Magnesita Refratários

MANAGEMENT REPORT

2009

CONTENTS:

2009 MANAGEMENT REPORT

Dear Shareholders,

Magnesita Refratários S.A., “Company” (formerly known as Rpar Holding S.A. and the successor of Magnesita S.A.) submits to your approval, its Management Report together with the Financial Statements of the Company and its subsidiaries, along with the opinions of the Audit Committee and Independent Auditors for the fiscal year closed at December 31, 2009 (FY 20O9).

1. Message from the CEO

Whereas 2009 was a challenging and unprecedented year in the global economic history, it put to the test the resilience of companies which, like Magnesita, quickly adapted to a flagging demand.

The Company, which had been completely restructured after the change in shareholding control effected in late 2007, urged its employees to seek alternatives to further reduce costs and reach new markets, which seemed unlikely at that moment. Many departments were in charge of assessing and introducing measures, many of which were simple, that proved very effective.

Contrary to the market trend, it was possible to keep the prices of the products traded by the Company virtually unchanged. Furthermore, when many remained skeptical of the economic recovery, we signed twelve new contracts under the CPP (Cost per Performance) model, four of which in Brazil, six in the USA, one in Chile and one in Europe, the last being our first contract with a company operating outside of the steel industry.

Another reason why 2009 was challenging for us was that it was the first year of the consolidation of the units acquired from LWB. Cultural differences, combined with many specific legal aspects related to corporate, tax, administrative and commercial issues, hindered the introduction of the same management model successfully adopted in the Latin American units, as well as the whole restructuring effort and the attempt to promote synergies. On the other hand, we learned more about business management in other countries through that experience, which, in addition, paved the way for greater Company integration.

For all those reasons, Magnesita has become a stronger company, able to surpass itself today. Above all, it is now results-oriented and one of the leading companies in its line of business, due to both the scope of its vertical integration and its unique business model, based on the sale of solutions designed to increase our customers’ productivity.

Magnesita's Management is confident that we will be able to find synergies and address strategic issues more successfully in 2010, thus recovering profitability, in spite of the uncertain macroeconomic scenario in the short term, mainly concerning the resumption of steel industry investment projects and the impact of the 2014 World Cup and the 2016 Olympic Games, to be held in Brazil.

Ronaldo Iabrudi
Chief Executive Officer

2. General Overview

Magnesita Refratários S.A. ("Magnesita") is the most profitable and the third largest refractory producer worldwide. It operates 28 industrial and mining units: sixteen in Brazil, three in Germany, three in China, one in the United States, two in France, one in Belgium, one in Taiwan and one in Argentina, combining for a total refractory production capacity above 1.4 million tonnes per year.

Its distinct features include its high vertical integration, both upstream, with its own supply of magnesite, dolomite and other minerals used in refractory production, which account for over 80% of the total volume of raw materials; and downstream, with its portfolio of customized products and services, which gave origin to the CPP model as early as the 1990s.

The Company has annual revenue of R$ 1,926.6 million and employs about 7,000 people in four continents. It serves over 300 customers, mainly in the steel and cement industries. Its sales are geographically well distributed. Latin America accounted for 54.8% of the total net revenues in 2009, Europe for 20.9%, North America for 11.0%, Asia for 11.1% and other regions for 2.2%.

Besides the magnesite and dolomite mines, the Company has other important mineral deposits from which, for example, chromite, clay and talc are extracted. In addition, it has a mine with a sizable graphite reserve that remains unexploited.

Magnesita celebrated its 70th anniversary in 2009. Established under the name Magnesita S.A. after the discovery of magnesite deposits in Brumado, Bahia State, in 1939, the Company was privately held until the 1960's. Therefore, the Company's shares have been traded on the stock exchange for almost five decades. On December 31, 2009, the free float accounted for 44.1% of Magnesita's capital stock. Stock control (55.7%) is shared by three private equity funds: GP Investments, Gávea and Rhône.

3. Economic Environment

According to an International Monetary Fund study, recessions triggered by financial crises, such as that which started in late 2008, are only fully overcome in six quarters on average, after which period economic activity returns to previous levels. In contrast, recovery from other types of recessions takes three quarters on average. This study covered 21 developed economies and pointed out the persistently low credit supply as one of the causes for that longer recovery period. In fact, there is a great discrepancy in the pace of economic recovery currently observed in the different regions of the world. Emerging countries quickly reversed the downward trend, whether by granting credit stimulus, as in Brazil, or by adopting strong growth policies, as in China. The latest projections show a world economic growth of 3.9% in 2010, after an estimated 0.8% drop in 2009 and above the 3.0% growth recorded in 2008.

The industries more directly related to Magnesita's business – steel and cement – also recovered at different paces in different locations. In 2009, the world steel production fell by 8.3% and came to 1,219.7 thousand tonnes.

In Brazil, where almost 50% of the Company's revenue is generated, the steel industry shrank by 21.4% (7,209 thousand tonnes) in 2009 and produced 26.5 million tonnes of crude steel, according to provisional data from *Instituto Aço Brasil*. With an installed capacity of 41.5 million tonnes, Brazil has 26 steel mills, 12 of which are integrated and 14 are semi-integrated (pig iron production process from scrap metal), managed by 8 corporate groups.

The Brazilian cement industry, consisting of 10 large groups managing 68 plants throughout the country, has an installed capacity of 63 million tonnes and was virtually not affected by the world financial crisis in 2009. Provisional data show that production was very similar to that of 2008, when an all-time high of 51.9 million tonnes was recorded.

The US steel industry recorded a 36.4% decrease in steel production, which totaled 58.1 million tonnes. In nominal terms, that was the steepest drop in the year, followed by Japan (- 31,204 thousand tonnes), Germany (- 13,162 thousand tonnes) and Italy (- 10,740 thousand tonnes).

The European community (EU27) is expected to record a production of 139.1 million tonnes in 2009, 29.9% less than the 198.6 million tonnes produced in the previous year, according to World Steel Association data.

That widespread downward trend was not observed in just a few countries. A major highlight was China, increased its steel production by 67,354 thousand tonnes (+13.6%) and hit a record high of 567.8 million tonnes.

4. Our Businesses

Magnesita's core business is the production and commercialization of refractory products used by countless industries operating with temperatures above 1,200 degrees Celsius, highlighting the steel and cement industries in terms of global consumption. Additionally, the Company sells different minerals extracted from its own mines, besides the excess of magnesite and dolomite sinter, the main raw materials used in basic refractory production.

In effort to stand out from competition, Magnesita is structured to offer services such as refractory assembly and delivery, monitoring of customers' production process and maintenance of their electromechanical equipment and "post-mortem" testing at the Company's Research and Development Center, all designed to increase productivity and reduce costs. As a result, Magnesita's products must be tailored to each customer's needs and specific features. The Company's currently markets over 13,000 types of products of different shapes and chemical compositions, while the market offers fewer than 4,000 types. Whereas this model makes the Company's production process increasingly complex, it adds values to its products, boosts profitability and leads to customer loyalty.

	2009		2008	
Products	Revenues (R$ million)	Volume ('000 tonnes)	Revenues (R$ million)	Volume ('000 tonnes)
Refractories	1,703.1	830.3	1,170.5	464.7
Dolomite/Magnesite	60.2	104.5	58.9	88.6
Other Minerals	62.3	927.0	72.2	531.1
Other Products/Services	101.0	4.5	164.5	1.3
Total	**1,926.6**	**1,866.3**	**1,466.1**	**1,085.7**

5. Investments in Subsidiaries and Affiliates

As at December 31, 2009, the Company's assets included investments in several companies broken down into operational units, offices, joint-ventures and holdings as described below:

5.1. Operational Units

5.1.1. Mag-Sé Participações Ltda. - Following the merger of Insider at the end of 2008, Mag-Sé's main activity became the production of refractory products such as lances, snorkels, impellers and concrete, used for the most part in the production process of large-sized integrated steel plants. The industrial plant is strategically located in *Vale do Aço*, with a current production capacity of 8,650 tonnes per year. In 2009, Mag-Se net revenue was R$ 24.5 million and it employed 96 people.

5.1.2. Rasa – Refractarios Argentinos S.A.I.C.M. – A wholly-owned subsidiary located in San Nicolás, Argentina, it is responsible for the production of refractory products, among them, bricks, masses, concrete, mortar, blocks and pre-molded refractory parts It has an installed capacity of 40,400 tonnes per year, employs 101 people and recorded net revenue of R$ 60.0 million in 2009.

5.1.3. LWB Refractories S.C.S. With headquarters in Valenciennes, France, it owns 2 dolomitic and monolithic refractory plants (Valenciennes, 64,000 tonnes per year and Flaumont, 65,000 tonnes per year). The supply of dolomite for these two plants is provided in association with Sinterco, a Belgian company that has a mine located 70 km from the plants. LWB Refractories S.C.S ended 2009 with 105 employees, having posted net revenue of € 41.9 million. It is 100% controlled by Magnesita Refratários S.A.

5.1.4. LCH Resource (Anhui) Co. Ltd. This unit, located in the city of Chizhou, China, produces up to 95,000 tonnes per year of bricks, monolithic products which have a burnt and tempered dolomite base. LCH Resource, 100% controlled by Magnesita Refratários S.A., also owns a dolomite mine located only 25 km from the refractory plant, in Qingyang, with an estimated useful life of 50 years and an installed production capacity of up to 65,000 tonnes of sinter per year. It ended the year with 450 employees and net revenue of € 15.0 million.

5.1.5. LWB Refractories GmbH - Headquartered in Hilden in Germany, it owns 3 refractory plants, with an installed capacity of 345,000 tonnes per year, one being in Hagen-Halden, dedicated to the production of bricks and burnt and tempered monolithic dolomite, as well as burnt spinel bricks. The second plant is located in Oberhausen (Germany) and produces bricks and monolithic magnesia. Also, in the German city of Kruft, alumina refractories and other non-basic products can be produced. It ended 2009 with 334 employees, and posted net revenues of € 145.0 million. Magnesita Refratários S.A. controls, indirectly, 100% of the capital stock of LWB Refractories GmbH.

5.1.6. LWB Refractories Company – Located in York, in the United States, it owns a mine with an estimated useful life of 50 years and a capacity of 200,000 tonnes per year of dolomite sinter, used in the production of up to 250,000 tonnes per year of basic and monolithic refractories, in its own plant installed in the same location. At the end of 2009, LWB Refractories employed 404 people and recorded net revenue of US$ 160.4 million. Magnesita Refratários S.A. controls, indirectly, 100% of the capital stock of LWB Refractories Company.

5.2. Joint Ventures

5.2.1. Sinterco S.A. Located in Belgium, Sinterco is responsible for exploring and sinterizing dolomite. Its mine has an estimated useful life of 50 years and an installed capacity of 180,000 tonnes per year. Magnesita Refratários S.A. controls, indirectly, 70% of its capital stock and Carrières et fours á chaux Dumont-Wautier S.A. (Lhoist Group) controls the other 30%.

5.2.2. LWB Envoy Asia Ltd. – Resulting from the association with Envoy, where Magnesita Refratários is the holder of 50% of the total capital, LWB Envoy is responsible for manufacturing brick and monolithic dolomitic products in Taiwan. The plant has an installed capacity of 33,000 tonnes per year.

5.2.3. Shanxi LWB Taigang Refractories Company Ltd. – Located in Taiyuan, China, and with a production capacity of 25,000 tonnes per year of burnt dolomitic refractory products, Shanxi LWB emerged as a partner with Tisco, the largest producer of stainless steel in China. Magnesita Refratários S.A. controls, indirectly, 51% of its capital stock.

5.3. Commercial / Distribution Network

5.3.1.1.	Refractarios Magnesita Colombia S/A.
5.3.1.2.	Refractarios Magnesita Uruguay S/A.
5.3.1.3.	Refractarios Magnesita Del Peru S.A.C.
5.3.1.4.	Refractarios Magnesita Chile S/A.
5.3.1.5.	LWB Refractories de México S.A. de CV
5.3.1.6.	LWB Refractories Inc. – Canada
5.3.1.7.	LWB Refractories Ltd – UK
5.3.1.8.	LWB Refractories S.R.L. – Italia
5.3.1.9.	LWB Refractories A.B. - Sweden
5.3.1.10.	Wulfrath Refractories Asia SDN, BHD - Malaysia
5.3.1.11.	LWB Refractories Belgium S.A.
5.3.1.12.	LWB Refractories South Africa Ltd.
5.3.1.13.	LWB Refractory Trading Company Ltd. - China

The other companies are, to a large extent, corporations with extremely restricted activities, normally holding companies used in commercial, tax-related and financial structured operations.

6. Capital Expenditures

In 2009, investments totaled R$ 44.4 million, mainly allocated to refurbishments, maintenance, system adequacies, environment and customer services. South American units received 59.1% of the investments in the year. The remainder was allocated to the units in Europe (19.8%), Asia (14.3%) and North America (6.8%).

7. Administrative Restructuring

The administrative restructuring conducted in 2009 was basically due to the acquisition of LWB Refractories and the contingencies caused by the world financial crisis. The first case involved introducing the management model adopted in the South American units, which aims at streamlining the structure, rationalizing processes, increasing productivity and reducing costs. As a result, 1,275 jobs were eliminated, 1,031 in South America, 212 in Europe and 32 in the United States.

Concerning the anti-crisis measures adopted in all regions, they mainly affected the operational area with a view to slowing down production. However, there were 502 rehirings by late 2009 and there should be more as the economic activity recovers.

The Company's Executive Board also changed during the year: (i) four more officers without a specific designation were elected on 04/30/09, namely: Luis Rodolfo Mariani Bittencourt, Wagner Mariano Sampaio, Maurício Ferreira de Pinho and Otto Alexandre Levy Reis; (ii) due to the fatal accident involving Mr. Maurício Lustosa de Castro, the CFO and Investor Relations Officer position was taken by Mr. Thiago Emanuel Rodrigues on 07/21/09; (iii) Mr. Luiz Carlos Nepomuceno, responsible for the Magnesita's operations in Latin America (COO), left the Company on 05/29/09. Mr. Wagner Sampaio took over this position on 01/01/10.

8. Economic-Financial Performance

The striking changes in comparison to the FY 2008 results are clearly warranted by the consolidation of the results of the LWB units acquired by Magnesita. That effect was felt only on the last two months of that year while it affected the twelve months of 2009.

8.1. Net Income

The Company and its subsidiaries recorded a net loss of R$29.7 million in 2009. The Company's performance was greatly affected throughout 2009, since over 80% of its revenue comes from sales to the steel industry, which was impacted most quickly and, in some cases, most severely by the world crisis. Other factors that had a negative effect on the year's results were extraordinary and non-recurring costs, mainly in introducing the anti-crisis measures and restructuring the units acquired in late 2008, as well as higher financial expenses.

8.2. Net Revenues

Magnesita and its subsidiaries recorded net revenues of R$1,926.6 million in 2009. That figure reflects the downturn in practically all fields of economic activity. Even though a large number of the Company's customers in the steel industry simply turned off their blast furnaces and moved up maintenance when demand fell, this type of refractory, known as "construction refractory", accounts for a small share of total revenue in the year. Historical data show an average share smaller than 3% of total revenue.

With greater exposure to exports markets as of 2009, the exchange variation was another major factor that led to the decrease in consolidated revenues converted into the Brazilian currency. In the year, when the US Dollar and the Euro depreciated by 25.5% and 22.6% respectively against the Real, revenues from sales in the exports market amounted to R$1,099.1 million (57.1%).

Nevertheless, the Company made great strides in introducing its pricing model based on the customer's production for the first time outside of Brazil, in spite of a situation marked by few business opportunities. In addition, four new contracts were signed in Brazil, where this model accounts for over 60% of revenues from refractories, and, due to lower refractory production last year, the Company decided to export its excess of magnesite sinter. The domestic market accounted for 42.9% of total revenues (R$827.5 million) and received 257,951 tonnes of refractories, 5,257 tonnes of magnesite sinter and 80,339 tonnes of other minerals. In 2008, when the Brazilian steel industry repeatedly broke production records, Magnesita's revenues totaled R$1,059.8 million (28.1% more than in 2009).

Magnesita also exploits and trades a wide range of other minerals, such as chromite, magnesium oxide and talc. In 2009, sales of other minerals came to 926,954 tonnes and generated net revenues of R$62.3 million, 13.8% lower than in 2008.

Revenues from services provided also fell in relation to 2008 and amounted to R$98.3 million. Those services mainly include electromechanical equipment maintenance.

8.3. Costs

The Cost of Goods Sold (COGS) totaled R$1,299.7 million, 41.8% higher than in 2008. As a result, the Company recorded gross profit of R$626.9 million, which corresponds to 32.5% of net revenues (37.5% in 2008). In addition to the distortion in the basis for comparison, a larger share of which was taken by the South American units in 2008, another reason for the lower margin was the drop in production and the ensuing rise in the share of fixed costs in the total COGS. Indirect costs, net of revenues, totaled R$387.7 million in the year. Albeit less sharply, those costs continued increasing due to the restructuring process and the introduction of the anti-crisis measures mentioned in section 7 hereof.

8.4. Operating Cash Generation - EBITDA

The shrinking market made it impossible for the Company to adopt many of the initiatives in its plan to promote synergies. As a result, many of the units outside of South America performed below expectations. An increase in the production scale is expected to provide greater optimization in operating process and plants; logistics, both in final product and raw material loading; as well as greater bargaining power with input suppliers.

The 2009 operating cash generation, as measured by EBITDA, came to R$ 365.0 million, corresponding to 18.9% of net revenues. Throughout the year, it was possible to see how fast and effectively the Company's management responded to the worsening market fundamentals. In the first and worst quarter of the year, the margin hit 9.9%, but rose 5.9 percentage points (p.p.) as early as the second quarter, 7.0 p.p. in the third and another 3.0 in the fourth, thus closing the year at 18.9%. Even though impacted by the crisis, Magnesita continued playing a leading role in the global refractory market and recorded the highest operating profitability.

8.5. Financial Result

2009 was no less challenging in terms of finances. Although debt did not increase, the lower operating cash generation led to an imbalance in the financial covenants in the main financing contracts. As a result, a long renegotiation process of contract terms and conditions that limited the financial result/EBITDA ratio was needed. The results were very positive and allowed extending the payment schedule and determining a covenant decrease scale. In order to lower the Company's financial leverage, a R$350.0 million capital increase was made.

Thus, the Company's debt totaled R$1,782.4 million at the close of the year, at an average cost of about 11.5% + exchange variation. No more than 20.4% had short-term maturity. The net financial result, not including active and passive monetary/exchange variations, was a net financial expense of R$ 263.6 million.

9. Capital Market

The Company’s capital stock totaled R$ 2,386,032,352.45 as at 12/31/09, divided into 257,954,378 common shares, all nominative, book-entry shares without face value. The shareholding structure consisted of 11,123 shareholders at year’s close, with a 17% rise in relation to 12/31/08. Magnesita shares are traded at BM&FBovespa under ticker symbol MAGG3. At the close of 2009, they were in the portfolio of the IGC, IBrX, ITAG, INDX and SMLL indices.

In 2009, the capital stock underwent two alterations: 790,865 shares held in the Company's Treasury were cancelled and there was a private subscription of 44,871,795 common shares at R$ 7.80 each, totaling R$350.0 million. This subscription was made so that the Company could amortize a portion of its debt with JP Morgan. It was supported by the controlling shareholders and BNDESPar. The Company's shareholders were granted preemptive rights for 30 days between 08/19/2009 and 09/17/2009. Since 1,876,686 shares remained unsubscribed, there were two allocations of those shares for 8 days each. The subscription was closed with an auction of 5,165 remaining shares at BM&FBovespa, on which occasion R$ 66,163.65 was raised.

Adjusting the price of Magnesita S.A.’s shares, in a way that reflects the conversion of shares into Magnesita Refratários S.A.’s shares over the last 3 years, the closing price and the daily average trading volume are as follows:

	2007	2008	2009
Price on 12/31 (R$/share)	9.27	6.89	14.45
Average daily trading volume (R$ million)	3.0	7.2	4.2

After being awarded the title “Greatest evolution in IR" by IR Magazine in 2009, Magnesita has been enhancing its visibility in the capital market by participating more often in conferences and other meetings held by investment banks in Brazil and other countries. In 2009, routine investor relations activities included 52 meetings, 27 conference calls and 10 visits to the Company's plants and hundreds of phone calls taken.

10. Corporate Governance

Listed on the highest Corporate Governance level according to the BM&FBovespa segmentation, the Company bases its practices on four values: transparency, fair disclosure, quality accountability and corporate responsibility. Management makes decisions, establishes internal policies and procedures, introduces controls and assesses results based on these pillars and always with a view to creating value for shareholders.

In case any shareholder or member of the Audit Committee has a particular conflict with the Company's interests, and if a conflict of interest exists between the partners, the Shareholders' Meeting will invoke the system of Arbitration, before the Chamber of Arbitration of the São Paulo Stock Exchange so that the impasse is quickly resolved and the operating procedure can continue, according to the Commitment Clause of the Company's By-Laws.

The Board of Directors is composed of 8 members and an equal number of alternate members. At least 20% of the members of the Board of Directors shall be independent.

The Company's Audit Committee is composed of 5 members and an equal number of alternates and work on a permanent basis.

In addition, the Company relies on the Remuneration and Ethics committees, which contribute to the decision-making process and to the representation of collective interests.

11. Environmental Responsibility

As a holder of significant mineral reserves in Brazil, China, the United States and Europe, the preservation of the environment is, above all, a guarantee of the Company's business continuity. All of the magnesite sinter and a portion of the dolomite used in its refractories production are extracted from these quarries. Exploitation is planned with a vision of protecting the surrounding areas of the mines, recovering, annually, approximately 45,000 m² of mined areas.

Moreover, the Company uses filters to prevent and/or to reduce the emission of residues into the atmosphere; systematically, it conducts reforestation projects, monitors the quality of the recycled water and offers environmental education programs for its own people, as well as the surrounding communities. The company is also developing a project to create a Private Natural Heritage Reserve (RPPN by the Brazilian Government Decree).

Magnesita's Environmental Management System (EMS) received the ISO 14,001 certification for the units located in the industrial city of Contagem (Minas Gerais State), Brumado (Bahia State), Aratu Port Terminal (Bahia State) and Serra (Espírito Santo State). The EMS is presently being introduced in the other Company units.

12. Social Responsibility

One of Magnesita's values is respect for the community and the environment. As a result, the Company seeks to establish sustainable relationships and maintain a constant dialogue with its different stakeholders.

In Brumado (Bahia State), the Company sponsors the *Cidadania Digital* (Digital Citizenship) project by maintaining a computer laboratory that benefits many people in Vila Presidente Vargas. The Company also started a partnership with Senai and the municipality in 2009, thus making it possible to offer the community free IT courses. Magnesita also supports the *Vila Acaba Mundo* community, in Belo Horizonte City, by upgrading the facilities dedicated to the enlargement of the community center and holding professional cooking, costume jewelry making and sewing courses, in addition to dental care, environmental education and communication programs.

Magnesita is currently one of the largest sponsors of cultural projects in Minas Gerais State. R$ 1,036.5 thousand was allocated to projects approved by the State Law of Cultural Incentive. By supporting broad-scope cultural initiatives, Magnesita provides the community and its employees with access to different artistic experiences.

Health and Safety are also integral parts of the Company's social responsibility vision. Magnesita introduced an Occupational Health and Safety Management System (OHSMS) in its Cubatão costumer's unit, in São Paulo State, which has received an OHSAS 18,001 certification. The OHSMS is presently being introduced in the other Company units.

13. Human resources

At the end of 2009, the Company had a staff of 6,938 employees versus 7,833 on 12/31/08. Geographically, Magnesita's employees are distributed as follows South America – 80.8 %; Europe – 6.9%; North America – 5.8% and Asia – 6.5%.

The turnover during 2008 was 2.7% versus 3% in 2008. This turnover rate was due not only to administrative restructuring, but also to the need to adapt to the new situation imposed by the world financial crisis.

The complexity of the Company's business requires a sharper focus on career and succession plan management. Accordingly, 3 trainee programs and 3 internship programs have been held since 2008. Overall, 60 young people were hired for different Company departments.

In addition to variable remuneration, Magnesita offers the following benefits to its employees: Health and Dental Plans, Pharmacy Card, Supermarket Card, Pay-Deductible Loans, Assisted Day Care Center, Life Insurance and an Individual Retirement Plan, which entails that retirees can reach up to 75% of their wages.

At the end of 2009, the retirement plan had 4,806 active participants, 229 inactive participants, retirees and pensioners, and 1,271 pending, still expecting the deferred benefit. Magnesita contributes between 1.3% and 8.9% depending on the employee's salary and age.

The Company invested R$ 652,500 in training and development in 2009, corresponding to 181,709 hours and a total of 5,488 participants, which means an average of 33 hours per person.

14. Relationship with Independent Auditors

The policy maintained by Magnesita and its subsidiaries regarding the hiring of independent auditors for services not related to external auditing is intended to preserve the auditor's independence. In accordance with internationally accepted criteria, these principles consist in: (a) the auditor shall not audit its own work, (b) the auditor shall not perform management functions for its customer, and (c) the auditor shall not promote the interests of its customer.

In 2009, our external auditors, PricewaterhouseCoopers, were exclusively hired to the rendering of services related to the auditing of the Company's financial statements.

15. Acknowledgements

Finally, we would like to thank our customers, shareholders and suppliers for their great contribution last year.

In particular, we would also like to thank our employees for their constant and invaluable dedication to the Company.

Contagem, March 04, 2010

(A free translation of the original in Portuguese)

Magnesita Refratários S.A.

Financial Statements at
December 31, 2009 and 2008
and Report of Independent Auditors

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(A free translation of the original in Portuguese)

Report of Independent Auditors

To the Board of Directors and Shareholders
Magnesita Refratários S.A.

1 We have audited the accompanying balance sheets of Magnesita Refratários S.A. ("the Company") and the consolidated balance sheets of Magnesita Refratários S.A. and its subsidiaries as of December 31, 2009 and 2008, and the related statements of operations, of changes in shareholders' equity, of cash flows and of value added of the Company, as well as the related consolidated statements of operations, of cash flows and of value added for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

2 We conducted our audits in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Company, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Magnesita Refratários S.A. and of Magnesita Refratários S.A. and its subsidiaries at December 31, 2009 and 2008, and the results of operations, the changes in shareholders' equity, the cash flows and the value added to the Company's operations for the years then ended, as well as the consolidated results of operations, the consolidated cash flows and the consolidated value added to the operations for the years then ended, in accordance with accounting practices adopted in Brazil.

Belo Horizonte, March 4, 2010

PricewaterhouseCoopers
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Magnesita Refratários S.A.

Balance Sheets at December 31

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

Assets	**Consolidated 2009**	**Consolidated 2008**	**Parent company 2009**	**Parent company 2008**
Current assets				
Cash and cash equivalents (Note 5)	343,158	384,482	188,495	238,760
Trade accounts receivable				
Domestic market	209,101	145,947	203,958	143,545
Foreign market	230,747	317,153	115,795	119,643
Allowance for doubtful accounts	(9,394)	(12,072)	(1,280)	(1,267)
Inventories (Note 6)	509,528	692,520	267,241	269,810
Taxes recoverable	75,213	88,289	50,250	45,194
Receivable from sale of property	14,388	37,415	14,388	37,415
Sundry receivables	28,706	34,015	889	2,523
Restricted bank deposit (Note 11(c))	24,485	-	24,485	-
Receivables - Eletrobrás (Note 18)	65,189	-	65,189	-
Prepaid expenses	5,110	6,192	-	626
	1,496,231	1,693,941	929,410	856,249
Non-current assets				
Long-term receivables				
Deferred income tax and social contribution (Note 14(a))	213,689	110,992	157,558	77,758
Taxes recoverable	1,774	1,520	1,774	1,520
Judicial deposits	10,366	12,131	9,445	10,877
Receivable from sale of property	59,886	26,890	59,886	26,890
Goodwill on downstream merger, net of provision (Note 4(h))	88,874	88,874	88,874	88,874
Other	-	2,652	321	2,652
	374,589	243,059	317,858	208,571
Investments				
Investments in subsidiaries (Note 7)	-	-	912,834	851,319
Other	2,021	2,359	1,407	1,606
Property, plant and equipment (Note 8)	908,790	1,171,145	386,426	428,362
Intangible assets (Note 9)	2,184,643	2,453,471	1,368,868	1,395,674
	3,470,043	3,870,034	2,987,393	2,885,532
Total assets	4,966,274	5,563,975	3,916,803	3,741,781

Magnesita Refratários S.A.

Balance Sheets at December 31

In thousands of reais **(continued)**

	Consolidated		Parent company	
	2009	**2008**	**2009**	**2008**
Liabilities and shareholders' equity				
Current liabilities				
Suppliers				
Domestic market	72,542	47,052	71,239	46,483
Foreign market	94,588	175,544	8,056	6,984
Loans and financing (Note 11)	363,653	380,789	346,704	361,757
Salaries, provisions and social contributions (Note 10)	95,479	114,995	42,777	57,791
Taxes payable	70,721	49,373	25,303	15,330
Interest on capital	1,071	1,071	1,049	1,049
Liabilities from assignment of rights	10,667	13,867	10,667	13,867
Other liabilities (Note 12)	45,715	77,644	12,293	23,483
	754,436	860,335	518,088	526,744
Non-current liabilities				
Loans and financing (Note 11)	1,418,777	2,062,755	901,167	950,843
Provision for contingencies (Note 13)	109,817	90,099	106,246	86,760
Post-employment liabilities (Note 16)	229,183	303,199	21,553	15,456
Deferred taxes (Note 14(d))	191,523	86,536	130,160	22,932
Debts with related parties	-	-	-	5,679
Negative goodwill - merger of subsidiary (Note 4(k))	19,256	19,256	19,256	19,256
Other liabilities	7,456	9,328	-	-
	1,976,012	2,571,173	1,178,382	1,100,926
Minority interest	16,134	19,296	-	-
Shareholders' equity (Note 15)				
Capital	2,386,032	2,036,032	2,386,032	2,036,032
Capital reserves	99,126	97,908	99,126	97,908
Revenue reserves	2,856	2,856	2,856	2,856
Carrying value adjustments	(118,507)	96,505	(118,507)	96,505
Accumulated losses	(149,815)	(120,130)	(149,174)	(119,190)
	2,219,692	2,113,171	2,220,333	2,114,111
Total liabilities and shareholders' equity	4,966,274	5,563,975	3,916,803	3,741,781

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

Magnesita Refratários S.A.

Statements of Operations
Years Ended December 31
In thousands of reais, except net loss per share (A free translation of the original in Portuguese)

	Consolidated		Parent company	
	2009	**2008**	**2009**	**2008**
Gross sales				
Domestic market	1,124,161	1,401,998	1,096,573	1,341,118
Foreign market	1,099,091	406,304	209,460	192,219
	2,223,252	1,808,302	1,306,033	1,533,337
Taxes on sales	(296,684)	(342,177)	(286,380)	(339,475)
Net sales	1,926,568	1,466,125	1,019,653	1,193,862
Cost of products and services sold	(1,299,664)	(916,857)	(639,477)	(750,082)
Gross profit	626,904	549,268	380,176	443,780
Operating income (expenses)				
Selling	(199,296)	(125,019)	(91,148)	(99,241)
General and administrative	(212,921)	(160,045)	(99,136)	(128,102)
Amortization of goodwill (Note 9)	-	(255,521)	-	(254,822)
Equity in the results of investees (Note 7)	-	-	(76,115)	(65,939)
Other operating income (expenses), net (Note 18)	24,536	62,543	57,394	89,759
Operating profit (loss) before financial results	239,223	71,226	171,171	(14,565)
Financial results (Note 19)				
Financial income	(9,762)	124,835	(29,898)	115,305
Financial expenses	(228,917)	(263,960)	(146,105)	(181,039)
	(238,679)	(139,125)	(176,003)	(65,734)
Profit (loss) before taxes	544	(67,899)	(4,832)	(80,299)
Income tax and social contribution (Note 14(c))				
Current	(26,398)	(24,193)	2,276	(5,254)
Deferred	(2,290)	38,237	(27,428)	31,854
Loss for the year before minority interest	(28,144)	(53,855)	(29,984)	(53,699)
Minority interest	(1,541)	(6)	-	-
Net loss for the year	(29,685)	(53,861)	(29,984)	(53,699)
Net loss for the year per outstanding share at the balance sheet date - R$			(0.1162)	(0.2511)

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

Magnesita Refratários S.A.

Statements of Changes in Shareholders' Equity (Parent Company)

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

		Capital reserves								
	Capital	Share premium	Cost of issue of shares	Special - Law No. 8200/91	Special reserve - absorption of goodwill	Stock options granted	Revenue reserves – Reinvest-ments	Carrying value adjustment	Accumulated losses	Total
Balance at December 31, 2007	869,000	-	-	-	-	-	-	-	(54,955)	814,045
Capital increase (Note 15):										
In cash	397,740	-	-	-	-	-	-	-	-	397,740
Through merger of subsidiary	288,176	-	-	-	-	-	-	-	-	288,176
Through purchase of subsidiary	487,592	-	-	-	-	-	-	-	-	487,592
Merger of subsidiary-Magnesita S.A.	-	-	-	5,973	-	-	2,444	-	(9,924)	(1,507)
Capital decrease	(6,476)	-	-	-	-	-	-	-	-	(6,476)
Special reserve - goodwill on merger (Note 4 (h)	-	-	-	-	88,874	-	-	-	-	88,874
Stock options granted	-	-	-	-	-	3,061	-	-	-	3,061
Exchange variation of foreign investments	-	-	-	-	-	-	-	96,505	-	96,505
Prior year adjustments - stock options	-	-	-	-	-	-	-	-	(612)	(612)
Expiration of unclaimed dividends	-	-	-	-	-	-	412	-	-	412
Net loss for the year	-	-	-	-	-	-	-	-	(53,699)	(53,699)
Balance at December 31, 2008	2,036,032	-	-	5,973	88,874	3,061	2,856	96,505	(119,190)	2,114,111
Capital increase (Note 15):										
In cash	350,000	-	-	-	-	-	-	-	-	350,000
Stock options granted	-	-	-	-	-	2,418	-	-	-	2,418
Exchange variation of foreign investments	-	-	-	-	-	-	-	(215,012)	-	(215,012)
Costs of issue of shares	-	-	(1,226)	-	-	-	-	-	-	(1,226)
Share premium	-	26	-	-	-	-	-	-	-	26
Net loss for the year	-	-	-	-	-	-	-	-	(29,984)	(29,984)
Balance at December 31, 2009	2,386,032	26	(1,226)	5,973	88,874	5,479	2,856	(118,507)	(149,174)	2,220,333

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

Magnesita Refratários S.A.

Statements of Cash Flows
Years Ended December 31
In thousands of reais (A free translation of the original in Portuguese)

	Consolidated		Parent company	
	2009	**2008**	**2009**	**2008**
Cash flows from operating activities				
Loss for the year	(29,685)	(53,861)	(29,984)	(53,699)
Adjustments				
Charges and monetary/exchange variations, net	61,423	25,058	59,128	13,933
Depreciation and depletion	121,761	68,126	51,749	51,652
Amortization of intangibles	4,028	255,521	3,482	254,822
Interest in subsidiaries	-	-	76,115	65,939
Deferred income tax and social contribution	2,290	(38,237)	27,428	(31,854)
Minority interest	1,541	-	-	-
Stock options	2,418	2,449	2,418	2,449
	163,776	259,056	190,336	303,242
(Increase) decrease in assets				
Trade accounts receivable	(43,480)	(79,645)	(56,552)	(41,951)
Inventories	109,982	(69,813)	2,569	(13,937)
Taxes recoverable	10,171	(5,811)	(5,056)	(11,498)
Receivables from sale of fixed assets	(9,969)	(64,305)	(9,969)	(64,305)
Receivables - Eletrobrás	(65,189)	-	(65,189)	-
Restricted bank deposit	(24,485)	-	(24,485)	-
Other	21,505	(3,907)	(1,314)	22,234
	(1,465)	(223,481)	(159,996)	(109,457)
Increase (decrease) in liabilities				
Suppliers	(6,092)	35,218	25,828	18,939
Advances from customers	(2,832)	5,761	(1,815)	(3,458)
Taxes payable	29,285	(14,907)	9,972	(28,694)
Dividends payable	-	(20,105)	-	(20,105)
Other	(51,495)	70,887	(2,005)	58,605
	(31,134)	76,854	31,980	25,287
Net cash provided by operating activities	**131,177**	**112,429**	**62,320**	**219,072**
Cash flows from investing activities				
Sales of fixed assets and investments	13,901	14,231	10,390	11,775
Acquisition of companies, including goodwill	-	(952,311)	-	(1,152,483)
Increase in cash from purchase of subsidiary	-	166,660	-	-
Payment of capital in subsidiary	-	-	(329,098)	-
Dividends received		-	5,000	37,835
Additions to fixed and intangible assets	(44,431)	(111,802)	(23,820)	(95,697)
Net cash used in investing activities	**(30,530)**	**(883,222)**	**(337,528)**	**(1,198,570)**

Cash flows from financing activities

Magnesita Refratários S.A.

Statements of Cash Flows
Years Ended December 31
In thousands of reais **(continued)**

	Consolidated		Parent company	
	2009	**2008**	**2009**	**2008**
New loans and financing received	305,669	2,676,429	294,235	1,528,113
Repayment of loans and financing, including interest	(771,289)	(2,276,294)	(418,092)	(971,414)
Dividends expired	-	412	-	412
Costs of issue of shares/Premium on issue	(1,200)		(1,200)	
Capital decrease	-	(6,476)	-	(6,476)
Capital increase	350,000	397,740	350,000	397,740
Net cash provided by (used in) financing activities	**(116,820)**	**791,811**	**224,943**	**948,375**
Increase (decrease) in cash and cash equivalents	**(16,173)**	**21,018**	**(50,265)**	**(31,123)**
Opening balance - cash and cash equivalents	384,482	344,649	238,760	85,471
Increase in cash from merger of subsidiaries	-	-	-	184,412
Opening balance adjusted after mergers	384,482	344,649	238,760	269,883
Exchange variation - opening balance of cash	(25,151)	28,414	-	-
Exchange variation - cash flows foreign subsidiaries	-	(9,599)	-	-
Closing balance - cash and cash equivalents	343,158	384,482	188,495	238,760
Increase (decrease) in cash and cash equivalents	**(16,173)**	**21,018**	**(50,265)**	**(31,123)**

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

Magnesita Refratários S.A.
Statements of Value Added
Years Ended December 31
In thousands of reais, unless otherwise indicated (A free translation of the original in Portuguese)

	Consolidated		Parent company	
	2009	**2008**	**2009**	**2008**
Income				
Sales of goods, products and services rendered	2,223,252	1,808,302	1,306,033	1,533,337
Other income	115,276	121,270	112,281	116,631
Allowance for doubtful accounts	(635)	(12,072)	(13)	(2,498)
	2,337,893	**1,917,500**	**1,418,301**	**1,647,470**
Inputs acquired from third parties (including the tax amounts - ICMS, IPI, PIS and COFINS)*				
Cost of products and goods sold and services rendered	(875,488)	(844,767)	(468,243)	(739,201)
Materials, energy, outsourced services and others	(452,772)	(168,528)	(217,622)	(125,678)
	(1,328,260)	**(1,013,295)**	**(685,865)**	**(864,879)**
Gross value added	**1,009,633**	**904,205**	**732,436**	**782,591**
Depreciation, amortization and depletion	(126,141)	(322,288)	(55,230)	(306,474)
Net value added generated by the entity	**883,492**	**581,917**	**677,206**	**476,117**
Value added received through transfer				
Equity in the results of subsidiaries	-	-	(76,115)	(65,939)
Financial income	(9,762)	124,835	(29,898)	115,305
	(9,762)	**124,835**	**(106,013)**	**49,366**
Total value added to distribute	**873,730**	**706,752**	**571,193**	**525,483**
Distribution of value added				
Personnel and social charges	384,875	279,161	242,929	205,830
Taxes, charges and contributions	271,027	210,089	206,818	185,980
Creditors				
Interest and exchange and monetary variations	228,917	263,960	146,105	181,039
Rentals	17,055	7,397	5,325	6,333
Net loss for the year	(29,685)	(53,861)	(29,984)	(53,699)
Participation of minority shareholders in the loss	1,541	6	-	-
	873,730	**706,752**	**571,193**	**525,483**

* Value-added Tax on Sales and Services (ICMS), Excise Tax (IPI), Social Integration Program (PIS) and Social Contribution on Revenues (COFINS)

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

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, in the stock exchange, new 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, in 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 in 9.18% of total capital.

At January 31, 2008, the Company carried out, at BOVESPA, a public auction for the acquisition of common shares of Magnesita S.A. (in conformity with article 254.A of Law No. 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 shareholders 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.

Merger of Wholly-Owned Subsidiaries

On April 30, 2008, at the Extraordinary General Meeting, the shareholders 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.;
. Ikera Indústria e Comércio Ltda.;
. Refratec Participações Ltda.; and
. São José Administração de Matérias Primas 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.À 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.

On November 5, 2008, the transaction closing date, the shareholders 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 constitute 10.97% of its total capital. To calculate the amount of the transaction mentioned above, R$ 20.79 was considered the value per share of the Company.

The Company's shareholders 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. - Brasil
- Refractarios Argentinos S.A.I.C.y M - Argentina
- LWB Refractories Company - United States
- LWB Refractories GmbH - Germany
- LWB 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 financial statements, including holding, commercial, mining or non-operating companies.

2 Presentation of the Financial Statements and Significant Accounting Practices

(a) Presentation of the financial statements

These financial statements were approved by the Company's Board of Directors on March 3, 2010.

The financial statements (parent company and consolidated) were prepared and are presented in accordance with accounting practices adopted in Brazil, in compliance with the requirements of Brazilian Corporation Legislation and the Brazilian Securities Commission (CVM).

As mentioned in Note 1, Magnesita S.A. was merged into the Company in February 2008, and the base date of that transaction was December 31, 2007. Thus, the statements of operations, of cash flows and of value added for 2008 consider the effects of this merger as from January 1, 2008. As regards the merger of subsidiaries on April 30, 2008, said statements for 2008 (statements of operations, of cash flows and of value added) include the operations of those subsidiaries as from April 1, 2008.

As regards the consolidated statements of operations, of cash flows and of value added for 2008, the LWB operations, acquired on November 5, 2008, are included as from November 1, 2008.

The main accounting practices adopted in the preparation of these financial statements are those applicable for the financial statements for the year ended December 31, 2009,which will be different from the practices to be used for the preparation of the financial statements at December 31, 2010, as described in item 2 (b) below.

The preparation of financial statements requires the use of estimates to record certain assets, liabilities revenues and expenses. Therefore, the Company's financial statements include 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) Accounting pronouncements and interpretations of standards that are not yet effective

The accounting pronouncements and interpretations of standards listed below were published and are mandatory for years beginning on or after January 1, 2010. In addition, other pronouncements and interpretations were also published, which alter the accounting practices adopted in Brazil, within the process of convergence with international standards.

The standards below are only those that could affect the Company's financial statements in some manner. Under the terms of these new standards, the figures for 2009, presented herein, should be restated for comparison purposes when the 2010 financial statements are prepared.

The Company did not elect early adoption of these standards for the year ended December 31, 2009, and is currently analyzing the potential effects arising from their application, that may impact on its financial statements.

(i) Pronouncements

CPC 15 - Business combinations
CPC 16 - Inventories
CPC 20 - Borrowing costs
CPC 22 -Segment information
CPC 25 - Provisions, Contingent Liabilities and Assets
CPC 26 - Presentation of Financial Statements
CPC 27 - Property, Plant and Equipment
CPC 30 - Revenues
CPC 32 - Taxes on Profit
CPC 33 - Employee benefits
CPC 34 - Exploration for and Evaluation of Mineral Resources
CPC 35 - Separate Financial Statements
CPC 36 - Consolidated Financial Statements
CPC 37 - First-time Adoption of International Financial Reporting Standards
CPC 38 - Financial Instruments: Recognition and Measurement
CPC 39 - Financial Instruments: Presentation
CPC 40 - Financial Instruments: Disclosure

(ii) Interpretations

ICPC 04 - Scope of CPC 10 - Share-based Payment
ICPC 05 - CPC 10 - Share-Based Payment
ICPC 09 - Individual, Separate, Consolidated Financial Statements and Application of the Equity Accounting Method
ICPC 10 - Clarifications of CPC 27 and CPC 28
ICPC 12 - Changes in Existing Liabilities for Decommissioning, Restoration and Similar Matters

All amounts in thousands of reais, unless otherwise indicated

3 Consolidation Criteria

The consolidated financial statements at December 31, 2009 and 2008 include those of the Parent Company and the following subsidiaries:

	2009	2008
Cerâmica São Caetano Ltda.	100	100
Iliama Participações S.L. and its subsidiary	100	100
LWB Island Company Ltd. and its subsidiaries (*)	100	100
Magnesita Grundstucks Beteiligungs GmbH	100	100
Magnesita Refractories Corporation	100	-
MAG-Sé Participações Ltda.	100	100
MAG-Tec Ltda. (formerly, MSA Service Ltda.)	100	100
Massambaba Mineração Ltda.	100	100
MSA Agropecuária Ltda.	100	100
RASA - Refractarios Argentinos S.A.I.CyM and its subsidiary	100	100
Refractarios Magnesita Colombia S.A.	100	100
Refractarios Magnesita del Peru S.A.C.	100	100
Refractarios Magnesita Uruguay S.A.	100	100

(*) In 2008 the consolidated statements of operations, of cash flows and of value added include the operations of these subsidiaries as from November 1, 2008.

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 financial statements of subsidiaries operating abroad are converted into Reais (R$) in conformity with the guidelines of Technical Pronouncement CPC No. 2 - Effects of Changes in the 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 shareholders' equity for the year considering the rates in force at the dates when they occurred; and the opening shareholders' equity of each balance sheet is represented by the closing shareholders' 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.

All amounts in thousands of reais, unless otherwise indicated

(iv) The foreign exchange variations related to items (i), (ii) and (iii) mentioned above are recognized in the specific account of shareholders' 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 the Parent Company to the Consolidated shareholders' equity and net income at December 31, 2009 and 2008 is as follows:

	Shareholders' equity		**Loss for the year**	
	2009	**2008**	**2009**	**2008**
Consolidated	2,219,692	2,113,171	(29,685)	(53,861)
Unrealized profits in the inventories	641	940	(299)	162
Parent company	2,220,333	2,114,111	(29,984)	(53,699)

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 ownership of goods 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. Income from services rendered is recognized based on the stage of execution of the services at the balance sheet date, as a percentage of total services to be carried out, 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

(i) 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 the financial assets when first recorded.

Financial assets measured at fair value through profit or loss

These are financial assets held for active and frequent trading. Derivatives are also classified as held for trading, unless they have been designated as hedge instruments. These assets are classified as current assets. 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 related companies, trade accounts receivable, other accounts receivable and cash and cash equivalents, except for short-term investments. Loans and receivables are recorded at amortized cost, based on the effective interest rate method.

Fair value

Fair values of investments with publicly-available quotations are based on current purchase prices. For financial assets without an active market or public quotation, the Company determines fair value through valuation techniques, which use recent transactions with third parties, references to other substantially similar instruments, discounted cash flow analysis and option pricing models which preferentially use information from external sources rather than internally-generated data.

(ii) 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 of 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.

(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 (Note 6).

(g) Income tax and social contribution

Income tax and social contribution are provided based on current legislation. The deferred tax assets are recognized on temporary differences, income tax and social contribution tax loss carryforwards, to the extent that their realization is probable. The currently defined 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 LWB companies.

(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 the special reserve was set up for this merger. The reserve will benefit all the shareholders when it is used for capital increase. The net balance of this 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 shareholders' equity, and will be recorded in the statement of operations only when the investment is sold or written down as a loss.

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 altered 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, indexed for inflation through December 31, 1995, 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 8.

Repairs and maintenance costs are allocated to results during the period in which they are incurred. The cost of major renovations is included in the book value of the asset when it is probable that future economic benefits which exceed the performance standard initially evaluated for the existing asset will be obtained by the Company. 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 shareholders' 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 9). As determined in Technical Pronouncement CPC No. 13, the goodwill arising from expected future profitability will no longer be systematically amortized as from the fiscal year beginning January 1, 2009 but, after this date, is instead subject to annual impairment tests 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 for having no specific economic basis.

Software

Software licenses acquired and advisory services for their implementation are capitalized and amortized over their estimated useful life (Note 9).

(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 13):

. 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 provided but are disclosed in the financial statements, 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 minus the market value of the assets of the plan, adjusted for actuarial gains or losses and costs of past service. The defined benefit obligation is calculated annually by independent actuaries (Note 16).

(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 22).

(o) Impairment of assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets, are reviewed to identify evidence of impairment annually, 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 in initial estimates, if any, in the statement of operations, with a corresponding entry to shareholders' equity, on a prospective basis.

All amounts in thousands of reais, unless otherwise indicated

(r) Borrowings

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:

	Consolidated		Parent company	
	2009	**2008**	**2009**	**2008**
Cash and banks	141,397	113,900	18,083	14,502
Marketable securities - fixed-income	201,761	270,582	170,412	224,258
	343,158	384,482	188,495	238,760

The item "Cash and cash equivalents" includes at December 31, 2009, in the consolidated, R$1,369 (R$2,367 in 2008) in local currency and R$140,028 (R$111,533 in 2008) in foreign currency, and basically represents deposits in bank current account "Marketable securities" were classified as trading securities and correspond to fixed income securities with earnings that approximate the variation of Interbank Deposit Certificates (CDI), and are available for immediate redemption. In the consolidated, a part of these fixed income securities, amounting to R$ 62,475 (R$ 19,095 in 2008), is linked to foreign exchange variations, mainly the U.S. dollar.

All amounts in thousands of reais, unless otherwise indicated

6 Inventories

	Consolidated		Parent company	
	2009	**2008**	**2009**	**2008**
Finished products	251,124	330,062	96,014	87,254
Work in progress	43,622	60,770	33,683	46,345
Raw materials	163,816	252,894	97,064	103,193
Warehouse (replacement material and others)	70,308	77,664	40,480	34,382
Provision for losses	(19,342)	(28,870)	-	(1,364)
	509,528	692,520	267,241	269,810

7 Investments in Subsidiaries

(a) Information on investments (Parent Company)

	At December 31, 2009			
			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	2,686	100	24,646	1,521
Iliama Participações S.L.				
Capital of 3 thousand EUROS and 3,010 quotas		100	(32,754)	1,347
LWB Island Company Ltd.				
Capital of 285,429 thousand EUROS and 1,286 quotas		100	852,923	(64,812)
Magnesita Grundstucks Beteiligungs GmbH				
Capital of 25 thousand EUROS and 1 quota		100	101	(8)
Magnesita Refractories Corporation				
Capital of US$ 25 thousand and 1 quota		100	157	(819)
MAG-Sé Participações Ltda.				
Capital of R$ 1,590 and 1,590,000 quotas		100	60,410	7,291
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		100	(3,334)	(3,461)
MSA Agropecuária Ltda. (i)				
Capital of R$ 9,571 and 957,118,076 quotas		34,2	750	(2)
RASA - Refractarios Argentinos S.A. I. C. y M.				
Capital of ARS 1,000 thousand and 1,000,000 shares		100	18,762	(2,162)
Refractários Magnesita Colômbia S.A				
Capital of COP 111,000 thousand and 11,100,000 quotas		100	(7,260)	(8,646)
Refractários Magnesita Del Peru S.A.C.				
Capital of PEN 1 thousand and 1,000 quotas		100	(1,893)	(6,441)
Refractários Magnesita Uruguay S.A.				
Capital of UYU 450 thousand and 450,000 quotas		100	81	77
Total in 2009	2,686		912,834	(76,115)
Total in 2008	2,686		851,319	(65,939)

All amounts in thousands of reais, unless otherwise indicated

(i) The total interest of the Company, directly and indirectly, is 100%. The indirect interest is held through Cerâmica São Caetano Ltda.

(b) Change in investments

Changes in the investment accounts during the years ended December 31 were as follows:

	Parent company	
	2009	**2008**
Balance at the beginning of the year	852,925	1,357,591
Acquisition of investments		912,559
Capital increase in subsidiary (i)	329,098	
Goodwill on acquisition of investments	-	621,517
Equity in the results of subsidiaries	(76,115)	(65,939)
Dividends received	(5,000)	(37,835)
Amortization of goodwill	-	(2,602)
Merger of subsidiaries	-	(465,306)
Transfer of investment to current assets	-	6,206
Transfer of goodwill to intangible assets (ii)	-	(1,596,943)
Capital increase in subsidiary MAG-Sé Participações Ltda.	-	92,837
Reversal of provision for net capital deficiency of subsidiary MAG-Sé Participações Ltda.	-	(42,726)
Sale of investment in subsidiary	-	(2,949)
Exchange variation of investments (iii)	(186,552)	77,454
Disposal of other investments	(115)	(939)
Balance at the end of the year	914,241	852,925

(i) Refers to capital increase in the subsidiary LWB, with the objective of prepayment of part of the loan from JP Morgan bank (Note 11).

(ii) Reclassification on account of the alterations introduced by Law 11638/07.

(iii) Exchange variation of investments recognized in shareholders' equity (Note 4(i)). Further to the amount recorded in investment, in 2008 the Company recorded the Exchange variation of intercompany loans capitalized or to be capitalized in the account "Carrying value adjustment" directly in shareholders' equity.

(c) Related-party transactions (Parent Company)

Balances and transactions

The main balances receivable and payable at December 31, 2009 and the main transactions carried out during the year then ended, such as sales, purchases of services and products and dividends received, involving the Company's subsidiaries, were as follows:

All amounts in thousands of reais, unless otherwise indicated

	Balances			Transactions		
	Accounts receivable	Suppliers	Credits (Debts)	Sales	Purchase of products	Dividends received
Cerâmica São Caetano Ltda.	-	-	(1,810)	-	-	5,000
MAG-Sé Participações Ltda.	467	476	(861)	3,157	3,619	-
RASA - Refractarios Argentinos S.A. I. C. y M.	16,611	-	533	13,099	116	-
Iliama Participações S.L.	11,854	-	-	18,453	-	-
Refractários Magnesita Uruguay S.A.	329	-	-	484	-	-
Refractários Magnesita Colômbia S.A.	11,546	-	-	11,010	-	-
Refractários Magnesita Del Peru S.A.C.	1,592	-	-	1,569	-	-
Refractários Magnesita Chile.	700	-	-	1,272	-	-
Massambaba Mineração Ltda.	-	-	3,682	-	-	-
LWB companies	21,433	-	1,297	44,131	-	-
MSA Agropecuária Ltda.	-	-	(2,520)	-	-	-
In 2009	64,532	476	321	93,175	3,735	5,000
In 2008	44,945	-	(5,679)	79,772	2,423	37,835

Credits refer to loans to subsidiaries for their operating needs, with no remuneration.

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.

All amounts in thousands of reais, unless otherwise indicated

Remuneration of the key management personnel

The compensation of the members of the Board of Directors and of the Executive Board in 2009 corresponded to R$ 5,723 (2008 - R$ 2,620). In addition, the fair value of the stock options granted in the amount of R$ 2,418 (2008- R$2,449) is recorded in the statement of operations.

8 Property, Plant and Equipment

	Consolidated				Parent company				
			2009	2008			2009	2008	
	Cost	Accumulated depreciation	Net	Net	Cost	Accumulated depreciation	Net	Net	Annual depreciation rates %
Land	58,929	-	58,929	78,710	10,761	-	10,761	15,505	
Mineral deposits	36,678	(2,988)	33,690	43,069	9,132	(1,532)	7,600	8,077	Based on volume
Buildings and improvements	412,397	(132,333)	280,064	372,324	140,971	(82,569)	58,402	61,876	2,5 to 10
Machinery, facilities and equipment including IT	935,851	(533,781)	402,070	514,811	630,198	(408,537)	221,661	237,809	4 to 33
Transportation equipment	15,344	(12,862)	2,482	4,416	12,185	(10,655)	1,530	2,709	4 to 33
Furniture and fixtures and others	42,291	(16,668)	25,623	36,154	16,854	(8,816)	8,038	8,980	4 to 33
Construction in progress	105,932	-	105,932	121,661	78,434	-	78,434	93,406	
Total property, plant and equipment	1,607,422	(698,632)	908,790	1,171,145	898,535	(512,109)	386,426	428,362	

All amounts in thousands of reais, unless otherwise indicated

The changes in property, plant and equipment accounts are as follows:

	Consolidated	Parent company
At December 31, 2008	1,171,145	428,362
Additions	38,878	20,089
Disposals	(12,054)	(10,276)
Depreciation	(121,761)	(51,749)
Exchange variation (assets abroad)	(167,418)	-
At December 31, 2009	908,790	386,426

9 Intangible Assets

	Consolidated				Parent company				
			2009	2008			2009	2008	
	Cost	Accumulated amortization	Net	Net	Cost	Accumulated amortization	Net	Net	Annual amortization rate %
Software and other	31,454	(21,133)	10,321	10,589	29,054	(19,769)	9,285	9,037	20
Goodwill on acquisition of investments (i)									
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)	1,093,433	(2,602)	1,090,831	1,359,391	318,531	(2,602)	315,929	342,983	
Insider - Insumos Refratários para Siderurgia Ltda.	40,536	(699)	39,837	39,837	-	-	-	-	
Total intangible assets	2,481,932	(297,289)	2,184,643	2,453,471	1,664,094	(295,226)	1,368,868	1,395,674	

All amounts in thousands of reais, unless otherwise indicated

(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$ 774,902 (R$ 995,221 in 2008) for goodwill presented in the financial statements of LWB Group, prior to the acquisition by the Company.

The changes recorded in the intangible asset accounts were the following:

	Consolidated	Parent company
December 31, 2008	2,453,471	1,395,674
Additions	3,731	3,731
Exchange variation (i)	(267,723)	(27,055)
Amortization	(4,836)	(3,482)
December 31, 2009	2,184,643	1,368,868

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

10 Salaries, Provisions and Social Contributions

	Consolidated		Parent company	
	2009	2008	2009	2008
Provision for vacation pay and payroll charges	17,313	24,191	17,117	20,566
Salaries payable	17,156	19,058	3,457	3,307
Rescissions payable	22,115	19,598	-	-
Provision for bonus and charges	29,213	41,668	17,600	28,000
Social charges payable	4,829	6,732	3,006	4,120
FGTS(*) payable	1,294	1,449	1,293	1,449
Other social charges payable	3,559	2,299	304	349
	95,479	114,995	42,777	57,791

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

All amounts in thousands of reais, unless otherwise indicated

11 Loans and Financing

	Currency	Annual average interest rate	Consolidated 2009	Consolidated 2008	Parent company 2009	Parent company 2008
Export credit note	R$	CDI+4.0%	1,019,843	1,072,588	1,019,843	1,072,588
(-) Unamortized transaction costs		-	(8,355)	-	(8,355)	-
Import financing	US$	7.80%	5,671	14,519	5,671	14,519
Property, plant and equipment financing						
In local currency	R$	TJLP+2.05%	833	72	833	-
Leasing	R$	CDI	1,124	1,271	878	1,271
Advances on export invoices						
In foreign currency	US$	6.05%	229,001	224,222	229,001	224,222
Senior Export Facility						
JP Morgan	US$	Libor+5.0%	528,563	1,126,454	-	-
(-) Unamortized transaction costs			(21,423)	(22,279)	-	-
Other	US$	7.25%	14,428	21,236	-	-
Other	€	6.67%	12,745	5,461	-	-
			1,782,430	2,443,544	1,247,871	1,312,600
		Current	363,653	380,789	346,704	361,757
		Non-current	1,418,777	2,062,755	901,167	950,843

(a) Export credit note

The Company carries out export credit note transactions, renegotiated on August 14, 2009, with the following characteristics:

. Creditors: Banco Bradesco S.A. and Banco Itaú BBA S.A.
. Term: 5 years
. Grace period: 2 years
. Annual interest: CDI + 4.0% (up to 08/14/2009, CDI + 1.39%)

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

All amounts in thousands of reais, unless otherwise indicated

The annual financial covenants are as follows:

	Net Debt/ Ebitda	**Ebitda/Net Financial Expense**
Up to August 14, 2009	3.5	2.00
After the renegotiation		
4Q 2009	6.0	1.50
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

At December 31, 2009, the Company was in compliance with the requirements.

The Company renegotiated the export credit note of Banco Bradesco S.A in February 2010, the amount of which is R$ 133,544. The annual interest rate changed from CDI + 4.0% to CDI + 2.75% and the maturity of the principal changed to 3 equal installments in February 2013, February 2014 and February 2015.

(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, in the Consolidated and in the Parent Company, export trade notes have not yet been provided as guarantee at December 31, 2009. The creditors are the Banks: Bradesco, Banco do Brasil, Santander, HSBC, Itaú and Safra.

(c) Senior Export Facility (JP Morgan)

Senior Export Facility renegotiated on August 14, 2009 with the following conditions:

. Term: 6 years
. Grace period: 30 months
. Annual interest: Libor (with guarantee of minimum rate of 2.5%) + 5.0% (up to 08/14/2009, Libor + 2.5%)

All amounts in thousands of reais, unless otherwise indicated

As part of the debt renegotiation, in November 2009 the Company made an exceptional prepayment of US$ 175 million.

The annual financial covenants are as follows:

	Net Debt/ Ebitda	Ebitda/Net Financial Expense
Up to August 14, 2009	3.5	2.00
After the renegotiation		
4Q 2009	6.0	1.50
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

At December 31, 2009, the Company was in compliance with the requirements.

In connection with the contract with the bank JP Morgan, the Company maintains a deposit of R$ 24,485 at December 31, 2009 in current account abroad, as guarantee of interest falling due in the current period.

(d) Maturities

At December 31, 2009, long term maturity is as follows:

	Consolidated	Parent company
2011	414,407	302,596
2012	432,271	298,994
2013	433,263	299,577
2014	133,117	-
2015	5,719	-
	1,418,777	901,167

All amounts in thousands of reais, unless otherwise indicated

12 Other Liabilities - Current

	Consolidated		Parent company	
	2009	2008	2009	2008
Lawyers' and advisors' fees	1,164	15,706	-	5,274
Services rendered by third parties	9,704	14,577	1,743	-
Contractual retentions payable - acquisition of Insider	7,150	10,074	-	-
Provision for warranty indemnities	4,162	5,941	-	-
Advances from customers	2,929	5,761	2,362	4,177
Commissions of agent abroad	2,862	3,040	2,862	3,040
Freights and insurance payable	804	2,824	475	2,824
Royalties payable	665	835	665	835
Other accounts payable	16,275	18,886	4,186	7,333
	45,715	77,644	12,293	23,483

13 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 its 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:

	Consolidated		Parent company	
	2009	2008	2009	2008
Tax - Provision	87,702	77,444	87,691	77,444
Tax - Judicial deposit	(4,711)	(3,638)	(4,711)	(3,638)
Labor - Provision	25,333	14,965	21,773	11,626
Labor - Judicial deposit	(321)	(321)	(321)	(321)
Social Security - Provision	1,814	1,649	1,814	1,649
	109,817	90,099	106,246	86,760
Current - Provision	942	942	942	942
Current - Judicial deposit	(942)	(942)	(942)	(942)
	-	-	-	-
Non-current - Provision	113,907	93,116	110,336	89,777
Non-current - Judicial deposit	(4,090)	(3,017)	(4,090)	(3,017)
	109,817	90,099	106,246	86,760

All amounts in thousands of reais, unless otherwise indicated

The changes in provision for 2009 are as follows:

	Consolidated	**Parent company**
At December 31, 2008	90,099	86,760
Additions	18,413	18,181
Transfer of judicial deposits from assets to liabilities	(744)	(744)
Monetary restatement	2,049	2,049
At December 31, 2009	109,817	106,246

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.

At December 31, 2009 and 2008, the Company does 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 restated up to June 30, 2008, related to certain matters for which it was considered necessary to record provisions, restated up to June 30, 2008, in the amount 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, determining the five-year statute of limitations, 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 be 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 the Company decided to record the restated amount of R$ 65,189, net of lawyers costs, in the result for 2009, in “Other operating income (expenses), net” (Note 18), and “Receivables - Eletrobrás” in current assets.

All amounts in thousands of reais, unless otherwise indicated

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

14 Income Tax and Social Contribution

(a) Deferred Income 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 on temporary differences, by nature, are as follows:

	Consolidated		Parent company	
	2009	**2008**	**2009**	**2008**
Deferred taxes on temporary differences				
Provision for losses in permanent assets	890	4,290	890	4,290
Provision for contingencies	26,875	20,218	25,797	19,140
Post-employment liabilities	48,784	37,411	7,328	5,254
Provision for bonus	5,984	9,520	5,984	9,520
Other	14,841	5,585	2,436	5,586
	97,374	77,024	42,435	43,790
Deferred taxes on income tax and social contribution tax loss carryforwards	116,315	33,968	115,123	33,968
Total deferred tax assets	213,689	110,992	157,558	77,758

All amounts in thousands of reais, unless otherwise indicated

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 obligations 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 absorb the deferred taxes. The estimates of future taxable income include assumptions related to the performance of the Company, its market and the economy. Actual results may differ from those estimates.

The recorded deferred tax assets are supported by a technical study in compliance with CVM Instruction No. 371/02.

(b) Taxes recoverable

The Parent Company recorded in current assets, in the item "Taxes recoverable", the balance of taxes withheld on financial investments in the amount of R$14,447, which will be offset against federal taxes in 2010.

(c) Reconciliation of the income tax and social contribution expense

	Consolidated		Parent company	
	2009	**2008**	**2009**	**2008**
Loss before taxes, net of management profit sharing	544	(67,899)	(4,832)	(80,299)
Standard rate - %	34%	34%	34%	34%
Nominal expense	(185)	23,086	1,643	27,302
Tax and contribution on				
Non-deductible loss on financial transaction (i)	-	(17,736)	-	-
Recognition of contingent provision	(1,028)	-	(1,028)	-
Equity in the results of investees	-	-	(25,879)	(22,419)
Recognition of tax credits on tax losses	-	16,877	-	17,964
Effect of different rates of subsidiaries located in other jurisdictions	(11,538)	(4,569)	-	-
Effect of the rule of limitation of interest deductibility in Germany	(13,277)	(10,085)	-	-
Other, net	(2,660)	6,471	112	3,753

All amounts in thousands of reais, unless otherwise indicated

	Consolidated		Parent company	
	2009	2008	2009	2008
Effective credit (expense)	(28,688)	14,044	(25,152)	26,600
Current credit (expense)	(26,398)	(24,193)	2,276	(5,254)
Deferred credit (expense)	(2,290)	38,237	(27,428)	31,854

(i) Iliama Participações S.L. recorded a loss on a derivative contract in connection with the foreign exchange differences incurred when purchasing the quotas of subsidiary LWB Island Company Ltd. This loss is nondeductible and does not generate a tax loss to be offset.

(d) Deferred taxes - non-current liabilities

	Consolidated		Parent company	
	2009	2008	2009	2008
Deferred taxes on real estate profit	18,707	22,932	18,707	22,932
Deferred taxes on fiscal amortization of goodwill (i)	108,113	-	108,113	-
Social Contribution on Net Income (CSLL) on tax incentives	3,340	-	3,340	-
Deferred taxes on accelerated fiscal depreciation	61,363	63,604	-	-
	191,523	**86,536**	**130,160**	**22,932**

(i) As from January 1, 2009, the goodwill attributable to expectation of future profitability is no longer amortized, according to 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 Regime the fiscal amortization of this goodwill. The tax effect of this amortization required the recognition of deferred income tax and social contribution, recorded in non-current liabilities.

15 Shareholders' Equity

(a) Capital

At December 31, 2009, the Company's capital is R$2,386,032 (2008 - R$ 2,036,032), represented by 257,954,378 common shares (2008 - 213,873,448 common shares), all nominative and with no par value.

The changes in capital during 2009 and 2008 are as follows:

		Parent company			
		Changes		Capital	
Date	**Event**	**Number of shares - in thousands**	**Thousands R$**	**Number of shares - in thousands**	**Thousands R$**
12/31/07	Balance	-	-	869,000,000	869,000
1/18/08	Capital increase in cash	44,303,797	44,304	913,303,797	913,304
1/23/08	Capital increase in cash	93,670,886	93,671	1,006,974,684	1,006,975
1/31/08	Capital increase in cash	74,000,000	74,000	1,080,974,684	1,080,975
2/21/08	Merger - Magnesita S.A.	734,980,252	288,176	1,815,954,936	1,369,151
3/17/08	Reverse stock split 10,000:1	-	-	181,595	1,369,151
7/24/08	Capital increase in cash	78	780	181,673	1,369,931
7/24/08	Cancellation of treasury stock	(823)	(6,476)	180,151	1,363,455
7/24/08	Capital increase in cash	9,565	184,985	190,416	1,548,440
11/5/08	Capital increase (Acquisition of LWB with shares of Magnesita Refratários S.A.)	23,457	487,592	213,873	2,036,032
12/31/08	Balance	-	-	213,873	2,036,032
2/20/09	Cancellation of treasury stock	(791)	-	213,082	2,036,032
10/30/09	Capital increase in cash	44,872	350,000	257,954	2,386,032
12/31/09	Balance	-	-	257,954	2,386,032

The Company is authorized to increase its capital up to R$4,000,000, without amending the by-laws, through approval of the Board of Directors, which will determine the conditions for the issue.

(b) Dividends

Shareholders are entitled to a minimum dividend corresponding to 25% of net income for the year, adjusted in conformity with the 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 No. 8200/91. This reserve may be used to increase capital or absorb accumulated losses.

. Special reserve of goodwill on the merger of the shareholder of Magnesita Refratários S.A. This corresponds to the goodwill, net of the provision set up under CVM Instruction No. 349/01. When this reserve is used for capital increase, the shares will be distributed to all the shareholders.

. Stock options granted: represents the value of the Company's stock options granted to Management, in conformity with CPC No. 10/2008. In 2009 corresponding the expense recognized in the statement of operations was R$ 2,418 (2008 - R$ 3,061).

(d) Revenue reserves

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

(e) Carrying value adjustment

Represents the exchange variation of investment in subsidiaries abroad, in conformity with Law No. 11638/07, net of tax effects if applicable.

16 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).

On July 27, 2009, the Supplementary Retirement and Pension Secretariat (SPC), approved changes in the regulation of the Magnus Benefit Plan and the Company started offering its employees a Defined Contribution (CD) benefit plan with contributions by the sponsor and the participant. The CD plan allows to build their supplementary retirement funds, with transparency and at low cost for the participants. In addition, there are no risks arising from the actuarial liability, since the benefit to be granted will depend on the accumulated contributions and future profitability of the fund.

All amounts in thousands of reais, unless otherwise indicated

The employees 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 expense to cost the Defined Contribution Plan is R$ 5,190 and will 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 December 31, 2009 Magnus had 4,806 active participants (2008 - 3,700).

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.

At December 31, 2009, Magnus had 229 retired participants and pensioners and 1,271 participants awaiting the deferred benefit.

An independent actuary (Mercer Human Resources Consulting Ltda.) carried out the actuarial valuation of the benefits plan in 2009, using the projected unit credit method, to determine the present value of the obligations, in accordance with CVM Resolution 371/01.

The liability was recognized by the sponsors in long-term liabilities - post-employment liabilities, with the deferred gains or losses being recognized according to the CVM Resolution, summarized as follows:

	Parent company			
	Present value of liabilities	**Fair value of assets**	**Net value of unrecognized actuarial gains and losses**	**Actuarial liability recognized**
Balances at December 31, 2008	(174,155)	175,265	(16,566)	(15,456)
Current service cost	(1,991)	-	-	(1,991)
Interest cost	(20,238)	-	-	(20,238)
Earnings from plan assets	-	17,883	-	17,883
Benefits paid	16,204	(16,204)	-	-
Gains/losses of the plan assets	-	-	1,032	1,032
Actuarial gains/losses	(12,313)	-	37,053	-
Contributions paid by the sponsors	-	3,543	-	3,543
Contributions paid by the employees	-	193	(69)	124
Impact of changes in actuarial assumptions	(24,740)	-	-	-
Impact from the anticipated liquidation of the benefits plan	32,796	(37,242)	(2,004)	(6,450)
Balances at December 31, 2009	(184,437)	143,438	19,446	(21,553)

All amounts in thousands of reais, unless otherwise indicated

The actuarial costs calculated for 2010 and 2009 are as follows:

	Parent company	
	2010	**2009**
Current service cost	(340)	(1,991)
Interest cost	(19,911)	(20,238)
Earnings from plan assets	14,233	18,914
Contributions from former employees	46	124
Cost of amortization of actuarial losses	(54)	-
	(6,026)	(3,191)

The sponsor has no contributions to make for the Defined Benefit Plan, guaranteeing, however, the actuarial liability and its development.

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

	December 31	
	2009	**2008**
Actuarial assumptions		
Economic		
Discount rate	11.29% per annum	12.36% per annum
Return on investments	10.49% per annum	12.80% per annum
Salary increases	6.60% per annum	6.60% per annum
Benefits adjustment	4.50% per annum	4.50% per annum
Capacity factor	100.00%	100.00%
Inflation	4.50% per annum	4.50% per annum
Demographic		
General mortality	AT- 1983	AT - 1983
Disability	RRB - 1983	RRB - 1944
Turnover	Experience of Magnus	Experience of Magnus
Probability of entry into retirement	1st payable	1st payable

All amounts in thousands of reais, unless otherwise indicated

LWB Group

In the case of LWB Group, its subsidiaries maintain retirement plans for their employees, and their actuarial liabilities, recognized in the consolidated financial statements, are as follows:

				Region
Description	**Europe**	**United States**	**China**	**Total**
Defined benefit plan	100,879	77,141	-	178,020
Premium for length of service	3,620	-		3,620
Early retirement plan	-	-	25,990	25,990
At December 31, 2009	104,499	77,141	25,990	207,630
At December 31, 2008	126,462	122,736	38,545	287,743

Defined Contribution Plans

LWB Group operates a defined contribution plan in the United States 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 LWB 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$ 2,590 (R$ 594 in November and December 2008), calculated at the rates defined in the respective rules. Of this total amount, R$ 881 were recorded in the costs of products sold, R$ 656 in selling expenses and R$ 1,053 in administrative expenses (2008 - R$ 150, R$ 186 and R$ 258, respectively).

Defined Benefit Plans

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

All amounts in thousands of reais, unless otherwise indicated

	Region			
	Europe		United States	
	2009	**2008**	**2009**	**2008**
Present value of actuarial liability	(100,879)	(120,587)	(234,336)	(269,683)
Fair value of assets	-	-	161,087	178,694
Unrecognized actuarial gains/losses	-	-	(3,892)	(31,747)
Actuarial liability	(100,879)	(120,587)	(77,141)	(122,736)
Active participants	457	626	645	681
Beneficiaries	1,182	187	579	693
Participants dismissed but eligible for the Plan	324	1,203	370	497
Economic actuarial assumptions:				
Discount rate	5% p.a.	6% p.a.	6.2%p.a.	6.25% p.a.
Return on investments	-	-	8.25% p.a.	8.75% p.a.
Salary growth	2.50% p.a.	2.50% p.a.	3.50% p.a.	3.50% p.a.
Readjustment of benefits	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$ 2,146 in 2009 (R$ 1,139 in November and December 2008). Of this amount, R$ 894 were recorded in the costs of products sold, R$ 521 in selling expenses and R$ 731 in administrative expenses (2008- R$ 436, R$ 193 and R$ 510, respectively).

Early Retirement Plan

In 2007 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.

All amounts in thousands of reais, unless otherwise indicated

17 Stock Option Plan

In conformity with its Articles of Incorporation, the Company has a stock option plan approved at a General Meeting of Shareholders 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 each year may not be sold during one year.

The number of stock options and their corresponding weighted average prices for the year are presented below:

	2009		2008	
	Number (thousand)	**Average price (R$)**	**Number (thousand)**	**Average price (R$)**
Outstanding at the beginning	4,506	3,61	-	-
Granted during the period	5,810	3,72	4,506	3,61
Balance of options	10,316	3,67	4,506	3,61
Adjustment of probability	77.8%		77.8%	
Number to be accounted for on the accrual basis	8,026	3,67	3,506	3,61

The amount to be recorded on the accrual basis, considering a five-year term for exercising the options, adjusted for probability, amounts to R$29,452 for the entire period (2008 - R$ 12,653), of which R$2,418 was recorded in 2009 (R$ 3,061 up to 2008) totaling R$5,479 in a specific account of shareholders' equity.

In 2009 the options owners were allowed to purchase shares in the capital market to comply with the obligations of the program in the year. Accordingly, 183,366 shares were acquired by managers in the stock exchange to comply with the purchase option exercise in the current year. In 2008 the Company issued 78,000 shares for exercise of purchase options.

All amounts in thousands of reais, unless otherwise indicated

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% per annum
. Spot value: value of the Company's share at the date of grant.
. Strike: as stipulated in the stock option plan (R$10.00).
. Term: average term of options.
. Dividend: 1.2% on the market value of the share.

18 Other Operating Income (Expenses),Net

	Consolidated		Parent company	
	2009	**2008**	**2009**	**2008**
Judicial gain - Eletrobrás(i)	65,189	-	65,189	-
Labor indemnities	(20,721)	(18,435)	(18,960)	(18,197)
Sundry indemnities	3,094	(1,196)	3,094	(1,193)
Provision for contingencies	(6,518)	(7,522)	(6,518)	(6,699)
Judicial recovery of taxes (ii)	5,233	18,470	3,950	17,153
Reversal of provisions (iii)	-	19,395	-	17,644
Assignment of rights of payroll processing	3,200	2,133	3,200	2,133
Commissions received	-	2,414	-	-
Restructuring expenditure (iv)	(29,146)	(21,855)	-	-
Income from sale of property, plant and equipment	23,754	17,912	22,042	17,891
Disposal of property, plant and equipment	(16,927)	(9,999)	(16,927)	(9,135)
Net gains on real estate project (v)	14,806	67,199	14,806	67,199
Income from sale of interest in subsidiary	-	7,708	-	7,708
Cost of sale of interest in subsidiary	-	(3,962)	-	(3,962)
Benefits to employees (Magnus) (vi)	(8,058)		(8,058)	
Other, net	(9,370)	(9,719)	(4,424)	(783)
	24,536	62,543	57,394	89,759

(i) Refers to unappealable gain in lawsuit in which the Company challenged the monetary restatement of compulsory loans to Eletrobrás (Note 13).

All amounts in thousands of reais, unless otherwise indicated

(ii) In 2008 this refers to the gain in the lawsuit where the Company claimed the monetary restatement on the income tax refundable related to 1989.

(iii) In 2008, this basically refers to the reversal of the social security provisions which were proven to have expired, in connection with the "Stare Decisis" No. 8 issued by the Federal Supreme Court (STF), determining the five-year statute of limitations period, and declaring the unconstitutionality of articles 45 and 46 of Law 8212/91.

(iv) This refers to restructuring expenditures of the LWB Group, related to proceedings for which the decision-making stage was concluded. It substantially refers to dismissal expenditures.

(v) 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 for payments in installments and the balances receivable are subject to monetary restatement and interest, according to indices negotiated case by case.

(vi) Refers to the development of actuarial liabilities of the Defined Benefit Plan after the change of the benefit type to Defined Contribution for the active participants (Note 16).

19 Financial Income and Expenses

The financial income and expenses are as follows:

	Consolidated		Parent company	
	2009	2008	2009	2008
Financial income	17,501	17,205	13,912	7,977
Financial expenses	(281,104)	(217,560)	(191,030)	(156,475)
Monetary and exchange variations on assets	(27,263)	107,630	(43,810)	107,328
Monetary and exchange variations on liabilities	52,187	(46,400)	44,925	(24,564)
	(238,679)	(139,125)	(176,003)	(65,734)

20 Financial Instruments

(a) Identification of financial instruments

The financial instruments of the Company and its subsidiaries are recorded in asset and liability accounts at December 31, 2009 and 2008. 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 its 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.

(c) Interest rate risk

The interest rates on loans and financing are basically CDI and Libor (Note 11). The interest rates contracted on the financial investments are basically CDI (Note 5).

Based on management's assessment, 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 Company and its subsidiaries to foreign exchange fluctuations, arising mainly from the US dollar, is as follows:

	Consolidated - 2009		
	In thousands R$		
	USD	**€**	**Other currencies**
Assets and liabilities in foreign currency			
Cash and banks	42,425	80,490	17,113
Marketable securities	62,066	-	409
Accounts receivable, net of allowance for doubtful accounts	84,080	113,085	24,524
Suppliers	(30,529)	(49,318)	(14,740)
Loans and financing	(756,240)	(12,745)	-
Other net monetary liabilities abroad	(56,335)	(167,390)	(43,371)
	(654,533)	(35,878)	(16,065)

The US dollar-denominated loan is 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$ 1,526,514, any future devaluation of which will not affect cash.

(e) Derivatives

At December 31, 2009 the Company does not have outstanding derivative transactions. The Company does not enter into transactions with derivatives for speculative purposes, nor does it usually settle these transactions before maturity.

During 2009 the Company contracted some “swap” and “NDF” (“Non Deliverable Forward”) transactions in order to mitigate and manage the risks inherent to foreign currencies variation. These operations were settled along the year and their effects are recorded in the statement of operations for 2009.

All amounts in thousands of reais, unless otherwise indicated

LWB has entered into certain currency-related Non Deliverable Forward (NDF) contracts for purposes of protecting cash flows in connection with the acquisition of raw material in US dollars, as follows:

		LWB - 2009	
Description	**Maturity ranges Month/year**	**Notional value**	**Fair value R$**
Exchange rate hedge (NDF):			
United States	January/10		
Assets		Euro 833	5
Liabilities		US$ 1,200	
United Kingdom	January/10		
Assets		GB Pound 687	34
Liabilities		Euro 708	
Belgium	June/10		
Assets		Euro 2,825	92
Liabilities		US$ 4,069	

Chart of sensitivity analysis

The sensitivity analysis was prepared using the quotations available in the financial market to calculate the future value of operations. This analysis considers the following risks:

1) Derivative contracts of LWB for Exchange risk on purchase of raw material. In this case management considered as “probable scenario” the fair value of contracts at December 31, 2009. In addition, scenarios II and III were calculated as deterioration of rates at 25% and 50% respectively, on the probable scenario, considering these hypotheses for the settlement date of the operation. This analysis has the following position:

		LWB Gain (Loss) (R$)		
Instrument	**Risk**	**Scenario I (probable)**	**Scenario II**	**Scenario III**
NDF				
United States	Devaluation of Euro against US dollar	5	(123)	(679)
United Kingdom	Devaluation of GB Pound against Euro	34	(191)	(641)
Belgium	Devaluation of Euro against US dollar	92	(1,025)	(2,909)

All amounts in thousands of reais, unless otherwise indicated

2) Risk of interest rates: we considered as probable scenario the estimation of the Brazilian Central Bank for CDI and Libor rates in 2010. Additionally, scenarios II and III were calculated with deterioration of CDI and Libor rates at 25% and 50%, respectively, on the probable scenario, considering these hypotheses for 2010. In the case of Libor rate (1% for scenario I, 1.25% for scenario II and 1.5% for scenario III) the minimum rate of 2.5% has not been exceeded by any of the scenarios. This situation would result in the following financial expenses for the Company in 2010, considering the floating part of the interest rate:

		Financial expenses (R$)		
Instrument	**Risk**	**Scenario I (probable)**	**Scenario II**	**Scenario III**
Export credit note	CDI	124,468	145,958	167,284
JP Morgan contract	Libor	There is no change in the expenses amount due to minimum rate of 2.5%.		

According to management evaluation, the future changes in the floating interest rates will not generate effects that cannot be supported by the Company business.

21 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 at December 31:

	Consolidated		Parent company	
	2009	**2008**	**2009**	**2008**
Asset amounts insured	2,742,269	3,602,835	1,610,786	1,597,878
Loss of profits	1,282,387	815,672	587,512	133,198
Civil liability	261,188	330,171	10,000	1,000

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

22 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 2009 are recorded in the Provision for bonus and charges as described in Note 10.

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