96,267)</u>	<u>(66,508)</u>	<u>(77,944)</u>
Active participants	457	457	645	645
Beneficiaries	1,182	1,182	579	579
Former employees eligible for the plan	324	324	370	370
Economic actuarial assumptions:				
Discount rate	5% p.a.	5% p.a.	6.2% p.a.	6.2% p.a.
Return on investments	-	-	8.25% p.a.	8.25% p.a.
Salary increases	2.50% p.a.	2.50% p.a.	3.50% p.a.	3.50% p.a.
Benefit adjustment	1.75% p.a.	1.75% p.a.	-	-
Inflation	-	-	2.25% p.a.	2.25% p.a.

The total cost incurred for these plans was R\$ 2,316 in the 1st half of 2010 (R\$ 3,004 in the 1st half of 2009). Of this amount, R\$ 1,133 were recorded in cost of products sold, R\$ 619 in selling expenses and R\$ 564 in administrative expenses (1st half of 2009 - R\$ 1,428, R\$ 655 and R\$ 921, respectively).

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**Early Retirement Plan**

In 2007 the LWB Group restructured the activities of its subsidiary in China, and 222 employees were dismissed. These employees are entitled to a benefit proportional to their compensation until they reach the age stipulated for official retirement. This liability was calculated by external actuaries and is part of the actuarial liabilities of the Group.

**16 Stock Option Plan**

In conformity with its Articles of Incorporation, the Company has a stock option plan approved at a General Meeting of Stockholders with the objective of enabling the participation of executives in the process of development of the Company in the medium and long term. This plan is managed by the Board of Directors or, at their discretion, by a committee that will approve the stock option programs. These options will represent at most 6% of the total number of shares.

The options granted will ensure to the holders the right to acquire shares over five years as from the date of grant, at 20% of the number granted each year, and the condition for exercising the option is to maintain an employment relationship with the Company until the time of exercising the option. The shares acquired cannot be transferred during the first year.

The number of stock options and their related weighted average prices are as follows:

	6/30/2010		3/31/2010	
	Number (thousand)	Average price (R\$)	Number (thousand)	Average price (R\$)
Outstanding at the beginning of the period	9,166	3.47	9,166	3.47
Granted during the period	550	5.72		
Balance of options	9,716	3.68	9,166	3.47
Adjustment of probability	77.8%		77.8%	
Number to be accounted for on the accrual basis	7,559	3.68	7,131	3.47

The amount to be recorded on the accrual basis, considering a five-year term for exercising the options, adjusted for probability, amounts to R\$ 27,779. The amount of R\$ 2,725 (R\$ 899 at 12/31/2009) was recorded in 2010, bringing the balance of the specific stockholders' equity account to R\$ 8,204.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

#### 06.01 - Notes to the Quarterly Information

(All amounts in thousands of reais unless otherwise indicated)

On June 24, 2010, the Company issued 257,556 shares which were paid by some managers through the exercise of stock options. The capital increased R\$ 2,813 and the share unit value issued was R\$ 10.92.

The model and the assumptions adopted for calculating the fair value are as follows:

- Model used: Black-Scholes-Merton.
- Annual volatility: historical volatility based on periods of the same duration as the option calculated up to the date of grant.
- Effective rate of interest: 8.15% p.a.
- Spot value: value of the Company's share at the date of grant.
- Strike price: as stipulated in the stock option plan (R\$ 10.00).
- Term: average term of the options.
- Dividend: 1.2% on the market value of the share.

## 17 Other Operating Income (Expenses), Net

	2nd Qtr./10	2nd Qtr./09	Parent company	
			1st half/10	1st half/09
Labor indemnities	(2,154)	(6,961)	(2,154)	(8,556)
Sundry indemnities	84	-	10	(12)
Provision for contingencies	695	(1,129)	(1,162)	(2,532)
Judicial recovery of taxes	2,971	3,231	3,076	3,231
Reversal of tax provisions	-	-	7,870	-
Assignment of rights of payroll processing	800	800	1,600	1,600
Income from sale of property, plant and equipment	-	5,190	11	8,142
Disposal of sale of property, plant and equipment	(297)	(3,752)	(357)	(5,323)
Net gains on real estate project (i)	2,557	(74)	11,801	6,936
Benefits to employees (Magnus)	(1,507)	-	(3,014)	-
Other, net	221	282	41	854
	<u>3,370</u>	<u>(2,413)</u>	<u>17,722</u>	<u>4,340</u>

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**

**(All amounts in thousands of reais unless otherwise indicated)**

	<b>2nd Qtr./10</b>	<b>2nd Qtr./09</b>	<b>1st half/10</b>	<b>Consolidated 1st half/09</b>
Labor indemnities	(2,154)	(7,668)	(2,580)	(9,627)
Sundry indemnities	84	-	10	(12)
Provision for contingencies	695	(1,024)	(1,162)	(2,532)
Judicial recovery of taxes	2,971	3,871	3,076	3,871
Reversal of tax provisions	-	-	7,870	-
Reversal of health plan (ii)	10,725	-	10,725	-
Assignment of rights of payroll processing	800	800	1,600	1,600
Restructuring expenditure	-	(2,598)	(1,170)	(10,023)
Income from sale of property, plant and equipment	-	1,438	11	3,017
Disposal of sale of property, plant and equipment	(298)	-	(357)	-
Net gains on real estate project (i)	2,557	(74)	11,801	6,936
Benefits to employees (Magnus)	(1,507)	-	(3,014)	-
Other, net	(880)	(1,708)	(1,086)	(3,401)
	<u>12,993</u>	<u>(6,963)</u>	<u>25,724</u>	<u>(10,171)</u>

- (i) Refers to the sale of assets related to real estate ventures as part of the Company strategy to identify and sell non-operating assets, in order to reinvest the funds obtained from this process in the Company's core business. The sales were made for payment in installments and the balances receivable are subject to monetary restatement and interest, according to indices negotiated case by case.
- (ii) Refers to reversal of part of the provision for payment of health care benefits in the United States due to changes in regulation.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**18 Financial Instruments**

**(a) Identification of financial instruments**

The financial instruments of the Company and its subsidiaries are recorded in asset and liability accounts at June 30, 2010 and December 31, 2009. The Company adopts a responsible policy for the management of its financial assets and liabilities, which is systematically monitored by the Board of Directors. This policy aims to: (i) maintain the desired liquidity, (ii) define the level of concentration of its operations, and (iii) control the level of exposure to the financial market risks. The Company carries out transactions with derivatives seeking always to protect its financial liabilities and reduce its foreign exchange exposure, so as to prevent the mismatching between currencies and to reduce the volatility in its cash flows. The Company does not carry out transactions with derivatives for speculative purposes.

The book values of the main financial instruments are compared to the market or realization values, as follows:

- Marketable securities - the rates and terms are substantially compatible with those practiced in the market.
- Trade accounts receivable - the values recorded approximate the realization values.
- Investments - the subsidiaries do not have quotas or shares traded in the market, and their activities are substantially complementary to the parent company's business.
- Loans and financing - the rates and terms of the operations are substantially compatible with those practiced in the market and, according to management's evaluation, the book values approximate the market values.

**(b) Credit risk**

The Company's sales policy is subordinated to the credit rules determined by management, which seek to minimize possible problems resulting from customers' default. The risk is also minimized by the quality of the customers in the domestic market, mainly in the steel and cement sector, as well as insurance and export letters of credit. The Company records an allowance for doubtful accounts to cover the credit risk.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**(c) Interest rate risk**

The main interest rates on loans and financing are based on CDI variation (Note 10). The interest rates contracted on the financial investments are also based on CDI (Note 5).

Management believes that the future variation in these floating interest rates will not generate effects that the Company's business cannot support.

**(d) Foreign exchange rate risk**

The net exposure of the Company and its subsidiaries to foreign exchange fluctuations, arising mainly from the US dollar, is as follows:

	Consolidated - 6/30/2010		
	In thousands R\$		
	USD	€	Other currencies
Assets and liabilities in foreign currency			
Cash and banks	60,170	77,652	27,163
Marketable securities	9,709	-	173
Accounts receivable, net of allowance for doubtful accounts	84,712	115,355	31,919
Suppliers	(35,753)	(66,838)	(19,993)
Loans and financing	(214,464)	(34,044)	-
Issue of debt securities	(701,326)	-	-
Other net monetary liabilities abroad	(76,223)	(124,718)	(17,387)
	<u>(873,175)</u>	<u>(32,593)</u>	<u>21,875</u>

The US dollar-denominated loans are backed by transactions carried out in the United States and Europe, in addition to exports of the Parent Company in this currency. Therefore, management considers that the exchange variation risk is mitigated by these operations.

Additionally, the Company has subsidiaries abroad with non-monetary assets, mainly in Euros and U.S. Dollars, in an amount equivalent to R\$ 1,470,326, any future devaluation of which will not affect cash.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**(e) Derivatives**

The Company does not enter into transactions with derivatives for speculative purposes, nor does it usually settle these transactions before maturity.

The Company monitors foreign exchange rate risks arising from its indebtedness denominated in foreign currency exceeding the volume of transactions in the corresponding currency, considering the increase in foreign exchange rates, specifically US Dollar, Euro and Real, for decision making as to swap transactions.

Accordingly, the indirect subsidiary Rearden G Holdings Eins GmbH contracted a swap transaction during the 2nd quarter of 2010, since the US Dollar debt amount exceeded the volume of related transactions. This operation was made in the over-the-counter market with Itaú BBA SA.

In addition, the Company has certain currency-related Non-deliverable Forward (NDF) contracts for purposes of hedging against exchange rate risk in connection with the acquisition of raw materials.

Description	Maturity ranges Month/year	Europe - 6/30/2010	
		Notional value	Fair value R\$
Exchange rate hedge:			
<u>Germany - swap</u>	3/30/2015		
Receiving position		US\$ 193,387	25,065
Paying position		Euro 146,677	
<u>Belgium - NDF</u>	8/31/2010		
Receiving position		Euro 338	(935)
Paying position		US\$ 933	

No margin guarantees were for these transactions.



01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

**06.01 - Notes to the Quarterly Information**  
**(All amounts in thousands of reais unless otherwise indicated)**

**Sensitivity analysis**

**1) Foreign exchange risk**

The sensitivity analysis was prepared based on available quoted financial market information which was used to calculate the future value of operations.

In addition, scenarios II and III were calculated as deterioration of 25% and 50% respectively, on the probable scenario, considering these hypotheses for 2010. This situation would result in the following financial expenses for the Company in 2010:

Transaction	Risk	Gain (loss) (R\$)		
		Scenario I (probable)	Scenario II	Scenario III
Germany	Appreciation of US Dollar against Euro	25,065	(55,766)	(136,596)
Belgium	Devaluation of Euro against US Dollar	(935)	(1,495)	(2,614)

**2) Interest rate risk:**

We considered as probable scenario the estimation of the Brazilian Central Bank for CDI rates in 2010. In addition, scenarios II and III were calculated as deterioration of 25% and 50% respectively, on the probable scenario, considering these hypotheses for 2010. This situation would result in the following financial expenses for the Company in 2010, considering the floating part of the interest rate:

Operation	Risk	Financial expense (R\$)		
		Scenario I (probable)	Scenario II	Scenario III
Export credit note	CDI	114,700	128,780	142,684

Based on management's assessment, the future variation in these floating interest rates will not generate effects that the Company's business cannot support.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## 06.01 - Notes to the Quarterly Information

(All amounts in thousands of reais unless otherwise indicated)

## 19 Insurance

The Company and its subsidiaries maintain insurance policies to cover operating risks, comprising industrial facilities, machinery and inventories. This coverage insures loss of profits, risk of fires, floods and other events, as follows:

	Consolidated		Parent company	
	6/30/2010	3/31/2010	6/30/2010	3/31/2010
Asset amounts insured	2,723,269	2,723,269	1,591,786	1,591,786
Loss of profits	1,282,387	1,282,387	587,512	587,512
Civil liability	276,188	276,188	25,000	25,000

The Company also maintains management civil liability insurance, credit insurance, group life insurance for employees, transportation insurance, employee accident insurance and employee travel insurance.

## 20 Variable Compensation Program

The Company and its subsidiaries maintain a variable compensation program (PRV) for employees who meet the criteria agreed with the workers' union and participate in a program for the achievement of goals set by the Company. The amounts scheduled for payment in 2010 and 2011 are recorded in the Provision for bonus and charges as described in Note 9.

\* \* \*

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRAATÓRIOS S.A.	08.684.547/0001-65

#### **07.01 - Comments on Company Performance During the Quarter**

Comments on the Company performance during the quarter are presented in Schedule 12.01 - Comments on Consolidated Performance during the Quarter.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## 12.01 - Comments on Consolidated Performance During the Quarter

### HIGHLIGHTS

#### **CPP – Cost per Performance**

- In 2Q10, the Company signed **five new contracts** in the steel industry: 3 in Europe and two, for the first time, in China;
- The CPP contracts already represent **36.0% of net revenues** from sales of refractories to the steel industry, an increase of 5.0 percentage points compared to the 31.0% reported in 1Q10;
- In 3Q10, Magnesita was selected to supply refractories under the CPP model to **four steel mills in North America**, of which two belong to Gerdau, one is an integrated mill (the first one in the region); and the fourth is one of the largest mini-mills in the U.S.

#### **Net Revenues**

- Net revenues totaled R\$ 551.7 million, an increase of 21.5% compared to 2Q09 and a slight reduction of 2.5% compared to 1Q10;
- Revenues from the units based outside South America were heavily impacted by the **8.4% devaluation of the European currency** against the Real during the quarter.

#### **Gross Margin**

- 2Q10 gross margin reached **36.1%** versus 34.7% in 1Q10, in spite of the cost pressures in raw material and freight costs;
- Units outside South America recorded a **2.8 percentage point** increase in gross margin.

#### **EBITDA**

- EBITDA totaled **R\$ 119.5 million**, with a **21.7%** margin in 2Q10;
- In 1H10, accumulated EBITDA was **R\$ 242.6 million**, 109.0% higher than the first half of 2009. The EBITDA margin of **21.7%** in 1H10 versus 12.8% registered in 1H09;
- On a **pro-forma basis**, after adjustments for non-recurring items, the Adjusted EBITDA margin increased from 19.5% in 1Q10 to **19.7%** in 2Q10.

#### **Net Income**

- The units outside South America posted **gains in profitability** and started to contribute positively to the group's earnings;
- 2Q10 consolidated **net income** of **R\$ 24.6 million**, with a net margin of 4.5%.

#### **Investments**

- The Company will make **investments** in the Brumado mine for the production of an additional **120,000 metric tons per year** of sinter M-30 (>98% of MgO);
- Investments in the amount of **R\$ 220 million** will be disbursed in **two phases** over the next 3 years.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

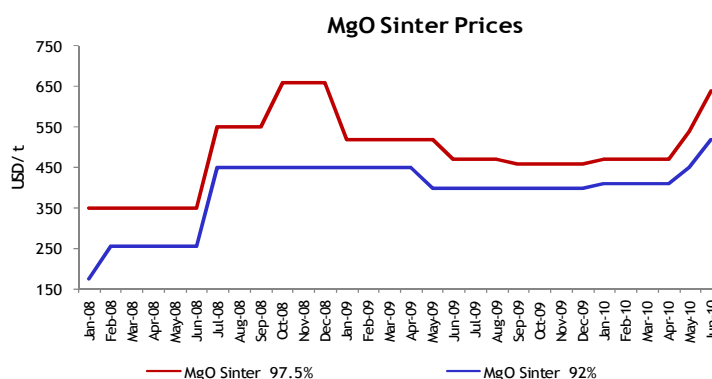
## 12.01 - Comments on Consolidated Performance During the Quarter

### MAIN INDICATORS

Indicator	Quarter			Change %		Accumulated		Change %
	2Q10 (a)	1Q10 (b)	2Q09 (c)	(a/b)	(a/c)	1H10 (d)	1H09 (e)	(d/e)
Net operating revenues (R\$ thousand)	551,740	565,915	454,229	(2.5)	21.5	1,117,655	905,229	23.5
Net revenues in the domestic market (%)	47.6	45.9	39.7	-	-	46.8	39.2	-
Net revenues in the overseas market (%)	52.4	54.1	60.3	-	-	53.2	60.8	-
Gross profit (R\$ thousand)	199,212	196,170	144,244	1.6	38.1	395,382	273,593	44.5
Gross margin (%)	36.1	34.7	31.8	-	-	35.4	30.2	-
Operating income - EBIT (R\$ thousand)	87,134	93,754	39,278	(7.1)	121.8	180,888	50,141	260.8
EBITDA (R\$ thousand)	119,489	123,131	71,635	(3.0)	66.8	242,620	116,065	109.0
EBITDA Margin (%)	21.7	21.8	15.8	-	-	21.7	12.8	-
Net income (R\$ thousand)	24,568	14,597	(12,216)	68.3	(301.1)	39,165	(74,139)	(152.8)
Net debt (R\$ thousand)	1,491,041	1,413,591	1,918,568	5.5	(22.3)	1,491,041	1,918,568	(22.3)
Shareholders' equity (R\$ thousand)	2,169,039	2,200,613	1,916,822	(1.4)	13.2	2,169,039	1,916,822	13.2
CAPEX (R\$ million)	15.0	5.6	9.8	167.9	53.1	20.6	20.4	1.0

### MAGNESITE SINTER

One of the main raw materials for the production of magnesian refractories, magnesite sinter has taken on an increasingly more fundamental role in the industry dynamics. This is because, over the past few years, China — as the main supplier of this raw material — has consecutively driven prices higher. Recently, the Chinese government announced a series of measures seeking to reduce the export of low value-added energy intensive raw materials and intermediate products. The production of magnesite sinter (MgO) in China is energy intensive, generate few jobs and therefore exporting sinter is like exporting energy. Therefore, the Chinese government has recently closed its doors to exporting MgO sinter, establishing quotas and exports duties, while at the same time imposing greater controls to block unregistered shipments. This product,



<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## **12.01 - Comments on Consolidated Performance During the Quarter**

whose classification depends upon its MgO concentration, with prices at approximately US\$ 350.0/t for 97.5% MgO two years ago; is currently trading at US\$ 640.0/t, an increase of 82.9%.

Source: Industrial Minerals. [www.indmin.com](http://www.indmin.com) - not intended for commercial use. Reproduction, commercialization or quotation for any purpose is prohibited, in accordance with the terms and conditions of Euromoney Institutional Investor PLC and Institutional Investor Inc.

In addition, the recent measures imposed by the Chinese government to slowdown economic growth further evidenced the fragile situation of companies with little or no verticalization that, besides seeing their margins coming under pressure, cannot offer quality and supply chain reliability. However, what for many is a cause of concern, for others, like Magnesita, there are great opportunities. The owner of substantial quantities of high-grade mineral assets, the Company is well positioned as the most vertically integrated global player in the industry. We will seek, through a multi-year investment plan, to expand the use of our own sources of minerals for the production of our refractories, as well as for supplying other markets. We will begin with an investment in the amount of R\$ 220 million over the next three years to increase our production capacity of M-30 sinter by 120,000 metric tons/year, in order to supply 100% of our needs taking into account the growth of the refractory market.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRAATÓRIOS S.A.	08.684.547/0001-65

## 12.01 - Comments on Consolidated Performance During the Quarter

### OPERATIONAL PERFORMANCE

#### Net Revenues

In 2Q10 **net revenues** totaled **R\$ 551.7 million**, an increase of 21.5% compared to 2Q09 and a reduction of 2.5% compared to 1Q10. The domestic market contributed with 47.6% of net revenues, compared to 45.9% and 39.7% for 1Q10 and 2Q09, respectively. The external market represented 52.4% of consolidated revenues in 2Q10, compared to 54.1% in 1Q10 and 60.3% in 2Q09.

The steel industry, whose global production grew 5.8% during the quarter, contributed 87.9% of the refractory revenues, increasing 3.6 percentage points over the level reached during the same period of the previous year.

In 1H10, net revenues totaled R\$ 1,117.7 million, 23.5% higher than the R\$ 905.2 million recorded in 1H09.

#### Net Revenues – R\$ '000

Products/Market	Quarter			Change %		Accumulated		Change %
	2Q10 (a)	1Q10 (b)	2Q09 (c)	(a/b)	(a/c)	1H10 (d)	1H09 (e)	(d/e)
<b>Domestic Market</b>	<b>262,670</b>	<b>259,994</b>	<b>180,214</b>	<b>1.0</b>	<b>45.8</b>	<b>522,664</b>	<b>355,097</b>	<b>47.2</b>
Refractories – Units in SA	205,218	217,545	148,763	(5.7)	37.9	422,763	291,231	45.2
Magnesite Sinter	9	502	530	(98.2)	(98.3)	511	2,719	(81.2)
Other Minerals (*)	12,791	10,555	9,651	21.2	32.5	23,346	18,024	29.5
Services	44,652	31,392	21,270	42.2	109.9	76,044	43,123	76.3
<b>Overseas Market</b>	<b>289,070</b>	<b>305,921</b>	<b>274,015</b>	<b>(5.5)</b>	<b>5.5</b>	<b>594,991</b>	<b>550,131</b>	<b>8.2</b>
Refractories - Units in SA	33,037	35,385	52,751	(6.6)	(37.4)	68,422	95,399	(28.3)
Refractories – Others Units	243,337	253,758	195,022	(4.1)	24.8	497,095	417,850	19.0
Magnesite Sinter	2,567	6,327	19,780	(59.4)	(87.0)	8,894	20,861	(57.4)
Dolomite Sinter	2,649	3,119	1,983	(15.1)	33.6	5,768	5,240	10.1
Other Minerals (*)	6,044	4,774	4,428	26.6	36.5	10,818	10,243	5.6
Other products (**)	1,436	2,558	51	(43.9)	2,715.7	3,994	521	666.6
Services	-	-	-	-	-	-	17	(100.0)
<b>Total</b>	<b>551,740</b>	<b>565,915</b>	<b>454,229</b>	<b>(2.5)</b>	<b>21.5</b>	<b>1,117,655</b>	<b>905,228</b>	<b>23.5</b>
Refractories	481,592	506,688	396,536	(5.0)	21.4	988,280	804,480	22.8
Magnesite/Dolomite Sinter	5,225	9,948	22,293	(47.5)	(76.6)	15,173	28,820	(47.4)
Other Minerals (*)	18,835	15,329	14,079	22.9	33.8	34,164	28,267	20.9
Other products (**)	1,436	2,558	51	(43.9)	2,715.7	3,994	521	666.6
Services	44,652	31,392	21,270	42.2	109.9	76,044	43,140	76.3

Note: SA = South America.

(\*) "Other minerals" correspond to chromite, talc and magnesium oxide, etc.

(\*\*) "Other products" correspond to by products sold by units outside SA.

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## **12.01 - Comments on Consolidated Performance During the Quarter**

### **Sales Volume (metric tons)**

<b>Products/Market</b>	<b>Quarter</b>			<b>Change %</b>		<b>Accumulated</b>		<b>Change %</b>
	<b>2Q10 (a)</b>	<b>1Q10 (b)</b>	<b>2Q09 (c)</b>	<b>(a/b)</b>	<b>(a/c)</b>	<b>1H10 (d)</b>	<b>1H09 (e)</b>	<b>(d/e)</b>
<b>Domestic Market</b>	<b>103,413</b>	<b>96,945</b>	<b>72,526</b>	<b>6.7</b>	<b>42.6</b>	<b>200,358</b>	<b>142,569</b>	<b>40.5</b>
Refractories - Units in SA	78,393	80,079	57,765	(2.1)	35.7	158,472	110,655	43.2
Magnesite Sinter	5	522	390	(99.0)	(98.7)	527	2,220	(76.3)
Other Minerals (*)	25,015	16,344	14,371	53.1	74.1	41,359	29,694	39.3
<b>Overseas Market</b>	<b>525,884</b>	<b>330,972</b>	<b>353,964</b>	<b>58.9</b>	<b>48.6</b>	<b>856,856</b>	<b>645,234</b>	<b>32.8</b>
Refractories - Units in SA	16,832	16,987	20,594	(0.9)	(18.3)	33,819	36,899	(8.3)
Refractories - Other Units	163,537	161,120	112,620	1.5	45.2	324,657	224,174	44.8
Magnesite Sinter	3,815	13,929	24,411	(72.6)	(84.4)	17,744	25,269	(29.8)
Dolomite Sinter	10,061	12,048	6,375	(16.5)	57.8	22,109	14,336	54.2
Other Minerals (*)	329,910	125,114	189,452	163.7	74.1	455,024	343,442	32.5
Other products (**)	1,729	1,774	512	(2.5)	237.7	3,503	1,114	214.5
<b>Total</b>	<b>629,297</b>	<b>427,917</b>	<b>426,490</b>	<b>47.1</b>	<b>47.6</b>	<b>1,057,214</b>	<b>787,803</b>	<b>34.2</b>
Refractories	258,762	258,186	190,979	0.2	35.5	516,948	371,728	39.1
Magnesite/Dolomite Sinter	13,881	26,499	31,176	(47.6)	(55.5)	40,380	41,825	(3.5)
Other Minerals (*)	354,925	141,458	203,823	150.9	74.1	496,383	373,136	33.0
Other products (**)	1,729	1,774	512	(2.5)	237.7	3,503	1,114	214.5

Note: SA = South America.

(\*) "Other minerals" correspond to chromite, talc and magnesium oxide, etc.

(\*\*) "Other products" correspond to by products sold by units outside SA.

### **Domestic Market (DM)**

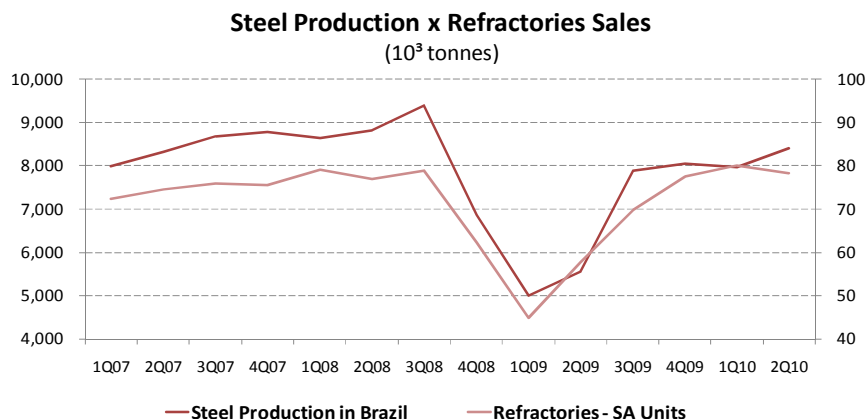
According to preliminary data released by the Brazilian Steel Institute and the World Steel Association, in 2Q10, the Brazilian steel industry produced nearly 8.4 million metric tons, an increase of 51.2% compared to 2Q09. This level of production is only 400,000 metric tons below the level produced by the Brazilian steel industry in 2Q08, when steel production worldwide registered its largest quarterly volume, surpassed only during 2Q10. In other words, Brazil is practically operating at record levels Assuming current demand is maintained, growth from now on will be more moderate, except for the installation of new capacities. Accompanying this trend,



01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRAATÓRIOS S.A.	08.684.547/0001-65

## 12.01 - Comments on Consolidated Performance During the Quarter

the average volume of refractories sold by the Company in Brazil maintained its historical average of 78-80,000 metric tons/quarter.



As for the cement industry, although the statistics for the quarter have not yet been published, indications are that production has remained at the same levels seen during the course of 2009, since the housing market is still picking up as a result of the credit expansion and the “Minha Casa, Minha Vida” (My House, My Life) housing program. The infrastructure investments derived from the Growth Acceleration Program (PAC) have also been contributing to the strong demand for cement in Brazil, a trend that is expected to remain over the next quarters, considering the outlook for economic growth and, especially, the start of the construction projects related to the 2014 World Cup.

In 2Q10, the volume of **refractory products** sold reached 78,393 metric tons in the South American units, a level equivalent to those posted in the pre-crisis quarters. In the quarter-over-quarter comparison, there was a 2.1% decrease and, in terms of revenue, these products contributed R\$ 205.2 million, representing a decline of 5.7% quarter-over-quarter and a 37.9% increase year-over-year. This reduction was due to lower volumes, as well as a change in product mix, with refractory masses, whose added value is lower than bricks and valves, representing a larger share.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

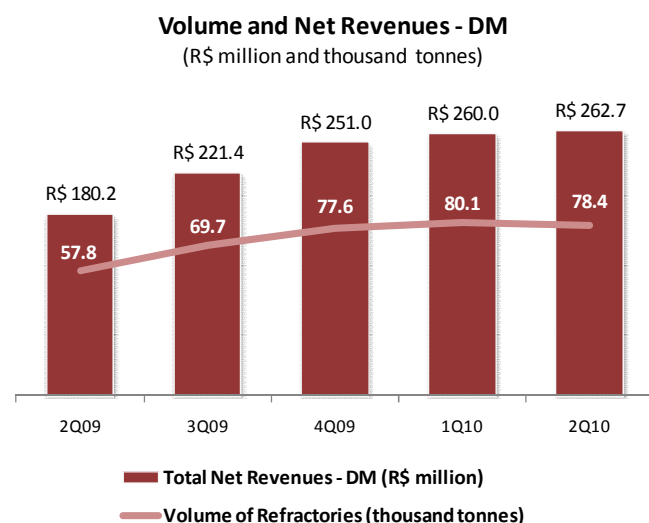
## 12.01 - Comments on Consolidated Performance During the Quarter

Regarding the **minerals segment**, in comparison with 1Q10, there was a 53.1% growth in sales volume, which contributed R\$ 2.2 million to the increase in net revenues, which totaled R\$ 12.8 million. Sales in this segment are mainly comprised of chromite, talc and oxide of magnesium. Magnesite sinter, normally little commercialized in Brazil, produced a net revenue of R\$ 9,000, as compared to revenues of R\$ 502,000 in 1Q10 and R\$ 530,000 in 2Q09.

The total volume sold in the Brazilian market in 1H10 grew 40.5% as compared to 1H09. In this period, 200,358 metric tons were negotiated, compared to 142,569 metric tons in 1H09.

In the **services segment**, whose activities focus on refractory maintenance and mechanical services for steel industry customers, net revenues amounted to R\$ 44.6 million during the quarter, 42.2% higher than that recorded in 1Q10. The Company will continue to grow in this segment which, in spite of lower margins, establishes closer customer relationships, and is often a very important complement to CPP contracts. This activity does not demand investment in capital and already has a dedicated team focused on this segment.

Due to the growth in service revenues and, to a lesser extent, growth in sales of other minerals, net revenues in the domestic market increased 1.0% compared to 1Q10, amounting to **R\$ 262.7 million**. This is still below the quarterly average of R\$ 275.5 million for the first nine months of 2008 (pre-crisis), but well above the R\$ 180.2 million for 2Q09.



01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

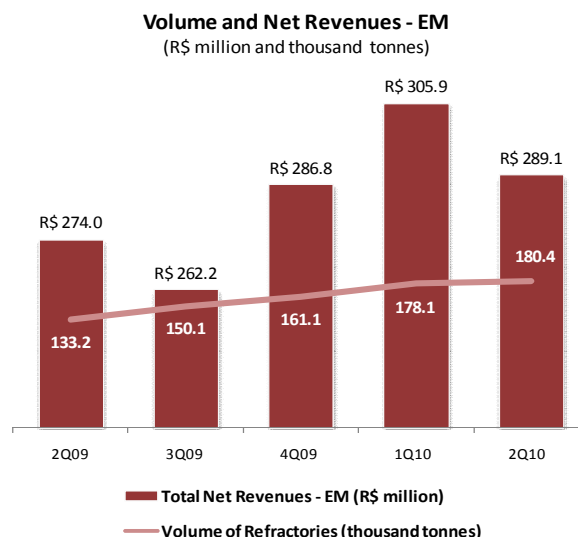
## 12.01 - Comments on Consolidated Performance During the Quarter

During 2Q10, the mix of products sold in the domestic market, where the participation of refractories was down by 5.6 percentage points compared with the total revenue of the Brazilian market, included a higher share of lower value-added refractories, both in terms of composition of product families (steel and cement) as well as formats (monolithic versus bricks and valves). Part of this reduction was expected because, as we discussed in 1Q10's earnings release, there was a rebound in the new services contracts during that period, whose revenues were only recognized in 2Q10.

The net revenues for the domestic market during 1H10 totaled R\$ 522.7 million, 47.2% above the R\$ 355.1 million for the first half of 2009. Refractories contributed R\$ 422.8 million and services R\$ 76.0 million, increases of 45.2% and 76.3%, respectively, in comparison with the first half of 2009. Magnesite sinter, little sold in the Brazilian market, earned R\$ 511,000 in the first half of the year versus revenues of R\$ 2.7 million in the same period during the previous year. Sales from other minerals generated net revenues of R\$ 23.3 million in 1H10, an increase of 29.5% compared to R\$ 18.0 million in 1H09.

### **External Market (EM)**

In the external market, mainly in the U.S. and Europe – which has a larger concentration of (a) semi-integrated steel plants (plants without the iron ore reduction stage as part of the production process) and (b) specialty steel producers (mainly stainless steel) – the Company has maintained its presence primarily in the dolomite refractories segment. Contrary to predictions for a continuing slowdown of the European economy, the steel industry in the region demonstrated resilience in the quarter with a growth



<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## **12.01 - Comments on Consolidated Performance During the Quarter**

of 11.1% (+4.7 million metric tons), which is attributed more to distributors' stock replenishment than to an increase in real demand. On the other hand, the Euro continued to weaken, devaluing 8.4% in the quarter against the *Real*, and falling 12.1% during the first six months of the year. The cement industry in the European continent continues showing softness and weak demand.

In the U.S., expectations for an economic recovery were once again downgraded by the end of the second quarter, due to weakness in the labor market, insufficient fiscal stimulus and the slow recovery in the credit markets, which have a major impact on the real estate market and, consequently, on the cement industry. The American steel industry increased production by 9.2% during the quarter, but in June the data indicated a slowdown in production, when capacity utilization was measured at 70.2% compared to 74.8% for the previous month.

In 2Q10, the Company's volume of refractories in the external market was 1.3% higher than 1Q10.

In Asia, steel production continued to grow and, for the first time, the global quarterly volume surpassed the record registered in 2Q08, which was mostly due to the good performance of this region. Magnesita's sales in the region accompanied this trend and represented 10.1% of consolidated sales in the quarter. Expectations are for a slowdown for this region, taking into consideration the Chinese Government's measures to restrain economic growth.

Data for the stainless steel segment indicate that global production remained practically unchanged in 2Q10, totaling 7,776,000 metric tons (7,775,000 metric tons in 1Q10). The countries with highest growth in production in the quarter were: Spain, Japan, China and South Africa.

The total volume sold in the external market in 2Q10, increased by 58.9% over 1Q10, mainly due to the increase in sales of other minerals, which carry low prices per ton and had a low impact on revenue growth during the quarter. The volume of refractory products sold in the external market totaled 180,369 metric tons in 2Q10, representing an increase of 1.3% quarter-over-quarter and 35.4% year-over-year. The volumes sold of magnesite sinter and dolomite sinter declined by 10,100 metric tons and 2,000 metric tons, respectively, in comparison with the

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## 12.01 - Comments on Consolidated Performance During the Quarter

previous quarter. Compared to 2Q09, the reduction in the volume sold of magnesite sinter was even greater (-20,600 metric tons), due to the increased use of this raw material in our own operations. In the case of dolomite sinter, the volume sold on the external market increased by 3,700 metric tons.

However, the devaluation of the Euro had a negative impact on total external market revenues, which totaled R\$ 289.1 million, a 5.5% decline quarter-over-quarter.

The accumulated external market volume for the year was 32.8% above 1H09, reaching 856,900 metric tons and contributing an 8.2% increase in net revenues for the first half of 2010, which totaled R\$ 595.0 million.

In the external market we signed five new CPP contracts during the quarter: in Germany ThyssenKrupp Beeckerwerth and a steelmaker (under confidentiality agreement); in England ELG Haniel Metal Ltd., a stainless steel reprocessor; and in China Tisco and Jiaying Eastern Special Steel, the largest producers of stainless steel in Asia and China, respectively,.

### **BREAKDOWN OF NET SALES REVENUES IN THE DOMESTIC AND OVERSEAS MARKETS**

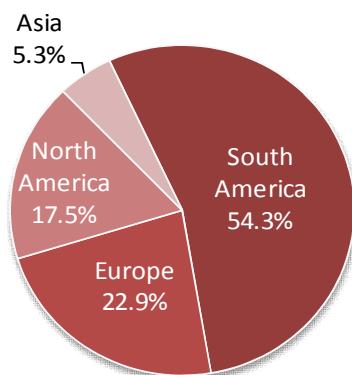


01.01 - IDENTIFICATION		
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02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

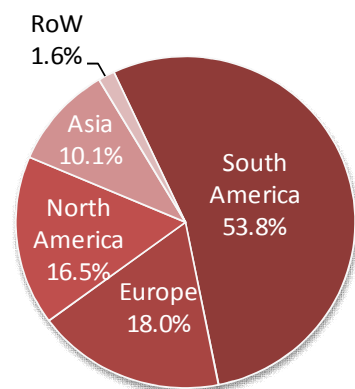
## 12.01 - Comments on Consolidated Performance During the Quarter

### TOTAL NET REVENUES – 2Q10

#### PER OPERATING LOCATION



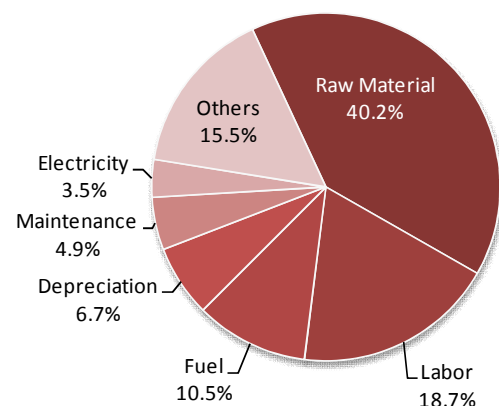
#### PER CUSTOMER LOCATION



### **COSTS**

In 2Q10, the Cost of Goods Sold (COGS) totaled R\$ 352.5 million, 4.7% less than in 1Q10, a reduction larger than the decrease of 2.5% in net revenues for the period. The reduction in COGS was the result of a gradual improvement in productivity of the additional production shifts added at the end of 1Q10 in our South America plants, as well as from a significant improvement in profitability from the units outside of South America, where older CPP contracts are beginning to show higher profitability. Compared to 2Q09, there

### COGS Breakdown - 1H10



01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## 12.01 - Comments on Consolidated Performance During the Quarter

was a growth of 13.7%, since in that earlier period the economic slowdown was intense, which led the Company to reduce its production.

Taking into consideration only the South American units, COGS totaled R\$ 181.2 million in 2Q10 compared to R\$ 183.6 million in 1Q10, which represents a reduction of 1.3%, in line with the reduction of 1.1% in net revenues. In the other units, COGS totaled R\$ 171.3 million versus R\$ 186.1 million in 1Q10, a decrease of 7.9%.

Since the economic recovery, price increases around the world have been impacting the Company's direct and indirect costs. In COGS, relevant inputs such as freight, fuel, packaging and raw materials suffered prices increase. Prices may vary from region to region, but on average they are increasing, in many cases, back to 2008's levels. Thus, the Company has been adjusting the selling prices of its final products in all the regions where it operates.

COGS accumulated in 1H10 totaled R\$ 722.3 million versus R\$ 631.6 million in 1H09, a crisis period when production was significantly reduced.

## **SELLING AND ADMINISTRATIVE EXPENSES**

**Selling expenses** corresponded to 11.5% of net revenues in 2Q10 compared to 10.8% for the previous quarter. These expenses amounted to R\$ 63.6 million, an increase of 4.1% compared to 1Q10 and of 33.6% over the expenses recorded in 2Q09.

An important factor that contributed to the growth of selling expenses was freight charges. Freight costs increased in several countries as a result of growing demand brought on by the economic recovery. The cost of inland freight in Brazil, during the past 12 months, rose nearly 30%. In the Port of Santos, the largest in the country, there is now a line of ships awaiting to dock and unload, a fact that corroborates the increase in shipping costs. In the U.S., during the past 12 months, inland freight rates increased 3%, lower than that seen in Brazil, but that also indicating an upward trend.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## **12.01 - Comments on Consolidated Performance During the Quarter**

With markets recovering and the efforts to replicate the CPP model outside of Brazil, we have been investing in hiring and training new sales and technical assistance teams in all regions where we operate, which has also contributed to the increase in selling expenses. That, however, has a tendency to stabilize, insofar as new relationships and contracts are being secured.

Selling expenses in 1H10 totaled R\$ 124.6 million versus R\$ 99.7 million during the same period of 2009.

**Administrative expenses** totaled R\$ 61.5 million versus R\$ 54.1 million in 1Q10. The increase corresponds to non-recurring expenses in 2Q10, which are associated with the expenses related to market research and feasibility study of several expansion projects, including raw materials investment projects; provisions accumulated during the first half related to the variable compensation plan; and the extra expense of accelerated depreciation, in the amount of R\$ 3.4 million, related to a group of non-industrial real estate properties in Europe that will be sold in 3Q10.

In 1H10, administrative expenses totaled R\$ 115.6 million, remaining practically stable (increase by 1.8%) compared to R\$ 113.6 million in 1H09.

### **OTHER OPERATING INCOME (EXPENSES)**

In other operating income and expenses we recorded an income of R\$ 13.0 million in 2Q10, principally, from the reversal of the provision for expenses related to the retiree health plan in the United States. In the last few years, there has been a trend in the U.S. companies to reduce or cancel this benefit. In Magnesita's case, the retiree health plan was fully funded by the Company, we chose not to cancel the plan, but rather migrate to a shared funding model with the beneficiaries. That produced a one-time income of approximately R\$ 11 million, which relates to the reversal of this provision. However, the largest benefit for Magnesita will be the reduction of the monthly expense from the health plan. Also, in the units outside South America, there were non-recurring expenses of R\$ 700,000 which are associated with the structuring and creation of a joint venture with Krosaki. In the



01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## 12.01 - Comments on Consolidated Performance During the Quarter

South American units, we recorded an income of R\$ 3.9 million during the quarter, related to the gain on sales of real estate in São Caetano do Sul.

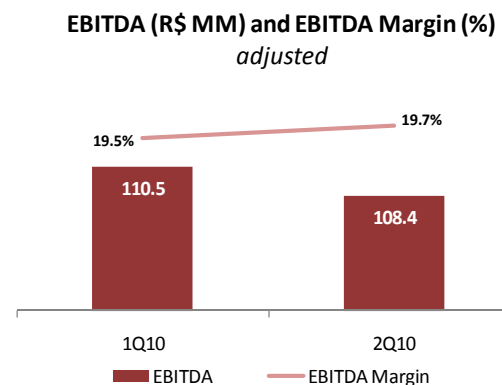
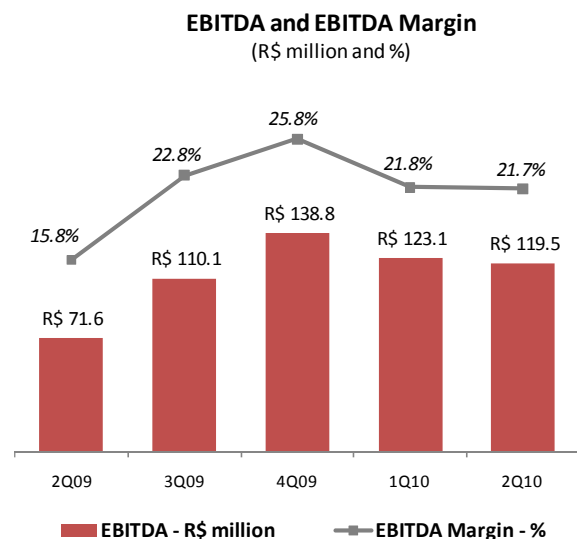
In the first half of 2010, we recorded an income of R\$ 25.7 million compared to an expense of R\$ 10.2 million in the first half of the previous year.

### **EBITDA**

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) totaled R\$ 119.5 million in 2Q10, with a 21.7% margin, 66.8% higher than the 2Q09 EBITDA of R\$ 71.6 million, with a 15.8% margin.

Compared to 1Q10, 2Q10 EBITDA was 3.0% lower, and the EBITDA margin was down 0.1 percentage point in comparison with the 21.8% margin recorded in the previous quarter. 2Q10's EBITDA when compared with 1Q10 EBITDA, was also impacted by the strong devaluation of the Euro in the period when converting the results of the European units into *Reais*.

In 1Q10 the Company reported adjusted EBITDA, excluding the impact of a number of non-recurring items, of R\$ 110.5 million and a 19.5% margin. In 2Q10, EBITDA was positively impacted by extraordinary events, such as: the sale of real estate in São Caetano (R\$ 2.6 million); reversal of the provision for the US retiree health plan (R\$ 10.7 million); combined with negative impacts, such as: benefits paid to employees (R\$ 1.5



01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## **12.01 - Comments on Consolidated Performance During the Quarter**

million) and expenses related to the creation of the joint venture with Krosaki (R\$ 0.7 million) that, when excluded, results in a pro-forma EBITDA of R\$ 108.4 million, with a 19.7% margin, which demonstrates maintenance of performance levels even in an environment of increased cost pressures.

Accumulated EBITDA in the first half of 2010 totaled R\$ 242.6 million, more than twice as much as the EBITDA obtained during the same period of 2009 of R\$ 116.1 million. The EBITDA margin for the first half of 2010 was 21.7% versus 12.8% in the same period of the previous year.

The pro-forma EBITDA for 2Q10 reflects the high degree of resilience of the Company and its preparation for a recovery over the medium-long term. There was improvement in the Company's adjusted EBITDA margin during the quarter, reinforcing its leadership position in the industry in terms of profitability. The trend in sales and gross margin remains strong in the consolidated results, reaching pre-crisis levels. On the other hand, there was an increase in selling and administrative expenses. The Company will continue to implement initiatives and tools to reduce sales expenses, mainly with regard to freight charges.

## **FINANCIAL RESULT**

The financial result in the quarter, including monetary and exchange variations, was a net expense of R\$ 43.8 million. The monetary and exchange variations generated a net expense of R\$ 1.0 million, R\$ 6.8 million lower than the net loss registered in 1Q10. Net interest expenses totaled R\$ 42.8 million, compared to R\$ 64.7 million in 1Q10 and R\$ 90.9 million in 2Q09.

The significant reduction in net interest expense of R\$ 21.9 million or 33.9% over 1Q10 and of R\$ 48.1 million or 52.9% over 2Q09, is explained by the Company's debt restructuring and the capital increase, with reduced debt, extension of maturity schedule, and reduction in interest rates, which was 10.5% p.a. at the end of June.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## **12.01 - Comments on Consolidated Performance During the Quarter**

At the end of 1H10, total debt of R\$ 1,950.8 million was R\$ 89.1 million higher than the balance on March 31, 2010. Excluding the cash position of R\$ 459.8 million at the end of the first half, the Company's net debt was R\$ 1,491.0 million, versus R\$ 1,413.6 million on March 31, 2010. This increase was mainly to fund additional working capital requirements in the quarter.

During the month of August/10, the Company contracted an Export Credit Note (ECN) from Banco do Brasil in the amount of R\$ 200.0 million, maturing in five years, with equal annual amortizations beginning in 3 years at a cost of CDI + 1.5% p.a.. These funds will be used to refinance approximately R\$ 46.0 million of ECNs contracted from the same bank and R\$ 150.0 million of ECNs contracted through Banco Itaú, both at less attractive costs and maturities than the new financing.

### **NET INCOME**

The Company's net income was R\$ 24.6 million in 2Q10 versus R\$ 14.6 million in 1Q10 and a net loss of R\$ 12.2 million in 2Q09. The net margin was 4.5%, which represents an increase of 1.9 percentage point for the quarter.

The South American units contributed R\$ 13.3 million to the quarter's net income and its other units, R\$ 11.3 million.

For the first half of the year, net income amounted to R\$ 39.2 million, with a 3.5% net margin, compared with a net loss of R\$ 74.1 million and a negative margin of 8.2% for 1H09.

### **TAXES**

During the quarter, a R\$ 19.3 million provision for Income Tax and Social Contribution was made, broken down as follows: South American units, an R\$ 11.1 million expense; and other units, an R\$ 8.2 million expense. The units outside South America have reached positive earnings before tax position in the quarter and represent a higher portion of the consolidated tax provision than in previous quarters.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## **12.01 - Comments on Consolidated Performance During the Quarter**

Due to the amortization of the goodwill tax balance, which totaled R\$ 1,182.7 million on June 30, 2010, the results of the Brazilian operations are reduced for the calculation of Income Tax and Social Contribution. Therefore, there was no tax disbursements in 2Q10.

### **CAPITAL EXPENDITURES**

In 2Q10, investments made by all Magnesita's units totaled R\$ 15.0 million and were allocated basically to maintenance, infrastructure and capacity expansion. The South American units received 61.9% of the investments during the quarter and the remainder was distributed as follows: Asia, 5.3%; Europe, 14.4% and North America, 18.4%.

Magnesita's investment plan for the next 3 years involves investments in the amount of R\$ 220.0 million, earmarked for the expansion of the M-30 sinter magnesite production capacity, in Brumado, Bahia, by 120,000 metric tons/year. The Company expects to raise funds to finance these projects from the BNDES and Banco do Nordeste do Brasil (BNB), at highly competitive costs and maturity terms.

The Company's current production capacity of M-30 sinter is 180,000 metric tons/year. This project entails the installation of two sinterization furnaces and other peripheral equipment, to be implemented in two phases over the course of the next 3 years. The first phase will increase production capacity by 60,000 metric tons/year, at an estimated investment of R\$ 120.0 million.

### **WORKING CAPITAL**

In 2Q10, Magnesita increased its cash conversion cycle as compared to 1Q10, going from 159 to 184 days. The main driver was an increase in inventories to secure finished product supply during scheduled collective vacation stops at our facilities in Europe, and to secure the supply of strategic raw materials in an environment characterized by strong demand for these products.

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## **12.01 - Comments on Consolidated Performance During the Quarter**

Inventory turnover, taking into account the annualized average cost of products sold during the quarter, reached 156 days, versus 131 days in 1Q10 and 173 in 2Q09.

As for the accounts payable and receivable, the average receivables turnover reached 77 days in 2Q10, compared to 73 days in 1Q10 and 79 days in 2Q09. The average payables turnover was 49 days in 2Q10, compared to 45 days in 1Q10 and 46 days in 2Q09.

## **OTHER RELEVANT EVENTS**

### **OHSAS 18001 CERTIFICATION**

The Vitória unit (Espírito Santo State) was nominated by the auditing firm Complete Integrated Certification Services Ltd (CICS) to receive the OHSAS 18001 certification for Occupational Health and Safety Management. It, thereby, becomes Magnesita's first unit to win certification in three management systems: quality, environment, as well as health and safety.

### **PRISMA: MAGNESITA'S SOCIAL INCLUSION PROGRAM**

The Company launched the Prisma (Prism) Program in June 2010, aimed at training and hiring persons with special needs. The activities covered by this program include awareness and preparation of the employees to relate with special needs individuals in the workplace. The adaptation of the workplaces to accommodate these people, in accordance with their needs, is also being taking into consideration.

This Program reiterates Magnesita's strong commitment to human respect and dignity, by reinforcing its social responsibility initiatives in the regions in which it operates.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

#### 12.01 - Comments on Consolidated Performance During the Quarter

## CAPITAL MARKETS

### Share Performance

Magnesita's common shares (MAGG3) were down by 27.0% during the second quarter of 2010, quoted at R\$ 10.40 at the end of June. In the same period, Ibovespa fell by 13.4%. During the quarter, there were 31,439 transactions, involving 30.2 million Magnesita shares, with a financial volume of R\$ 352.1 million. The average daily trading volume in the quarter was R\$ 5.7 million.

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## **20.01 – Other Information Considered Relevant by the Company**

### **1. Composition of Stockholders with more than 5% of the Voting Capital**

<b>COMPOSITION OF STOCKHOLDERS WITH MORE THAN 5% OF EACH TYPE AND CLASS OF THE COMPANY'S SHARES, UP TO THE LEVEL OF INDIVIDUALS</b>				
<b>Company: MAGNESITA REFRATÁRIOS S.A.</b>		<b>Position at 6/30/2010 (In units of shares)</b>		
<b>Stockholder</b>	<b>Common shares</b>		<b>Total</b>	
	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>
Alumina Holdings LLC	88,654,796	34.3	88,654,796	34.3
Rearden L Holdings 3 SA RL	21,019,595	8.1	21,019,595	8.1
Fama Investimentos	19,901,934	7.7	19,901,934	7.7
Other	128,635,609	49.9	128,935,609	49.9
<b>Total</b>	<b>258,211,934</b>	<b>100</b>	<b>258,211,934</b>	<b>100</b>

We inform that Alumina Holdings LLC ("Alumina"), duly constituted in accordance with the laws of Delaware, holds 34.3% of Magnesita Refratários S.A. (the "Company"). Alumina is controlled by Grafita Holdings Inc. (duly constituted in accordance with the laws of Cayman Islands), whose stockholder is GP Capital Partners IV, L.P. ("GPCPIV" or "Fund"), an investment fund duly constituted in accordance with the laws of Cayman Islands. GPCPIV is managed by GP Investments IV, Ltd. ("general partner"), wholly-owned subsidiary of GP Investments, Ltd. ("GP"), a publicly-held company headquartered in Bermudas. In addition to controlling the general partner of GPCPIV, GP also invests in Fund through GP Private Equity, Ltd., its wholly-owned subsidiary. GP, as an indirect investor, holds approximately 7.8% of the total shares issued by the Company, and is controlled by Partners Holdings, Inc., duly constituted in accordance with the laws of British Virgin Islands, which does not have any individual who indirectly holds 5% or more of the Company's capital.

Magma Fund, L.P. ("Magma") and GP Capital Partners IV LP ("GPCP4"), private equity funds, hold indirectly more than 5% of the Company's total capital. Magma indirectly holds 7.35% and GPCP4 indirectly holds 17.75% of the Company's capital.

Rearden L Holdings 3 S.À R.L, which owns 8.1% of Magnesita Refratários capital, has as the majority stockholder Rhône Onshore Partners III LP, which owns an indirect holding in the Company of 4.52%.

Fama Investimentos informs that it has no individual stockholder with holding above 5%.

### **2. Consolidated Shareholding of the Controlling Stockholders, Directors and Shares Outstanding in the Market**

At June 30, 2010, the shareholding position of the members of the Company's managing boards and statutory audit board, as well as the position of the controlling stockholders and shares outstanding in the market is as follows:

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## 20.01 – Other Information Considered Relevant by the Company

<b><u>CONSOLIDATED SHAREHOLDING OF THE CONTROLLING STOCKHOLDERS, DIRECTORS AND SHARES OUTSTANDING IN THE MARKET</u></b>				
<b><u>Position at 6/30/2010</u></b>				
<b>Stockholder</b>	<b>Number of common shares (In units)</b>	<b>%</b>	<b>Total number of shares (In units)</b>	<b>%</b>
<b>Controlling stockholders</b>	129,550,293	50.17	129,550,293	50.17
<b>Management</b>	523,816	0.21	523,816	0.21
Executive Board	18,475	0.01	18,475	0.01
Board of Directors	505,341	0.20	505,341	0.20
<b>Statutory Audit Board</b>	88,001	0.03	88,001	0.03
<b>Other stockholders</b>	128,049,824	49.59	128,049,824	49.59
<b>Treasury shares</b>	0	0.00	0	0.00
<b>Total</b>	<b>258,211,934</b>	<b>100</b>	<b>258,211,934</b>	<b>100</b>
<b>Shares outstanding in the market</b>	128,137,825	49.63	128,137,825	49.63

<b><u>CONSOLIDATED SHAREHOLDING OF THE CONTROLLING STOCKHOLDERS, DIRECTORS AND SHARES OUTSTANDING IN THE MARKET</u></b>				
<b><u>Position at 6/30/2009 (12 months ago)</u></b>				
<b>Stockholder</b>	<b>Number of common shares (In units)</b>	<b>%</b>	<b>Total number of shares (In units)</b>	<b>%</b>
<b>Controlling stockholders</b>	127,647,002	59.90	127,647,002	59.90
<b>Management</b>	212,348	0.10	212,348	0.10
Executive Board	15,148	0.01	15,148	0.01
Board of Directors	197,200	0.09	197,200	0.09
<b>Statutory Audit Board</b>	80,001	0.04	80,001	0.04
<b>Other stockholders</b>	85,143,232	39.96	85,143,232	39.96
<b>Treasury shares</b>	0	0.00	0	0.00
<b>Total</b>	<b>213,082,583</b>	<b>100</b>	<b>213,082,583</b>	<b>100</b>
<b>Shares outstanding in the market</b>	85,223,233	40.00	85,223,233	40.00



01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRAATÓRIOS S.A.	08.684.547/0001-65

## **20.01 – Other Information Considered Relevant by the Company**

### **3. New Market**

As established in the Commitment Clause included in its Bylaws, the Company is subject to the Market Arbitration Chamber of BOVESPA, in accordance with its related Arbitration Regulations.

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## **21.01 – Report on the Special Review - Without Exceptions**

### **Review Report of Independent Accountants**

To the Management and Stockholders  
Magnesita Refratários S.A.

- 1 We have reviewed the accounting information included in the Quarterly Information (ITR) of Magnesita Refratários S.A. and subsidiaries (parent company and consolidated), for the quarter ended June 30, 2010, comprising the balance sheet and the statements of operations, of changes in stockholders' equity and of cash flows, explanatory notes and the performance report. This Quarterly Information is the responsibility of the Company's management.
- 2 Our review was carried out in accordance with specific standards established by the Institute of Independent Auditors of Brazil (IBRACON), in conjunction with the Federal Accounting Council (CFC), and mainly comprised: (a) inquiries of and discussions with management responsible for the accounting, financial and operating areas of the Company with regard to the main criteria adopted for the preparation of the Quarterly Information; and (b) a review of information and of subsequent events which have, or could have, significant effects on the financial position and operations of the Company and its subsidiaries.
- 3 Based on our limited review, we are not aware of any material modifications that should be made to the accounting information included in the Quarterly Information referred to above in order that it be stated in accordance with the accounting practices adopted in Brazil applicable to the preparation of Quarterly Information, in accordance with the standards issued by the Brazilian Securities Commission (CVM).

01.01 - IDENTIFICATION		
1 - CVM CODE	2 - COMPANY NAME	3 - Federal Corporate Taxpayers' Registration Number (CNPJ)
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

#### **21.01 – Report on the Special Review - Without Exceptions**

- 4 As mentioned in Note 2 (b), the CVM has approved several Pronouncements, Interpretations and Technical Guidance issued by the Brazilian Accounting Pronouncements Committee (CPC) to be effective as from 2010, which altered the accounting practices adopted in Brazil. As permitted by CVM Resolution 603/09, the Company's management has opted to present its Quarterly Information (ITR) by using the accounting standards adopted in Brazil until December 31, 2009. As required by the Resolution, the Company disclosed this fact in Note 2 (b), as well as the description of the significant changes that may affect its financial statements at the end of the year and the clarifications of the reasons that prevent it from estimating the possible effects on stockholders' equity and statement of operations.

Belo Horizonte, August 13, 2010

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5 "F" MG

Aníbal Manoel Gonçalves de Oliveira  
Contador CRC 1RJ056588/O "S" MG

<b>01.01 - IDENTIFICATION</b>		
<b>1 - CVM CODE</b>	<b>2 - COMPANY NAME</b>	<b>3 - Federal Corporate Taxpayers' Registration Number (CNPJ)</b>
02084-2	MAGNESITA REFRATÁRIOS S.A.	08.684.547/0001-65

## Contents

<b>GROUP</b>	<b>TABLE</b>	<b>DESCRIPTION</b>	<b>PAGE</b>
01	01	Identification	1
01	02	Head Office	1
01	03	Investor Relations Officer (Company Mail Address)	1
01	04	General Information/Independent Accountant	1
01	05	Capital Composition	2
01	06	Characteristics of the Company	2
01	07	Companies Excluded from the Consolidated Financial Statements	2
01	08	Dividends Approved and/or Paid During and After the Quarter	2
01	09	Subscribed Capital and Alterations in the Current Year	3
01	10	Investor Relations Officer	3
02	01	Balance Sheet - Assets	4
02	02	Balance Sheet - Liabilities and Stockholders' Equity	5
03	01	Statement of Operations	6
04	01	Statement of Cash Flows - Indirect Method	7
05	01	Statement of Changes in Stockholders' Equity from 4/1/2010 to 6/30/2010	8
05	02	Statement of Changes in Stockholders' Equity from 1/1/2010 to 6/30/2010	9
08	01	Consolidated Balance Sheet - Assets	10
08	02	Consolidated Balance Sheet - Liabilities and Stockholders' Equity	11
09	01	Consolidated Statement of Operations	12
10	01	Consolidated Statement of Cash Flows - Indirect Method	13
11	01	Consolidated Statement of Changes in Stockholders' Equity from 4/1/2010 to 6/30/2010	14
11	02	Consolidated Statement of Changes in Stockholders' Equity from 1/1/2010 to 6/30/2010	15
06	01	Notes to the Quarterly Information	16
07	01	Comments on Company Performance During the Quarter	56
12	01	Comments on Consolidated Performance During The Quarter	57
20	01	Other Information Considered Relevant by the Company	76
21	01	Report on the Special Review - Without Exceptions	79/80

