

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITOR’S REPORT

To the Shareholders and Management of
Tupy S.A.
São Paulo, SP

We have audited the individual and consolidated accompanying financial statements of Tupy S.A. (“Company”), identified as Company and Consolidated, respectively, which comprise the balance sheets as at December 31, 2010, and the income statements, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the Individual Financial Statements

In our opinion, the individual financial statements present fairly, in all material respects, the financial position of Tupy S.A. as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tupy S.A. as at December 31, 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil.

Emphasis of Matter

We draw attention to Note 2 to the financial statements, which states that the individual financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of Tupy S.A. these accounting practices differ from the IFRSs, applicable to separate financial statements, only with respect to the measurement of investments in subsidiaries, associates and jointly controlled entities by the equity method of accounting, which, for purposes of IFRS would be measured at cost or fair value.

Other Matters

Statements of Value Added

We have also audited the individual and consolidated statements of value added (“DVA”), for the year ended December 31, 2010, the presentation of which is required by the Brazilian Corporate Law for publicly-traded companies, and as supplemental information for IFRS that does not require a presentation of DVA. These statements were subject to the same auditing procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Joinville, March 23, 2011

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Roberto Wagner Promenzio
Engagement Partner

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TUPY S.A. AND SUBSIDIARIES

BALANCE SHEETS AS AT DECEMBER 31, 2010 AND 2009

(In thousands of Brazilian reais - R\$)

A S S E T S

	Note	Company			Consolidated		
		2010	2009	1/1/2009	2010	2009	1/1/2009
CURRENT ASSETS							
Cash and cash equivalents	4	558,168	408,578	156,382	578,366	437,240	252,581
Trade receivables, net	6	200,615	181,151	264,672	214,737	174,016	176,815
Inventories	7	172,663	141,214	205,001	201,196	172,644	251,559
Third-party tools		30,259	36,724	43,328	30,259	36,724	43,328
Recoverable taxes	8	18,433	28,608	47,907	23,758	32,431	52,795
Notes and other receivables		18,045	13,833	19,855	18,945	15,986	20,586
Total current assets		998,183	810,108	737,145	1,067,261	869,041	797,664
Held-for-sale assets	12	-	-	-	4,574	10,309	23,162
NONCURRENT ASSETS							
Subsidiaries and associates		-	-	9,398	-	-	-
Long-term cash investments	5	19,963	13,682	-	19,963	13,682	-
Recoverable taxes	8	190,215	237,092	101,371	192,213	239,512	106,060
Deferred income tax and social contribution	9	62,101	61,950	184,679	64,583	62,839	193,750
Eletróbrás receivables	11	90,284	85,341	52,385	90,284	85,341	52,385
Escrow and other deposits		2,961	3,007	2,950	3,626	3,672	3,614
Investments:							
Subsidiaries	13	75,686	68,784	83,680	-	-	-
Other investments	13	582	582	582	922	980	582
Property, plant and equipment	14	955,870	892,337	860,397	961,249	893,229	861,471
Total noncurrent assets		1,397,662	1,362,775	1,295,442	1,332,840	1,299,255	1,217,862
Total assets		2,395,845	2,172,883	2,032,587	2,404,675	2,178,605	2,038,688

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

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TUPY S.A. AND SUBSIDIARIES

BALANCE SHEETS AS AT DECEMBER 31, 2010 AND 2009

(In thousands of Brazilian reais - R\$)

LIABILITIES AND EQUITY

	Note	Company			Consolidated		
		2010	2009	1/1/2009	2010	2009	1/1/2009
CURRENT LIABILITIES							
Trade payables		119,276	95,989	57,605	121,291	98,028	59,149
Borrowings and financing	15	75,718	115,115	116,169	75,718	115,115	168,703
Debentures		-	-	447	-	-	447
Taxes and payroll taxes in installments	16	11,193	97,857	10,868	11,193	97,857	10,868
Taxes payable		2,454	3,572	36,838	2,963	6,071	41,522
Payroll, related taxes and profit sharing	17	89,901	40,617	56,625	90,687	41,163	57,530
Advances from customers		38,946	42,719	45,011	56,015	56,957	52,938
Dividends and interests on capital	19	42,933	42,645	44,234	42,933	42,645	44,234
Notes and other payables		32,098	32,448	23,463	25,248	21,276	22,696
Total current liabilities		412,519	470,962	391,260	426,048	479,112	458,087
NONCURRENT LIABILITIES							
Borrowings and financing	15	762,599	547,246	345,742	762,599	547,246	410,659
Debentures		-	-	1,031	-	-	1,031
Taxes and payroll taxes in installments	16	14,372	23,028	31,637	14,372	23,028	31,637
Subsidiaries and associates	10	5,728	5,585	129,185	-	-	-
Allowance for impairment of investments	13	-	43,093	41,461	-	-	-
Provisions for tax, civil, social security, and labor contingencies	18	150,903	112,859	227,176	151,932	159,109	272,179
Deferred taxes on revaluation reserves		76,492	84,568	91,284	76,492	84,568	91,284
Other noncurrent liabilities		2,473	3,933	6,293	2,473	3,933	6,293
Total noncurrent liabilities		1,012,567	820,312	873,809	1,007,868	817,884	813,083
EQUITY							
Capital	19	398,395	398,395	398,395	398,395	398,395	398,395
Valuation adjustments to equity		148,490	164,160	179,140	148,490	164,160	179,140
Earnings reserve		423,874	319,054	189,983	423,874	319,054	189,983
Total equity		970,759	881,609	767,518	970,759	881,609	767,518
Total liabilities and equity		2,395,845	2,172,883	2,032,587	2,404,675	2,178,605	2,038,688

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



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TUPY S.A. AND SUBSIDIARIES**INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31**
(In thousands of Brazilian reais - R\$, except earnings per share)

	Note	Company		Consolidated	
		2010	2009	2010	2009
OPERATING REVENUE	20	1,836,835	1,175,587	1,871,527	1,223,841
Cost of sales	21	(1,476,157)	(1,019,421)	(1,476,131)	(1,037,144)
GROSS PROFIT		360,678	156,166	395,396	186,697
Selling expenses	21	(78,116)	(51,831)	(94,567)	(65,027)
Administrative expenses	21	(41,740)	(32,461)	(44,360)	(35,489)
Management compensation	10	(6,942)	(4,029)	(6,942)	(4,029)
PROFIT BEFORE FINANCIAL INCOME (EXPENSES), EQUITY IN SUBSIDIARIES, AND TAXATION		233,880	67,845	249,527	82,152
Financial expenses	22	(37,004)	(37,268)	(38,083)	(36,607)
Financial income	22	42,906	20,769	42,965	19,666
Inflation adjustment and exchange differences,	22	(3,953)	52,655	(8,719)	46,948
PROFIT AFTER FINANCIAL INCOME (EXPENSES)		235,829	104,001	245,690	112,159
Equity in subsidiaries	13	49,995	18,508	-	-
Other operating income (expenses)	23	(98,257)	88,193	(53,997)	107,068
OPERATING PROFIT		187,567	210,702	191,693	219,227
Income tax and social contribution	24	(33,136)	(53,966)	(37,262)	(62,491)
PROFIT FOR THE YEAR		154,431	156,736	154,431	156,736
EARNINGS PER SHARE					
Basic and diluted earnings per share	25	2.7027	2.7431		

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



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TUPY S.A. AND SUBSIDIARIES**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(In thousands of Brazilian reais - R\$)**

	Note	Company		Consolidated	
		2010	2009	2010	2009
Cash flows from operating activities:					
Profit for the year		154,431	156,736	154,431	156,736
Adjustments to reconcile profit for the year with cash provided by operating activities					
Depreciation and amortization	14	76,255	67,988	76,433	68,196
Equity in subsidiaries	13	(49,995)	(18,508)	-	-
Gain (loss) on sale of forestry assets	12	-	-	972	(21,382)
Write-off of property, plant and equipment items	14	4,428	7,072	4,628	7,072
Deferred income tax and social contribution	24	(8,227)	32,395	(9,820)	40,577
Accrued interest and exchange differences		9,695	(109,739)	23,862	(77,779)
Allowance for doubtful accounts	6	75	1,223	75	1,223
Allowance for inventory losses	7	2,390	(843)	2,390	(843)
Provisions for tax, civil, social security, and labor contingenci	18	27,876	(31,214)	(26,302)	(36,735)
Other noncurrent liabilities		(1,460)	(2,360)	(1,460)	(2,360)
Reversal of part of 1988-1990 IPI Premium Credits	8	40,741	-	40,741	-
Reversal of 1981-1985 IPI Premium Credits	8	5,766	-	5,766	-
Impacts of enrollment with REFIS	23	-	(71,524)	-	(79,348)
		261,975	31,226	271,716	55,357
Changes in operating assets and liabilities:					
Trade receivables		(19,539)	82,298	(40,796)	1,576
Inventories		(33,839)	64,630	(30,942)	79,758
Customers' tools		6,465	6,604	6,465	6,604
Recoverable taxes		12,611	39,353	11,531	42,687
Notes and other receivables		(4,212)	6,022	(2,959)	4,600
Escrow and other deposits		84	110	84	110
Trade payables		23,287	38,384	23,263	38,879
Taxes payable		(1,118)	(28,051)	(3,108)	(29,822)
Payroll, related taxes and profit sharing		49,284	(16,008)	49,524	(16,367)
Advances from customers		(3,773)	(2,292)	(942)	4,019
Notes and other payables		(350)	8,985	3,972	(1,420)
		28,900	200,035	16,092	130,624
Net cash provided by operating activities		290,875	231,261	287,808	185,981
Cash flows from investing activities:					
Increase in investments		-	-	-	(564)
Increase in property and equipment	14	(144,216)	(107,000)	(144,352)	(107,239)
Sales/write-off of forestry assets		-	-	-	34,401
Net cash used in investing activities		(144,216)	(107,000)	(144,352)	(73,402)
Cash flows from financing activities:					
Repayment of borrowings and financing		(127,064)	(138,372)	(127,064)	(230,586)
Repayment of debentures		-	(1,358)	-	(1,358)
Amortization of taxes in installments		(99,981)	(27,392)	(99,981)	(27,392)
New borrowings and financing		302,291	425,382	302,291	425,382
Subsidiaries and associates		103	(57,284)	-	-
Interest on capital and dividends paid	19	(64,993)	(44,234)	(64,993)	(44,234)
Long-term cash investments	5	(6,281)	(13,682)	(6,281)	(13,682)
Net cash provided by financing activities		4,075	143,060	3,972	108,130
Effect of exchanges differences on cash for the year		(1,144)	(15,125)	(6,302)	(36,050)
Increase in cash and cash equivalents		149,590	252,196	141,126	184,659
Cash and cash equivalents at beginning of year		408,578	156,382	437,240	252,581
Cash and cash equivalents at end of year		558,168	408,578	578,366	437,240

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

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TUPY S.A. AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY
(In thousands of Brazilian reais - R\$)

	Note	Capital	Valuation adjustments to equity	Earnings reserves			Retained earnings	Total
				Legal reserve	Investment reserve	Proposed additional dividends		
BALANCE AT DECEMBER 31, 2008		398,395	189,008	11,725	178,258	-	-	777,386
Deferred income tax and social contribution	3	-	(9,868)	-	-	-	-	(9,868)
BALANCE AT JANUARY 1, 2009		398,395	179,140	11,725	178,258	-	-	767,518
Profit for the year		-	-	-	-	-	156,736	156,736
Realization of valuation adjustments to equity		-	(14,980)	-	-	-	14,980	-
Allocation of income:								
Legal reserve	19	-	-	7,837	-	-	(7,837)	-
Investment reserve	19	-	-	-	98,886	-	(98,886)	-
Dividends and interests on capital	19	-	-	-	-	22,348	(64,993)	(42,645)
BALANCE AT DECEMBER 31, 2009		398,395	164,160	19,562	277,144	22,348	-	881,609
Profit for the year		-	-	-	-	-	154,431	154,431
Payment of additional 2009 dividends		-	-	-	-	(22,348)	-	(22,348)
Realization of valuation adjustments to equity		-	(15,670)	-	-	-	15,670	-
Allocation of income:								
Legal reserve	19	-	-	7,722	-	-	(7,722)	-
Investment reserve	19	-	-	-	97,440	-	(97,440)	-
Dividends and interests on capital	19	-	-	-	-	22,006	(64,939)	(42,933)
BALANCE AT DECEMBER 31, 2010		398,395	148,490	27,284	374,584	22,006	-	970,759

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



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TUPY S.A. AND SUBSIDIARIES
STATEMENTS OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31
(In thousands of Brazilian reais - R\$)

	Note	Company		Consolidated	
		2010	2009	2010	2009
Creation of wealth		2,108,251	1,379,103	2,143,117	1,427,556
Product sales less returns and discounts	20	2,108,326	1,380,326	2,143,192	1,428,779
Allowance for doubtful accounts	6	(75)	(1,223)	(75)	(1,223)
(-) Inputs purchased from third parties		1,404,228	777,057	1,373,046	783,784
Raw and processing materials consumed		1,034,325	664,851	1,031,554	673,671
Supplies, power, outside services and other		369,903	112,206	341,492	110,113
GROSS VALUE ADDED		704,023	602,046	770,071	643,772
Retentions:		76,255	67,988	76,433	68,196
Depreciation and amortization	14	76,255	67,988	76,433	68,196
Wealth created		627,768	534,058	693,638	575,576
Wealth received in transfer		92,901	39,277	42,965	19,666
Equity in subsidiaries	13	49,995	18,508	-	-
Financial income	22	42,906	20,769	42,965	19,666
WEALTH FOR DISTRIBUTION		720,669	573,335	736,603	595,242
Distribution of value added					
Personnel		374,919	260,798	380,242	266,214
Employees		260,428	178,681	264,767	183,298
Payroll taxes - Severance Pay Fund (FGTS)		23,649	23,660	23,649	23,665
Profit sharing		37,035	9,862	37,357	9,944
Management compensation		6,942	4,029	6,942	4,029
Occupational health and safety		33,134	34,845	33,134	34,854
Meals		9,161	6,108	9,161	6,114
Education, training and professional development		1,210	1,014	1,235	1,069
Other		3,360	2,599	3,997	3,241
Government		150,362	171,188	155,128	182,633
Federal taxes and fees		143,891	146,768	148,373	158,037
State taxes		4,764	22,668	4,764	22,668
Municipal and other taxes		1,707	1,752	1,991	1,928
Lenders and lessors		40,957	(15,387)	46,802	(10,341)
Financial expenses	22	37,004	37,268	38,083	36,607
Inflation adjustment and exchange differences, net	22	3,953	(52,655)	8,719	(46,948)
Shareholders		154,431	156,736	154,431	156,736
Interest on capital	19	41,706	36,009	41,706	36,009
Dividends	19	23,233	28,984	23,233	28,984
Retained earnings		89,492	91,743	89,492	91,743
TOTAL WEALTH		720,669	573,335	736,603	595,242

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

1. GENERAL INFORMATION

Tupy S.A. (“Tupy” or “Company”) is a corporation established in Brazil, with manufacturing plants in Joinville, Santa Catarina State, and Mauá, São Paulo State. Tupy holds a solid position in the domestic and foreign foundry markets as the second largest independent foundry of cast iron engine blocks and cylinder heads and the largest in Latin America. It has a diversified customer base in the Americas, Europe, and is engaged in the manufacturing of automotive and industrial products. (Note 27.)

In addition to its plants, the Company has the following wholly-owned subsidiaries:

- Tupy American Foundry Co., located in the United States, and Tupy Europe GmbH, headquartered in Germany, which operate as an extension of the automotive operations in Brazil, and are engaged in logistics, the sale of and provision of technical assistance for automotive products sold to customers in North America and Europe;
- Tupy American Iron & Alloys Co., located in the United States, and Tupy Argentina S.R.L., headquartered in Argentina, which operate as an extension of the operations in Brazil, and are engaged in logistics, the sale of and provision of technical assistance for automotive products sold to customers in North America and Argentina;
- Tupy Agroenergética Ltda., Brazilian company located in Joinville, Santa Catarina, operating in the reforestation segment, originally established to provide alternative sources of energy and whose assets are currently being sold;
- Sociedade Técnica de Fundições Gerais S.A. – Sofunge, “under liquidation”.

2. PRESENTATION AND PREPARATION OF FINANCIAL STATEMENTS

The Company’s financial statements comprise:

- The individual financial statements of the Company, which have been prepared and are presented in accordance with accounting practices adopted in Brazil, the provisions of Brazilian Corporate Law, and the standards of the Brazilian Securities and Exchange Commission (CVM), as well as the changes introduced by Law 11638/07 and Law 11941/09.
- The consolidated financial statements, which have been prepared in accordance with the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB), and the accounting practices adopted in Brazil, identified as Consolidated.

The individual financial statements present the valuation of investments in subsidiaries by the equity method of accounting, pursuant to prevailing Brazilian statutes. Accordingly, these individual financial statements are not considered as in accordance with IFRSs, which require the measurement of such investments in separate financial statements of the parent, at their fair values or at cost.

As there is no difference between the consolidated equity and the consolidated profit attributable to the owners of the Company, disclosed in the consolidated financial statements prepared in accordance with IFRSs and the accounting practices adopted in Brazil, and the Company's equity and profit disclosed in the individual financial statements prepared in accordance with accounting practices adopted in Brazil, the Company opted for presenting these individual and consolidated financial statements in a single set, side by side.

2.1. Basis of preparation

The financial statements have been prepared based on the historical cost, except for certain financial instruments measured at their fair values, as described in the accounting policies below. The historical cost is generally based on the fair value of the consideration paid in exchange for assets.

These consolidated financial statements are the first prepared in accordance with IFRSs. When preparing the individual financial statements, the Company adopted the changes in the accounting practices adopted in Brazil introduced by CPCs 15 to 40. The effects from adopting IFRSs and new pronouncements issued by the CPC are presented in note 3.

2.2. Functional and reporting currency

The Company's individual and consolidated financial statements are presented in Brazilian reais (R\$), which is the functional and reporting currency. All financial information presented in Brazilian reais (R\$) have been rounded to the nearest real amount, unless otherwise stated.

2.3. Use of estimates and judgment

The preparation of individual and consolidated financial statements pursuant to IFRSs and the accounting practices adopted in Brazil requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and assumptions are reviewed at the end of each annual reporting period. Revised accounting estimates are recognized in the period in which estimates are reviewed and in any affected future periods.

Information on assumptions and estimates with a significant risk of resulting in a material adjustment in the following year is disclosed in the notes Deferred income tax and social contribution (note 09), Provisions for tax, civil, social security and labor contingencies (note 18), and Financial instruments (note 28).

2.4. Significant accounting policies

The accounting policies described in detail below have been consistently applied in all the periods presented in these individual and consolidated financial statements and in the preparation of the opening balance sheet as at January 1, 2009, for the purpose of transition to IFRSs and the accounting practices adopted in Brazil.

a. Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the subsidiaries. The accounting policies of the subsidiaries are aligned with the policies used by the Company.

Financial information on subsidiaries and is recognized in the individual financial statements of the Company by the equity method of accounting.

Transactions eliminated on consolidation

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Unrealized gains or losses arising from transactions with subsidiaries, recognized by the equity method, are eliminated against the investment to the extent of the Company's interest in the subsidiary.

b. Foreign currency

Foreign currency transactions

Foreign currency-denominated transactions are translated into the Company's functional currency at the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, assets and liabilities denominated and determine in foreign currencies are translated into the functional currency at the rates prevailing at that date. Exchange differences are recognized in profit or loss in the period in which they arise.

Foreign subsidiaries' operations

The balance sheet and income and expense information of subsidiaries that use functional currencies other than the Company's functional currency are translated into the presentation currency, the Brazilian real (R\$), as follows:

- Assets and liabilities are translated into Brazilian reais (R\$) using exchange rates prevailing at the end of the reporting period;
- Income and expense from foreign operations are translated into Brazilian reais (R\$) at the average monthly exchange rates; and



- As these subsidiaries do not have their own management bodies or administrative autonomy, do not enter into own transactions, and, in substance, operate as an extension of the Company, the exchange effects on investments in subsidiaries are recognized in profit for the year.

c. Cash and cash equivalents

Consist of bank accounts, short-term investments in Brazil and abroad, and highly-liquid securities redeemable within 90 days or less from the investment date, subject to an immaterial risk of change in value. (Note 4.)

d. Short-term investments

Held-to-maturity short-term investments are measured at the amortized cost plus interest, exchange differences, less impairment losses, when applicable, incurred through the end of the reporting period. (Note 5.)

e. Trade receivables

Carried amortized cost, less impairment losses. Accounts receivable from foreign customers are adjusted based on exchange rates in effect at the end of the reporting period.

The allowance for doubtful accounts is recognized based on the aging of past-due receivables, in an amount considered sufficient to cover possible losses on trade receivables. (Note 6.)

f. Inventories

Carried at average acquisition and/or production cost, by the full manufacturing costs absorption method, less an allowance for impairment losses, where applicable. The analysis for the recognition of the allowance takes into account applicability, recovery ability, and indications of obsolescence.

Inventory costs include the expenses incurred on the purchase of inputs, transportation to their current location, and all direct and indirect fixed and variable production costs required to transform inputs into finished, saleable products. Inventory costs do not exceed the lower of the cost and the net realizable value.

The net realizable value is the sale price estimated in the normal course of business less selling expenses. (Note 7.)

g. Third-party tools

Refer to tools used in production to complete contracts with customers. They are carried at average acquisition or production cost, less an allowance for adjustment to probable realizable values, where applicable. When completed, the tools are

billed to customers and remain in the Company under free-lease agreements, to be used in the production process.

h. Income tax and social contribution

Income tax and social contribution expenses represent the sum of the taxes currently payable and deferred taxes. Current and deferred taxes are recognized in profit or loss unless they are related to items recognized directly in equity or other comprehensive income. (Note 9 and 24.)

Current taxes

The provision for income tax and social contribution is based on the taxable profit for the year. Taxable profit differs from profit as reported in the income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The provision for income and social contribution taxes is calculated separately for each Group company based on the tax rates prevailing at the end of the reporting period.

Deferred taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is measured at the tax rates expected to be applied on temporary differences when reversed, based on the statutory tax rates that have been enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same entity subject to taxation.

A deferred income tax and social contribution asset is recognized for all unutilized deductible tax losses, tax credits, and temporary differences to the extent that it is probable that taxable profits will be available against which those tax losses, tax credits, and deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that their realization is no longer probable.

i. Assets held for sale

Assets are classified as held for sale if their carrying amount is recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the noncurrent asset is available for immediate sale in its present condition.

Assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. (Note 12.)

j. Investments

The Company fully consolidated the financial statements of Tupy S.A. and all its subsidiaries. There is control when the Company holds, directly or indirectly, most of the voting rights at the Shareholders' Meeting or has the power to determine the financial and operational policies, to obtain benefits from its activities.

Investments in subsidiaries are measured by the equity method and any gains not realized by the end of the reporting period are eliminated. Other investments are carried at acquisition cost less an allowance for adjustment to probable realizable value, where applicable. (Note 13.)

k. Property, plant and equipment

Recognition and measurement

Property, plant and equipment items are measured at the historical acquisition or construction cost, less accumulated depreciation and, where applicable, accumulated impairment losses. (Note 14)

Historical cost includes expenditures directly attributable to the installation of assets. The cost of assets built by the Company includes supplies, labor, and any other costs required to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Both include borrowing costs incurred during the installation or construction of the related qualifying assets.

Exemption related to the use of deemed cost

The Company and its subsidiaries reviewed and decided to maintain the historical costs of their property, plant and equipment items principally due to the following:

- management elected to maintain the existing revaluation balances, which were used as deemed cost in the opening balance sheet in light of the consistency between the revalued amount and the fair value of the revalued items at the revaluation date;
- the significant amount of investments in property, plant and equipment carried out in the past three years; and
- the Company has been using for many years depreciation rates based on the useful lives of the depreciable items.

The Company elected to use the balances of existing revaluation as an integral part of the cost value of the related items, and thus it has changed the name of the revaluation reserve item to valuation adjustments to equity.

Depreciation

Depreciation is calculated using the cost of an asset and recognized in profit or loss based on the estimated useful life of each asset or portions of each asset, using the straight-line method, as this method is more representative of the time pattern in which economic benefits from the asset are consumed.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company as they refer to the financing of property, plant and equipment items. On initial recognition, a leased asset is measured at the lower of its fair value or the present value of the minimum lease payments. After initial recognition, a leased asset is carried according to the accounting policy applicable to property, plant and equipment.

l. Allowance for impairment of assets

At the end of the reporting period, the Company tests its assets to identify any evidences that their carrying amounts exceed to the amounts be recovered through use or sale. If such evidences are identified, the Company estimates the asset's recoverable amount.

The recoverable amount of an asset is the higher of: (a) its fair value less costs to sell; and (ii) its value in use. The value in use is equivalent to discounted cash flows (before taxes) arising from the continuous use of the asset up to the end of its useful life.

When the residual carrying amount of an asset exceeds its recoverable amount, the Company recognizes an impairment in profit or loss.

m. Borrowings and financing

Initially recognized at fair value, less transaction costs incurred, and subsequently stated at amortized cost. Any difference between the amounts borrowed (less transaction costs) and the settlement amount is recognized in the income statement during the period the borrowings remain outstanding, using the effective interest rate method. (Note 15)

n. Payroll, related taxes and profit sharing

Obligations to employees and related taxes are measured when incurred, and are recognized as expenses as services are provided.

Liabilities related to the short-term profit sharing plan are recognized at the estimated amount to be disbursed by the Company. (Note 17)

o. Advances from customers

Refer to advances of funds to build the tools that will be used in the production process. Advances from customers are carried at the contractual amounts and adjusted for exchange differences where applicable, and settle as revenue from the related transaction inflows into the Company.

p. Provisions for tax, civil, social security, and labor contingencies

A provision is recognized in the balance sheet when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that a disbursement will be required to settle the obligation. It is recognized in an amount considered by management as sufficient to cover probable losses and adjusted for inflation through the end of the reporting period, based on the nature of each contingency and on the opinion of the Company's internal and outside legal counsel. (Note 18.)

q. Sales revenue

Sales revenue is recognized net of related taxes and discounts. Taxes on sales are recognized when sales are billed and discounts are recognized when granted. Revenue from sales of goods is recognized when the sales amount can be measured reliably, the Company no longer controls the goods sold or has any other responsibility related to the ownership of the goods, costs incurred or to be incurred in respect of the transaction can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the Company has transferred to the buyer all the risks and rewards of ownership of the goods. (Note 20.)

r. Basic and diluted earnings per share

Basic earnings per share are calculated using profit for the year attributable to Company shareholders divided by the weighted average number of common and preferred shares outstanding in the year.

Diluted earnings per share are calculated using said weighted average number of outstanding shares adjusted by potentially dilutive convertible instruments, if any. (Note 25)

s. Financial instruments

Financial assets and financial liabilities are recognized when the Company is a party to the underlying contract.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issuance of financial assets and financial liabilities are added to or deducted from the fair values of financial assets and financial liabilities after their initial recognition, if applicable, and are immediately recognized in profit or loss.

When the Company has the legal right of offset amounts and the intent to settle them on a net basis or simultaneously realize the asset and settle the liability, the Company can present the net amount in the balance sheet. (Note 28)

Financial assets

The Company recognizes loans, receivables, and deposits initially at the date they were originated. All other financial assets are initially recognized on trade date when the Company becomes a party to the underlying contract.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

The Company has the following financial assets: cash and cash equivalents, held-to-maturity investments, trade receivables, and other.

Financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities at the date they are originated. All other financial liabilities are initially recognized on trade date when the Company becomes a party to the underlying contract. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or settled.

The Company has the following financial liabilities: borrowings and financing, trade payables, and other.

These financial liabilities are initially recognized at fair value plus any attributable transaction costs. After the initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to hedge against its exposure to foreign exchange fluctuation.

Derivatives are initially recognized at fair value; attributable transaction costs are recognized in profit or loss when incurred.

t. Statements of value added (“DVA”)

The purpose of this statement is to disclose the wealth created by the Company and its distribution during a certain reporting period, and is presented by the Company, as required by the Brazilian Corporate Law, as an integral part of its individual



financial statements, and as additional disclosure of the consolidated financial statements, since this statement is not required by IFRSs.

The statement of value added was prepared using information obtained in the same accounting records used to prepare the financial statements and pursuant to the provisions of CPC 09 *Statement of Value Added*. The first part of this statement presents the wealth created by the Company, represented by revenue (gross sales revenue, including taxes levied thereon, other income, and the effects of the allowance for doubtful accounts), inputs acquired from third parties (cost of sales and purchase of materials, electric power, and outside services, including taxes levied at the time of the acquisition, the effects of impairment losses, and depreciation and amortization), and the wealth received from third parties (equity in subsidiaries, financial income, and other income). The second part of the statement of value added presents the distribution of wealth among personnel, taxes, fees and contributions, lenders and lessors, and shareholders.

u. New standards and interpretations issued and not yet adopted

Several standards and IFRS interpretations issued by the IASB are not yet become effective for the year ended December 31, 2010, as follows:

- IFRS 9 *Financial Instruments*: effective for annual reporting periods starting on or after January 1, 2013.
- IFRIC 14 (amended) *Prepayments of Minimum Funding Requirements*: effective for annual reporting periods starting on or after January 1, 2011.

The CPC has not yet issued any pronouncements equivalent to the IFRSs above, but it is expected that such pronouncements will be issued before the IFRSs' effective date. Early adoption of IFRSs is contingent to their approval by the Brazilian Securities and Exchange Commission.

The Company did not estimate the extent of the impact of these new standards on its financial statements.

3. EFFECTS OF ADOPTING IFRSs AND NEW PRONOUNCEMENTS ISSUED BY THE CPC

Effects from adopting IFRSs on the consolidated financial statements

The consolidated financial statements for the year ended December 31, 2010 (identified as Consolidated) are the first to be presented in accordance with IFRSs. The Company applied the accounting policies set out in note 2 to all periods presented, which includes the balance sheet as at the date of transition, defined as January 1, 2009.

The Company adopted the optional exemption to the retrospective application of deemed cost, described in note 2, prescribed by IFRS 1 and CPC 37(R1) *First-time Adoption of International Financial Reporting Standards* in measuring the adjustments to the opening balances and preparing the balance sheet as at the date of transition.



The other exemptions are not relevant for the Company and have not been adopted.

The impacts of the consolidated financial statements are presented in the tables below:

	Consolidated					
	Date of transition - 1/1/2009			As at 12/31/2009		
	Restated	Effects of transition to IFRSs	IFRSs	Restated	Effects of transition to IFRSs	IFRSs
ASSETS						
CURRENT ASSETS	811,408	(13,744) (a)	797,664	877,821	(8,780) (a)	869,041
NONCURRENT ASSETS	1,227,280	13,744 (a)	1,241,024	1,300,784	8,780 (a)	1,309,564
TOTAL ASSETS	<u>2,038,688</u>	<u>-</u>	<u>2,038,688</u>	<u>2,178,605</u>	<u>-</u>	<u>2,178,605</u>

	Consolidated					
	Date of transition - 1/1/2009			As at 12/31/2009		
	Restated	Effects of transition to IFRSs	IFRSs	Restated	Effects of transition to IFRSs	IFRSs
LIABILITIES AND EQUITY						
CURRENT LIABILITIES	458,087	-	458,087	501,460	(22,348) (b)	479,112
NONCURRENT LIABILITIES	803,215	9,868 (c)	813,083	808,016	9,868 (c)	817,884
EQUITY	777,386	(9,868) (c)	767,518	869,129	12,480 (b+c)	881,609
TOTAL LIABILITIES AND EQUITY	<u>2,038,688</u>	<u>-</u>	<u>2,038,688</u>	<u>2,178,605</u>	<u>-</u>	<u>2,178,605</u>

	Consolidated
RECONCILIATION OF EQUITY	
Equity originally reported as at January 1, 2009	<u>777,386</u>
<i>Description of adjustments to new policies:</i>	
- Deferred income tax on revaluation of land and buildings (a)	(9,868)
Equity under IFRSs as at January 1, 2009	<u>767,518</u>
Equity originally reported as at December 31, 2009	<u>869,129</u>
<i>Description of adjustments to new policies:</i>	
- Deferred income tax on revaluation of land and buildings (a)	(9,868)
- Proposed additional dividends (b)	22,348
Equity under IFRSs as at December 31, 2009	<u>881,609</u>

Explaining the reconciliations

We present below an explanation of the changes in accounting policies arising from the transition to IFRSs:

- (a) reclassification of deferred income tax and social contribution from current and to noncurrent;
- (b) reclassification of proposed dividends exceeding the mandatory minimum dividends of 25% of profit; and

- (c) recognition of deferred income tax and social contribution on the revaluation of land and buildings undertaken in 1990, which was originally accounted for in equity net of taxes.

The changes in accounting policies had not impact on the Company's consolidated profit.

Effects of adopting the new accounting pronouncements issued by the CPC on the individual financial statements

In preparing its individual financial statements (identified as Company), the Company adopted all the pronouncements and the related interpretations and guidelines issued by the CPC and approved by the CVM, which together with the accounting practices included in the Brazilian Corporate Law are called the accounting practices adopted in Brazil (BR GAAP).

The Company applied the accounting policies set out in note 2 to all periods presented, which includes the opening balance sheet as at January 1, 2009. In measuring the adjustments to and preparing this opening balance sheet, the Company applied the requirements set out in CPC 43(R1) First-time Adoption of CPCs 15-40, and adjusted its individual financial statements so that when consolidated they produced the same amounts of equity, attributable to the owners of the Company, and net income of the consolidation prepared in accordance with IFRSs by applying IFRS 1 and CPC 37(R1) *First-time Adoption of International Financial Reporting Standards*.

Accordingly, the Company made in the two sets of individual financial statements the adjustments made upon the adoption of IFRSs in the consolidated financial statements, as described in note 2 above.

	Company					
	Date of transition - 1/1/2009			As at 12/31/2009		
	Former BR GAAP	Effects of transition to IFRSs	Restated BR GAAP	Former BR GAAP	Effects of transition to IFRSs	Restated BR GAAP
ASSETS						
CURRENT ASSETS	750,889	(13,744) (a)	737,145	818,888	(8,780) (a)	810,108
NONCURRENT ASSETS	1,281,698	13,744 (a)	1,295,442	1,353,995	8,780 (a)	1,362,775
TOTAL ASSETS	<u>2,032,587</u>	<u>-</u>	<u>2,032,587</u>	<u>2,172,883</u>	<u>-</u>	<u>2,172,883</u>

	Company					
	Date of transition - 1/1/2009			As at 12/31/2009		
	Former BR GAAP	Effects of transition to IFRSs	Restated BR GAAP	Former BR GAAP	Effects of transition to IFRSs	Restated BR GAAP
LIABILITIES AND EQUITY						
CURRENT LIABILITIES	391,260	-	391,260	493,310	(22,348) (b)	470,962
NONCURRENT LIABILITIES	863,941	9,868 (c)	873,809	810,444	9,868 (c)	820,312
EQUITY	777,386	(9,868) (c)	767,518	869,129	12,480 (b+c)	881,609
TOTAL LIABILITIES AND EQUITY	<u>2,032,587</u>	<u>-</u>	<u>2,032,587</u>	<u>2,172,883</u>	<u>-</u>	<u>2,172,883</u>



RECONCILIATION OF EQUITY		<u>Company</u>
Equity originally reported as at January 1, 2009		777,386
<i>Description of adjustments to new policies:</i>		
- Deferred income tax on revaluation of land and buildings	(c)	(9,868)
Equity under CPCs as at January 1, 2009		767,518
Equity originally reported as at December 31, 2009		869,129
<i>Description of adjustments to new policies:</i>		
- Deferred income tax on revaluation of land and buildings	(c)	(9,868)
- Proposed additional dividends	(b)	22,348
Equity under CPCs as at December 31, 2009		881,609

Explaining the reconciliations

The effects of the adoption of the new pronouncements issued by the CPC on the individual financial statements are the same as those arising from the transition to IFRSs of the consolidated financial statements, described in the previous item, and had no impact on the Company's profit.

Effects of adopting IFRSs and new pronouncements issued by the CPC on the 2010 interim financial statements

Pursuant to CVM Resolution 656/2011, the Company elected to restate its 2010 interim financial statements on the presentation of the first 2011 interim financial statements.

These interim financial statements have been subjected to special review procedures applied by the Company's independent auditors, in accordance with CVM requirements for interim financial statements—Standard on Auditing Procedures (NPA) 06 of the Brazilian Institute of Independent Auditors (IBRACON)—including the adjustments arising from the adoption of the new accounting policies, and, therefore, were not subjected to auditing procedures.

The effects on Company and consolidated equity arising from the application of the technical pronouncements, interpretations and guidelines issued by the CPC and approved by the CVM, and the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) are as follows:



RECONCILIATION OF EQUITY IN INTERIM FINANCIAL STATEMENTS

		Company and Consolidated
Equity originally reported as at December 31, 2009		869,129
<i>Description of adjustments to new policies:</i>		
- Deferred income tax on revaluation of land and buildings	(a)	(9,868)
- Proposed additional dividends	(b)	22,348
Equity under CPCs and IFRSs as at December 31, 2009		881,609
Equity originally reported as at March 31, 2010		898,441
<i>Description of adjustments to new policies:</i>		
- Deferred income tax on revaluation of land and buildings	(a)	(9,868)
- Proposed additional dividends	(b)	22,348
Equity under CPCs and IFRSs as at March 31, 2010		910,921
Equity originally reported as at June 30, 2010		933,175
<i>Description of adjustments to new policies:</i>		
- Deferred income tax on revaluation of land and buildings	(a)	(9,868)
Equity under CPCs and IFRSs as at June 30, 2010		923,307
Equity originally reported as at September 30, 2010		991,929
<i>Description of adjustments to new policies:</i>		
- Deferred income tax on revaluation of land and buildings	(a)	(9,868)
Equity under CPCs and IFRSs as at September 30, 2010		982,061

Explaining the reconciliations

We present below an explanation of the effects of the adoptions of the new pronouncements issued by the CPC on the individual financial statements and the changes in accounting policies arising from the transition to IFRSs in the consolidated financial statements:

- (a) recognition of deferred income tax and social contribution on the revaluation of land and buildings undertaken in 1990, which was originally accounted for in equity net of taxes; and
- (b) reclassification of proposed dividends exceeding the mandatory minimum dividends of 25% of profit.

The adoption of the new accounting pronouncements and the changes in accounting policies did not impact Company and consolidated profit.

4. CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS	Company			Consolidated		
	2010	2009	1/1/2009	2010	2009	1/1/2009
Cash and banks	1,269	1,834	2,235	1,322	1,838	2,239
Short-term investments in Brazil	398,542	269,587	64,460	398,542	269,587	64,460
Short-term investments abroad	158,357	137,157	89,687	178,502	165,815	185,882
	558,168	408,578	156,382	578,366	437,240	252,581

Short-term investments are immediately convertible into a known cash amount and are subject to an insignificant risk of change; therefore, they have been considered as cash equivalents in the statements of cash flow.

Short-term investments in Brazil yield interest equivalent to the interbank deposit rate (CDI), at an average rate of 10.84% per year, and short-term investments abroad yield an average rate of 0.55% per year (average rates of 8.76% and 0.37% per year, respectively, in December 2009).

Interest rate risk exposure and the sensitivity analysis for financial assets are disclosed in Note 28, Financial instruments.

5. CASH INVESTMENTS

LONG-TERM INVESTMENTS	Company			Consolidated		
	2010	2009	1/1/2009	2010	2009	1/1/2009
Cash investments in Brazil	19,963	13,682	-	19,963	13,682	-

Yield interest equivalent to the interbank deposit rate (CDI), at an average rate of 11.13% per year (average rate of 8.93% per year in December 2009) and are represented by the guarantee deposit on behalf of the BNDES (National Bank for Economic and Social Development). (Note 15)

6. TRADE RECEIVABLES, NET

Trade receivable by market and aging are as follows:

TRADE RECEIVABLES	Company			Consolidated		
	2010	2009	1/1/2009	2010	2009	1/1/2009
Domestic market	87,536	77,547	51,382	87,624	77,597	51,523
Foreign market	116,357	107,233	216,739	130,391	100,048	128,741
	203,893	184,780	268,121	218,015	177,645	180,264
Allowance for doubtful accounts	(3,278)	(3,629)	(3,449)	(3,278)	(3,629)	(3,449)
Trade receivables, net	200,615	181,151	264,672	214,737	174,016	176,815

	Company			Consolidated		
	2010	2009	1/1/2009	2010	2009	1/1/2009
Current - up to 30 days	123,359	106,356	170,262	161,164	110,391	144,785
From 31 to 60 days	53,700	38,750	54,457	29,773	33,804	16,754
Over 61 days	19,407	23,984	27,224	17,768	17,760	2,547
Past due	7,427	15,690	16,178	9,310	15,690	16,178
	203,893	184,780	268,121	218,015	177,645	180,264

The allowance for doubtful accounts is determined based on past-due receivables, under the conditions below.

	Period past due		Company and consolidated		
			2010	2009	1/1/2009
Domestic market	From 60 to 180 days	50%	(92)	(241)	(107)
	More than 180 days	100%	(350)	(197)	(228)
Foreign market	From 90 to 180 days	50%	-	-	(435)
	More than 180 days	100%	(2,836)	(3,191)	(2,679)
			(3,278)	(3,629)	(3,449)

During the reporting period, changes in the allowance for doubtful accounts were as follows:

	Company and consolidated
Balance at Jan 1, 2009	(3,449)
Additions	(1,223)
Write-off to losses	1,043
Balance at Dec 31, 2009	(3,629)
Additions	(75)
Write-off to losses	426
Balance at Dec 31, 2010	(3,278)

7. INVENTORIES

	Company			Consolidated		
	2010	2009	1/1/2009	2010	2009	1/1/2009
Finished products	59,794	31,192	65,752	88,327	62,622	112,310
Work in process	26,239	28,227	31,096	26,239	28,227	31,096
Raw materials	27,233	26,982	31,935	27,233	26,982	31,935
Processing materials	26,509	26,643	47,694	26,509	26,643	47,694
Maintenance and other supplies	36,755	33,769	36,557	36,755	33,769	36,557
Allowance for losses	(3,867)	(5,599)	(8,033)	(3,867)	(5,599)	(8,033)
	172,663	141,214	205,001	201,196	172,644	251,559



An allowance was recognized for adjustment of certain items to their realizable value. During the reporting period, changes in the allowance for adjustment of inventories to realizable value were as follows:

	Company and consolidated
Balance at Jan 1, 2009	(8,033)
Additions	(3,125)
Reversals	3,968
Write-off to losses	1,591
Balance at Dec 31, 2009	(5,599)
Additions	(2,531)
Reversals	141
Write-off to losses	4,122
Balance at Dec 31, 2010	(3,867)

8. RECOVERABLE TAXES

Recoverable taxes, classified as according to their expected realization, are as follows:

	Company								
	2010			2009			01/09/2009		
	Current	Noncurrent	Total	Current	Noncurrent	Total	Current	Noncurrent	Total
(a) 1979-1981 IPI Premium Credit	-	52,560	52,560	-	50,493	50,493	-	49,487	49,487
(b) 1981-1985 IPI Premium Credit	-	-	-	-	5,766	5,766	-	5,766	5,766
(c) 1988-1990 Premium Credit	-	88,843	88,843	-	129,584	129,584	-	-	-
(d) Broadening of the COFINS base	-	25,170	25,170	-	23,237	23,237	-	-	-
(e) State VAT (ICMS) - São Paulo	-	32,138	32,138	-	36,508	36,508	-	39,582	39,582
(e) Allowance for losses on ICMS	-	(15,501)	(15,501)	-	(15,501)	(15,501)	-	(15,501)	(15,501)
(e) State VAT (ICMS) - Santa Catarina	7,368	7,005	14,373	16,075	7,005	23,080	7,186	6,277	13,463
Income tax	7,197	-	7,197	11,418	-	11,418	19,958	15,760	35,718
Social contribution	2,603	-	2,603	-	-	-	17,421	-	17,421
Tax on revenue (COFINS)	1,056	-	1,056	788	-	788	2,753	-	2,753
Tax on revenue (PIS)	207	-	207	158	-	158	551	-	551
Federal VAT (IPI) and other	2	-	2	169	-	169	38	-	38
	18,433	190,215	208,648	28,608	237,092	265,700	47,907	101,371	149,278

	Consolidated								
	2010			2009			01/09/2009		
	Current	Noncurrent	Total	Current	Noncurrent	Total	Current	Noncurrent	Total
(a) 1979-1981 IPI Premium Credit	-	52,560	52,560	-	50,493	50,493	-	49,487	49,487
(b) 1981-1985 IPI Premium Credit	-	-	-	-	5,766	5,766	-	5,766	5,766
(c) 1988-1990 Premium Credit	-	88,843	88,843	-	129,584	129,584	-	-	-
(d) Broadening of the COFINS base	-	25,170	25,170	-	23,237	23,237	-	-	-
(e) State VAT (ICMS) - São Paulo	-	32,138	32,138	-	36,508	36,508	-	39,582	39,582
(e) Allowance for losses on ICMS	-	(15,501)	(15,501)	-	(15,501)	(15,501)	-	(15,501)	(15,501)
(e) State VAT (ICMS) - Santa Catarina	7,368	7,005	14,373	16,075	7,005	23,080	7,186	6,277	13,463
Income tax	7,228	209	7,437	11,450	201	11,651	19,958	16,002	35,960
Social contribution	2,603	-	2,603	-	-	-	17,421	-	17,421
Tax on revenue (COFINS)	1,056	-	1,056	788	-	788	2,753	-	2,753
Tax on revenue (PIS)	207	-	207	158	-	158	551	-	551
Federal VAT (IPI) and other	5,296	1,789	7,085	3,960	2,219	6,179	4,926	4,447	9,373
	23,758	192,213	215,971	32,431	239,512	271,943	52,795	106,060	158,855

The origin of the tax credits above is as follows:

a. IPI Premium Credit - 1979-1981 exports.

Tax benefit known as Federal VAT (IPI) premium credit, arising on the exports carried out by the Company in 1979-1985; the right to utilize such credit was recognized by a final and unappealable court decision of December 2003. This decision is the case subject of a sentence execution action currently in its final stage at the Superior Court of Justice. The Company intends to initiate the offsetting of these credits in the first quarter of 2011.

b. IPI Premium Credit - 1981-1985 exports.

IPI Premium Credit originating from exports carried out by the Company in 1981-1985; the right to utilize such credit was recognized by a final and unappealable court decision, and was offset, when permitted, against federal taxes, as approved by the Federal Revenue Service. In 2010 the company elected to maintain the discussion of these credits in administrative courts and the balance at December 31, 2009 was written off to profit for the year. (Note 23)

c. IPI Premium Credit - Jun 1988-Oct 1990 exports.

IPI export premium credit originating from exports carried out by the Company from June 1988 to October 1990; the right to utilize such credit was recognized by a final and unappealable decision of the Superior Court of Justice of April 2009. In light of the inflation adjustment criteria applicable to this credit and the documentation currently required for its realization (as prescribed by current case rulings), the Company reviewed the historical documentation related to its export transactions and based on this work concluded that the credit amount for the period is R\$88,843. The R\$40,741 difference compared to the balance at December 31, 2009 was recognized as operating expenses (Note 23).

The amount recognized as operating expenses disclosed in the previous paragraph, amounting to R\$34,917, consists of credits that the Company and its legal counsel believe that can be supported in courts.

The Company will initiate judicial execution to secure an authorization for realization in 2011.

d. COFINS credit from broadening of tax base (note 9718/98).

Right to refund COFINS paid later recognized as undue by the Company in a final and unappealable decision of May 2006. This payment was made at the time through the utilization of IPI premium credit, which was not accepted by the Federal Revenue Service. Litigation and the related debt to the Federal Revenue Service were settled under the amnesty set forth by Provisional Act 470/09, in October 2010. The Company intends to initiate the offsetting of these credits in the first quarter of 2011.

**e. Recoverable São Paulo State VAT (ICMS).**

Credits arising from the purchase of raw materials used in to manufacture exported products. Management filed with the São Paulo State Department of Finance a request for the onerous transfer of credits to suppliers based in São Paulo. Management recorded a provision of R\$15,501 to offset possible losses on the credit balance in view of the delay in obtaining such authorization. While is awaits the authorization above, the Company has revalued its transactions between the Santa Catarina and the São Paulo units to minimize losses, resulting a R\$4,370 reduction of the credit balance in 2010 (R\$3,074 in 2009).

f. Recoverable Santa Catarina ICMS.

Credits arising from the purchase of property, plant and equipment amounting to R\$14,373, realizable in 48 installments, according to relevant state legislation (R\$11,157 in 2009).

In 2009 the Company also recognized R\$11,563 related to a credit arising from the tax fiscal amnesty plan created by the State of Santa Catarina under Provisional Act 160/SC, which was fully utilized throughout 2010.

9. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

DEFERRED TAX ASSETS AND LIABILITIES	Company			Consolidated		
	2010	2009	1/1/2009	2010	2009	1/1/2009
Current assets						
Trade receivables	1,799	1,234	1,173	1,799	1,234	1,173
Inventories	1,315	1,904	2,731	1,315	1,904	2,731
Recoverable taxes	5,270	5,270	5,270	5,270	5,270	5,270
Other	1,438	6,719	5,429	1,438	6,719	5,429
Noncurrent assets						
Income tax loss carryforwards	-	6,333	66,404	-	6,333	66,404
Social contribution tax loss carryforwards	-	2,447	26,665	-	2,447	26,665
Property, plant and equipment	(76,492)	(84,568)	(91,284)	(76,492)	(84,568)	(91,284)
Tax-incentive depreciation	(546)	(506)	(642)	(546)	(506)	(642)
Lease agreements	(632)	(845)	(846)	(632)	(845)	(846)
Unrealized earnings	-	-	-	2,482	889	9,071
Noncurrent liabilities						
Provisions for tax, civil, social security, and labor contingencies	53,457	39,394	78,495	53,457	39,394	78,495
	(14,391)	(22,618)	93,395	(11,909)	(21,729)	102,466
Deferred income tax and social contribution assets	62,101	61,950	184,679	64,583	62,839	193,750
(-) Deferred income tax and social contribution liabilities	76,492	84,568	91,284	76,492	84,568	91,284
	(14,391)	(22,618)	93,395	(11,909)	(21,729)	102,466

In November 2009, the Company joined the federal tax debt refinancing program (REFIS) and utilized income tax credits of tax loss carryforwards amounting to R\$83,618 to settle part of the tax debts enrolled in this tax installment plan, as described be in Note 16.



The Company prepared a technical feasibility plan, approved by the Board of Directors, on the recovery of deferred income tax and social contribution, which points to the full recovery of these deferred taxes. As at December 31, expected future realization, based on the Company's earnings projections, is as follows:

Year	Company			Consolidated		
	2010	2009	1/1/2009	2010	2009	1/1/2009
2010	-	8,780	26,376	-	8,780	26,376
2011	27,247	15,567	17,380	27,247	15,567	17,380
2012	27,488	18,302	22,444	27,488	18,302	22,444
2013	7,366	19,301	22,343	9,848	20,164	22,343
2014	-	-	21,778	-	26	21,778
2015-2017	-	-	61,987	-	-	61,987
After 2017	-	-	12,371	-	-	21,442
	62,101	61,950	184,679	64,583	62,839	193,750

Subsidiary Sociedade Técnica de Fundições Gerais S.A. - Sofunge (under liquidation) has income tax loss carryforwards of R\$55,755 (R\$55,852 in 2009 and R\$64,471 at January 1, 2009) and social contribution tax carryforwards of R\$60,986 (R\$60,930 in 2009 and R\$55,180 at January 1, 2009). At the moment, management does not envisage any form of realization, which is why the related credits are not recognized. The decline tax loss carryforwards as compared to the amounts at January 1, 2009 reflects the utilization of part of the credit to settle the debts settled in REFIS in 2009.

10. RELATED-PARTY TRANSACTIONS

The main Company transactions with related parties can be summarized as follows:

a. Subsidiaries:

Balance sheet	Receivables			Payables		
	2010	2009	1/1/2009	2010	2009	1/1/2009
Tupy Agroenergética Ltda.	-	-	-	3,475	3,056	2,624
Sociedade Técnica de Fundições Gerais SA. - Sofunge "em liquidação"	-	-	-	2,253	2,529	9,110
Tupy American Foundry Co.	35,494	41,620	119,376	-	-	117,451
Tupy American Iron & Alloys Co.	910	1,623	6,421	-	-	-
Tupy Europe GmbH	23,213	11,758	46,081	-	-	-
Tupy Argentina S.R.L.	1,957	2,472	14,469	-	-	-
	61,574	57,473	186,347	5,728	5,585	129,185

Income statement	Sales revenue		Financial expenses	
	2010	2009	2010	2009
Tupy Agroenergética Ltda.	-	-	(23)	(109)
Sociedade Técnica de Fundições Gerais SA. - Sofunge "em liquidação"	-	-	(16)	(61)
Tupy American Foundry Co.	345,892	163,494	-	(5,999)
Tupy American Iron & Alloys Co.	4,252	2,256	-	-
Tupy Europe GmbH	123,485	78,799	-	-
Tupy Argentina S.R.L.	2,805	3,450	-	-
	476,434	247,999	(39)	(6,169)

Intragroup receivables and sales revenue are basically represented by the product sale transactions at prices and under terms and conditions agreed by the parties.

Intragroup payables represent loans of subsidiaries in Brazil, which bear interest equivalent to TR (a managed prime rate), and export prepayments (in 2008) made by a foreign subsidiary, adjusted by the exchange rate change + Libor + 2.85% per year.

b. Main shareholders:

The Company's main shareholders are PREVI – Caixa de Previdência dos Funcionários do Banco do Brasil and BNDES Participações S.A. – BNDESPAR.

The Company has a financing agreement with BNDES, the controlling shareholder of BNDES Participações S.A. - BNDESPAR, as detailed in Note 15.

The Company does not conduct material business transactions with its main shareholders' investees.

c. Management compensation

	Directors		Officers	
	2010	2009	2010	2009
Members	7	7	5	4
Fixed compensation	780	631	2,838	2,123
Variable compensation	-	-	3,324	1,275
	780	631	6,162	3,398

The overall compensation approved by the Annual and Extraordinary Shareholders' Meeting is R\$8,500 (R\$8,500 in 2009).

Executive officers receive additional corporate benefits, such as company-provided vehicles, reimbursement of vehicle-related expenses, health insurance, and severance pay.

The Company does not offer its officers a postemployment benefit plan or stock options.

No compensation was paid to the officers of subsidiaries.

The amount recognized in 2009 as variable compensation, amounting to R\$1,275, was reversed in 2010 as the goals were not met.

11. ELETROBRÁS RECEIVABLES

Refer to receivables recorded in 2003 relating to the recognition by courts (in a final and unappealable decision) of the right to the supplementary inflation adjustment of the Eletrobrás compulsory loan and related interest.

Under the sentence execution action, after the Company had filed several claims on the right to the refund amounts adjusted by compensatory and late-payment interest, the court-appointed expert issued a new report pointing out the Company's receivables if such interest were considered.

The decisions of the First Section of the Superior Court of Justice on Special Appeals 1.003.955/RS and 1.028.592/RS issued in August 2009 state that interest accretion is fully feasible.

Based on this decision, Abstract 254 of the Federal Supreme Court and the last report of the court expert, the Company recorded R\$27,896 in December 2009 as late-payment interest of 6% per year up to January 11, 2003 (Note 23).

In October 2010, the Company filed its final allegations supporting the recognized receivables. The action awaits a court decision.

The table below shows the balance of this account:

	Company and consolidated
Balance at Jan 1, 2009	52,385
Compensatory interest	5,060
Late-payment interest	27,896
Balance at Dec 31, 2009	85,341
Compensatory interest	4,943
Balance at Dec 31, 2010	90,284

12. ASSETS HELD FOR SALE

The Company intends to sell, within 12 months, the reforestation investments of subsidiary Tupy Agroenergética Ltda., which are no longer used.

The need to recognize an allowance for impairment losses was not identified.

The Company revalued the probability of sale in the short term of the assets recognized in 2009 and decided to return R\$5,735 to property, plant and equipment.

The same type of investments were sold in 2009, resulting in a total gain of R\$21,382, as commented in Note 23.



13. INVESTMENTS

	Company			Consolidated		
	2010	2009	1/1/2009	2010	2009	1/1/2009
IN SUBSIDIARIES:						
Tupy Agroenergética Ltda.	13,184	13,087	26,036	-	-	-
Sociedade Técnica de Fundições Gerais S.A. - Sofunge "em liquidação"	2,038	-	-	-	-	-
Tupy American Foundry Co.	25,840	24,784	30,217	-	-	-
Tupy American Iron & Alloys Co.	1,997	1,820	1,112	-	-	-
Tupy Europe GmbH	30,257	26,897	26,315	-	-	-
Tupy Argentina S.R.L.	2,370	2,196	-	-	-	-
	75,686	68,784	83,680			
OTHER INVESTMENTS	582	582	582	922	980	582
	76,268	69,366	84,262	922	980	582

Changes in these line items are as follows:

	Investments in subsidiaries						Allowances for losses			
	Tupy Agroenergética Ltda.	Soc. Téc. de Fund.Gerais S.A.-Sofunge	Tupy American Foundry	Tupy American Iron & Alloys	Tupy Europe GmbH	Tupy Argentina S.R.L.	Total	Soc. Téc. de Fund.Gerais S.A.-Sofunge	Tupy Argentina S.R.L.	Total
Equity interests (%)	100.00	100.00	100.00	100.00	100.00	100.00		100.00	100.00	
TOTAL ASSETS AND LIABILITIES										
1/1/2009	26,428	9,972	282,351	9,083	101,545	9,695	439,074	-	-	-
2009	13,852	3,371	85,358	3,796	44,566	4,399	155,342	-	-	-
2010	13,296	3,098	81,881	3,529	65,260	4,036	171,100	-	-	-
EQUITY										
1/1/2009	26,036	-	30,217	1,112	26,315	-	83,680	(36,218)	(5,243)	(41,461)
2009	13,087	-	24,784	1,820	26,897	2,196	68,784	(43,093)	-	(43,093)
2010	13,184	2,038	25,840	1,997	30,257	2,370	75,686	-	-	-
PROFIT (LOSS):										
After elimination of unrealized profits										
1/1/2009	806	-	9,381	(166)	10,229	-	20,250	(8,322)	(821)	(9,143)
2009	22,087	-	(5,433)	708	582	2,196	20,140	(6,875)	5,243	(1,632)
2010	97	2,038	1,056	177	3,360	174	6,902	43,093	-	43,093
Balance at January 1, 2009	26,036	-	30,217	1,112	26,315	-	83,680	(36,218)	(5,243)	(41,461)
Equity in subsidiaries	22,087	-	(5,433)	708	582	2,196	20,140	(6,875)	5,243	(1,632)
Capital reduction and reserves	(21,036)	-	-	-	-	-	(21,036)	-	-	-
Profit distribution	(14,000)	-	-	-	-	-	(14,000)	-	-	-
Balance at December 31, 2009	13,087	-	24,784	1,820	26,897	2,196	68,784	(43,093)	-	(43,093)
Equity in subsidiaries	97	2,038	1,056	177	3,360	174	6,902	43,093	-	43,093
Balance at December 31, 2010	13,184	2,038	25,840	1,997	30,257	2,370	75,686	-	-	-

In June 2009, subsidiary Tupy Agroenergética Ltda. reduced its capital and distributed profits to the Company.

In November 2009, subsidiary Sociedade Técnica de Fundições Gerais - SOFUNGE "under liquidation" joined the tax installment plan created under law 11941/09 and settled liabilities totaling R\$10,706 consisting of social security debts, through a payment in cash and the utilization of tax loss carryforwards. The remaining balance of the subsidiary, amounting to R\$54,166, was reclassified as a civil contingency of its parent and was transfer to the Company in September 2010, resulting in an equity of R\$2,038 of this subsidiary against a shareholders' deficit of R\$43,093 as at December 31, 2009.



14. PROPERTY, PLANT AND EQUIPMENT

a. Changes in property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT	Company							Total
	Machinery, facilities and equipment	Buildings	Land	Vehicles	Furniture and fixtures	Works In progress	Other	
Cost								
Balance at January 1, 2009	1,085,629	140,441	8,748	14,568	8,556	100,459	143	1,358,544
Additions	65,204	3,342	-	1,479	91	36,648	236	107,000
Write-offs	(7,386)	-	-	(47)	-	-	-	(7,433)
Balance at December 31, 2009	1,143,447	143,783	8,748	16,000	8,647	137,107	379	1,458,111
Additions	62,328	7,822	-	1,505	106	69,523	2,932	144,216
Write-offs	(6,382)	(39)	-	(19)	(118)	-	-	(6,558)
Balance at December 31, 2010	1,199,393	151,566	8,748	17,486	8,635	206,630	3,311	1,595,769
Depreciation								
Balance at January 1, 2009	(407,054)	(76,196)	-	(6,997)	(7,900)	-	-	(498,147)
Depreciation for the period	(61,829)	(3,929)	-	(2,065)	(165)	-	-	(67,988)
Write-offs	314	-	-	47	-	-	-	361
Balance at December 31, 2009	(468,569)	(80,125)	-	(9,015)	(8,065)	-	-	(565,774)
Depreciation for the period	(70,185)	(3,927)	-	(2,022)	(121)	-	-	(76,255)
Write-offs	1,954	39	-	19	118	-	-	2,130
Balance at December 31, 2010	(536,800)	(84,013)	-	(11,018)	(8,068)	-	-	(639,899)
Book value								
At January 1, 2009	678,575	64,245	8,748	7,571	656	100,459	143	860,397
At December 31, 2009	674,878	63,658	8,748	6,985	582	137,107	379	892,337
At December 31, 2010	662,593	67,553	8,748	6,468	567	206,630	3,311	955,870

PROPERTY, PLANT AND EQUIPMENT	Consolidated							Total
	Machinery, facilities and equipment	Buildings	Land	Vehicles	Furniture and fixtures	Works In progress	Other	
Cost								
Balance at January 1, 2009	1,087,264	141,746	8,748	14,657	9,626	100,459	251	1,362,751
Additions	65,149	3,386	-	1,558	173	36,654	319	107,239
Write-offs	(7,375)	-	-	(47)	-	-	-	(7,422)
Effect of changes in foreign exchange	(200)	(60)	-	(23)	(347)	-	(31)	(661)
Balance at December 31, 2009	1,144,838	145,072	8,748	16,145	9,452	137,113	539	1,461,907
Additions	62,328	7,822	-	1,535	199	69,517	2,951	144,352
Write-offs	(6,398)	(929)	-	(19)	(118)	-	(60)	(7,524)
Transfer of assets held for sale	-	-	2,354	-	-	-	2,464	4,818
Effect of changes in foreign exchange	(40)	(9)	-	(41)	(125)	-	(13)	(228)
Balance at December 31, 2010	1,200,728	151,956	11,102	17,620	9,408	206,630	5,881	1,603,325
Depreciation								
Balance at January 1, 2009	(408,202)	(77,191)	-	(7,072)	(8,784)	-	(31)	(501,280)
Depreciation for the period	(61,824)	(3,987)	-	(2,080)	(304)	-	(1)	(68,196)
Write-offs	303	-	-	47	-	-	-	350
Effect of changes in foreign exchange	70	50	-	11	308	-	9	448
Balance at December 31, 2009	(469,653)	(81,128)	-	(9,094)	(8,780)	-	(23)	(568,678)
Depreciation for the period	(70,191)	(3,981)	-	(2,033)	(228)	-	-	(76,433)
Write-offs	1,957	802	-	19	118	-	-	2,896
Effect of changes in foreign exchange	9	7	-	3	118	-	2	139
Balance at December 31, 2010	(537,878)	(84,300)	-	(11,105)	(8,772)	-	(21)	(642,076)
Book value								
At January 1, 2009	679,062	64,555	8,748	7,585	842	100,459	220	861,471
At December 31, 2009	675,185	63,944	8,748	7,051	672	137,113	516	893,229
At December 31, 2010	662,850	67,656	11,102	6,515	636	206,630	5,860	961,249



Additions to consolidated property, plant and equipment, which take into consideration the continuity of the acquisitions for the new production lines of blocks, cylinder heads, and other parts of the automotive products segment in both plants, the maintenance of the operating capacity, and environmental protection (furnace exhausting systems, industrial landfill, and sand regeneration), are broken down as follows:

INVESTMENTS IN PP&E	Consolidated		
	2010	2009	1/1/2009
In expansion	61,080	65,776	79,864
Sustaining operating capacity	58,013	30,429	45,567
Environment	19,974	6,234	8,365
Interest and financial charges	5,285	4,800	3,433
	144,352	107,239	137,229

b. Depreciation

The Company depreciates property, plant and equipment on a straight-line basis, using the following useful lives;

	Average useful life
Machinery, facilities and equipment	15 years
Buildings	35 years
Vehicles	5 years
Furniture and fixtures	10 years

c. Capitalization of interest and financial charges

The Company recognizes interest and financial charges incurred during the construction period of the qualifying assets as asset formation cost. The amount recognized in 2010 totals R\$5,285 (R\$4,800 in 2009 and R\$3,433 at January 1, 2009).

d. Collaterals

As at December 31, 2010, proprieties in the carrying amount of R\$132,936 (R\$141,388 in 2009; R\$148,796 at January 1, 2009) were pledged as collateral of long-term bank loans.

e. Insured amounts

Property, plant and equipment are insured for fire, electrical damage, and explosion. Insurance coverage is determined based on the amounts and the level of risk involved, as described in note 26.

15. BORROWINGS AND FINANCING

LOCAL CURRENCY:	Maturity	Cost	Company			Consolidated		
			2010	2009	1/1/2009	2010	2009	1/1/2009
BNDES Exim - Pré-embarque (PSI)	Jun 2013	4.50% p.a.	550,563	300,808	-	550,563	300,808	-
Tupy S.A. expansion project - BNDES	Jul 2016	TJLP + 3.17% p.a.	153,220	107,060	20,623	153,220	107,060	20,623
Working capital		CDI + 0.75% p.a.	-	36,870	98,530	-	36,870	98,530
Lease agreements	Jul 2011	15.57% p.a.	178	1,219	3,712	178	1,219	3,712
Finame (PSI)	Jul 2018	4.66% p.a.	1,261	-	4,774	1,261	-	4,774
FOREIGN CURRENCY:								
Working capital	Mar 2013	LIBOR + 2.05% p.a.	51,559	113,628	206,848	51,559	113,628	324,299
Export prepayments	May 2013	LIBOR + 2.12% p.a.	66,047	92,827	125,010	66,047	92,827	125,010
Tupy S.A. expansion project - BNDES	Jul 2016	Forex + 6.26% p.a.	15,489	10,430	2,414	15,489	10,430	2,414
Loss on NDF transactions			-	(481)	-	-	(481)	-
			838,317	662,361	461,911	838,317	662,361	579,362
Current portion			75,718	115,115	116,169	75,718	115,115	168,703
Long-term portion			762,599	547,246	345,742	762,599	547,246	410,659

Maturities of long-term borrowings and financing are as follows:

Year	Company			Consolidated		
	2010	2009	1/1/2009	2010	2009	1/1/2009
2010	-	-	158,342	-	-	210,275
2011	-	160,796	99,153	-	160,796	112,137
2012	379,101	291,381	68,033	379,101	291,381	68,033
2013	305,407	45,248	20,214	305,407	45,248	20,214
2014	32,666	21,863	-	32,666	21,863	-
2015	28,460	17,657	-	28,460	17,657	-
Thereafter	16,965	10,301	-	16,965	10,301	-
	762,599	547,246	345,742	762,599	547,246	410,659

The credited facility extended by the BNDES on June 15, 2009 has a total maturity of 80 months, with a 27-month grace period. The agreement provides for the disbursement of 89% of funds in reais and the remaining 11% in U.S. dollars. Collaterals comprise industrial equipment, mortgage, bank guarantees, and a guarantee deposit of 12% of the outstanding balance.

In September and November 2009, and June 2010 the Company entered into BNDES Exim - Pré-Embarque (pre-shipment) of the Investment Support Program (PSI) transactions with several financial institutions totaling R\$299,217 and R\$250,000 respectively, used in the to the substitution of debts falling due in the short term and reinforcement of the Company's cash. The funds extended in 2009 and 2010 have a total maturity of 36 months, with the bullet repayment of principal at the termination of each agreement.

In December 2009, the Company had US\$73 million in Non-deliverable Forward (NDF) sale transactions due in January 26 and February 8, 2010 with a forward exchange rate of R\$1.75 and R\$1.78, respectively. As of December 31, 2009, net gain on these transactions totaled R\$481. These operations were settled when due and generated a loss of R\$5,542.

Some borrowings and financing are subject to compliance with certain financial ratios, which are being fully complied with, as follows: Net debt to Adjusted EBITDA; Adjusted EBITDA to Financial Income (Expenses); Net Debt to Equity; Equity to Total Assets; and Current Assets to Current Assets.

Adjusted EBITDA correspond to earnings plus income tax and social contribution, financial income (expenses), depreciation and amortization, adjusted by the addition of other operating expenses or reduction of other operating income, net.

Net debt is the bank debt, less cash and cash equivalents.

As at December 31, 2010, the Company had four lease agreements (18 lease agreements at December 31, 2009). The Company analyzed said agreements and concluded that they qualify as finance leases.

16. TAXES AND PAYROLL TAXES IN INSTALLMENTS

	Cost	Company and consolidated		
		2010	2009	1/1/2009
Payroll taxes - REFIS-PAES	TJLP	25,565	33,521	40,722
Federal taxes - Provisional Act 470/09	Selic	-	87,364	-
Federal taxes	Selic	-	-	1,783
		25,565	120,885	42,505
Current portion		11,193	97,857	10,868
Long-term portion		14,372	23,028	31,637

The long-term portion matures as follows:

Year	Company and consolidated		
	2010	2009	1/1/2009
2010	-	-	9,549
2011	-	9,211	8,835
2012	9,580	9,211	8,835
2013	4,792	4,606	4,418
	14,372	23,028	31,637

On July 31, 2003, the then subsidiary Tupy Fundições Ltda. formalized the request enrollment with the REFIS-PAES program, created by Law 10684/03, for the payment of social security tax (INSS) debts, amounting to R\$58,379, which are being amortized in 120 monthly installments of approximately R\$486 adjusted by the long-term interest rate (TJLP). The Company does not provide any form of guarantee.

In November 2009, the Company joined the federal tax debt refinancing program (REFIS), created by Provisional Act 470/09, for the payment of debts related to the offsets of IPI premium credits against IPI, PIS, COFINS, IRPJ and CSLL, whose approval were pending Board of Tax Appeals' decisions. This tax debt in installments was amortized in 12 monthly installments, the last paid in October 2010.

**17. PAYROLL, RELATED TAXES AND PROFIT SHARING**

	Company			Consolidated		
	2010	2009	1/1/2009	2010	2009	1/1/2009
Salaries	8,350	6,314	2,684	9,111	6,813	3,548
Accrued vacation and 13th salary	31,233	13,688	20,597	31,244	13,707	20,624
Payroll taxes	10,830	7,706	8,944	10,834	7,722	8,950
Profit sharing plan	39,488	12,909	24,400	39,498	12,921	24,408
	89,901	40,617	56,625	90,687	41,163	57,530

The Company's profit sharing plan for the shop floor employees (hourly-paid workers) is linked to a profitability index and department goals and the profit sharing plan for administrative employees (monthly-paid workers) is linked to key strategy indicators that include profitability and return, process, and personal performance goal indices. These expenses are distributed between cost and operating expenses in the consolidated income statement.

18. PROVISIONS FOR TAX, CIVIL, SOCIAL SECURITY, AND LABOR CONTINGENCIES

The Company and its subsidiaries are parties to ongoing lawsuits arising from the normal course of business and for which provisions for contingencies were recognized based on estimates made by their legal counsel.

The changes in the provisions for tax, civil, social security, and labor contingencies in 2010 and the related balances are as follows:

	Company				Impacts of REFIS	2009
	1/1/2009	Additions	Adjustments	Write-offs		
Civil	101,336	-	9,364	(12,873)	-	97,827
Tax	28,037	1,242	1,488	(19,351)	-	11,416
Tax - IPI credits - Provision Act 470/09	93,955	-	6,299	-	(100,254)	-
Labor	7,538	-	-	(1,787)	-	5,751
Social security	1	871	-	-	-	872
	230,867	2,113	17,151	(34,011)	(100,254)	115,866
Related escrow deposits	(3,691)	(1,136)	-	1,820	-	(3,007)
	227,176	977	17,151	(32,191)	(100,254)	112,859

	Company				2010
	2009	Additions	Adjustments	Write-offs	
Civil	97,827	54,166	8,806	(26,119)	134,680
Tax	11,416	-	1,362	(2,770)	10,008
Labor	5,751	6,056	-	(2,952)	8,855
Social security	872	2,812	-	-	3,684
	115,866	63,034	10,168	(31,841)	157,227
Related escrow deposits	(3,007)	(3,524)	-	207	(6,324)
	112,859	59,510	10,168	(31,634)	150,903

	Consolidated					2009
	1/1/2009	Additions	Adjustments	Write-offs	Impacts of REFIS	
Civil	101,915	-	9,364	(12,873)	-	98,406
Tax	28,080	1,242	1,489	(19,351)	-	11,460
Tax - IPI credits - Provision Act 470/09	93,955	-	6,299	-	(100,254)	-
Labor	10,380	-	-	(4,012)	-	6,368
Social security	31,251	871	13,959	-	-	46,081
Social security - Law 11941/09	10,488	-	218	(3,296)	(7,410)	-
	276,069	2,113	31,329	(39,532)	(107,664)	162,315
Related escrow deposits	(3,890)	(1,136)	-	1,820	-	(3,206)
	272,179	977	31,329	(37,712)	(107,664)	159,109

	Consolidated				
	2009	Additions	Adjustments	Write-offs	2010
Civil	98,406	54,166	8,806	(26,119)	135,259
Tax	11,460	-	1,362	(2,771)	10,051
Labor	6,368	6,056	-	(2,963)	9,461
Social security	46,081	2,812	8,957	(54,166)	3,684
	162,315	63,034	19,125	(86,019)	158,455
Related escrow deposits	(3,206)	(3,524)	-	207	(6,523)
	159,109	59,510	19,125	(85,812)	151,932

The main consolidated provisions are as follows:

- Civil: refer to success fees in tax lawsuits and contingent debts arising from the acquisition of a subsidiary;
- Tax: refer to PIS, COFINS, ICMS, and IPI;
- Social security: refer to INSS debts—Small Business Support Service (SEBRAE) and Occupational Accident Risk Insurance (RAT). The write-off of R\$54,166 is due to the transfer to civil contingencies; and
- Labor: refer to lawsuits filed by for employees.

Most of the provisions described above are adjusted using the SELIC (Central Bank's policy rate) and their effects are described in note 23.

No provisions were recorded for contingencies whose likelihood of loss has been assessed by the legal counsel as possible. These contingences are broken down as follows:

	Company and consolidated		
	2010	2009	1/1/2009
TAX			
Pis, Cofins, IPI, and IRRF	24,971	24,551	6,520
ICMS assessments	2,770	1,913	31,983
PIS, COFINS, IRPJ and CSLL assessments	59,108	10,812	7,815
	86,849	37,276	46,318
SOCIAL SECURITY			
Tax assessments issued by Federal Revenue Service	46,765	43,077	47,189
Taxes owed by service providers	11,416	15,104	15,090
	58,181	58,181	62,279
LABOR	21,960	19,761	12,815
	166,990	115,218	121,412

In 2009, the Company utilized the benefits granted by Provisional Act 160/SC, issued by the State of Santa Catarina, which provides for the settlement of debts for 50% of the adjusted amount owed. Accordingly, R\$27,912 of ICMS contingencies were settled for R\$13,958.

Of the amount paid, R\$12,592 was recognized as recoverable ICMS since it refers to court collection by the National Treasury Attorney General of credits on consumption materials recorded in 2000-2003 but reversed by the Company in 2003. The right to these credits was formally confirmed by the Santa Catarina State Department of Finance.

19. CAPITAL, RESERVES AND DIVIDENDS

a. Capital

Authorized capital is limited to R\$450,000, represented by registered shares without par value, divided into common and preferred shares.

Of the authorized capital, R\$398,395 is subscribed and paid in, represented by 57,138,750 shares, of which 56,820,214 are voting common shares and 318,536 are nonvoting preferred shares.

The Company's Board of Directors may increase subscribed capital by an amount deemed convenient and necessary up to the limit of authorized capital.

The Company, within the limit of authorized capital and in accordance with the plan approved by the Shareholders' Meeting, may grant stock options to its management or employees, or persons that provide services to its subsidiary. By December 31, 2010, no stock options had been granted.

Preferred shares entitle their holders to:

- the right to priority in capital reimbursement, should Company activities be discontinued;
- the right to a share, under the same conditions of other shares, in the distribution of dividends, receipt of bonuses arising from inflation adjustment, revaluation of assets, capitalization of reserves, or use of any funds; and
- the right to tag along in any public offering to sell the Company's shareholding control, in accordance with Article 254-A of Law 6404/76, being ensured dividends equal to those paid to common shares.

b. Earnings reserve

- Legal reserve

Calculated as 5% of annual profit, pursuant to Article 193 of Law 6404/76 up to the limit of 20% of capital.

- Investment reserve

Recognized in an amount not lower than 5% of annual profit, up to the limit of 50% of capital. This reserve cannot exceed at any time 80% of share capital.

c. Allocation of profit:

Shareholders are entitled to an annual minimum dividend of 25% of profit for the year, adjusted pursuant to Article 202 of Law 6404/76.

The allocation of profit for 2010, to be submitted to the Shareholders' Meeting as compared to the allocation of profit in 2009, is as follows:

	2010	2009
Profit for the year	154,431	156,736
Recognition of legal reserve (5%)	7,722	7,837
Calculation base for dividends	146,709	148,899

PROPOSED DISTRIBUTION

(for shares outstanding on end of the reporting period)

	2010	2009
Gross interest on capital	41,706	36,009
Dividends	23,233	28,984
Total proposed distribution	64,939	64,993

ALLOCATION TO FINANCIAL STATEMENTS

	2010	2009
Current liabilities		
Gross interest on capital	41,706	36,009
Dividends	1,227	6,636
Total	42,933	42,645

Equity

Proposed additional dividends	22,006	22,348
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Balance allocated to investment reserve	97,440	98,886
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Gross interest on capital per share

	2010	2009
Common shares	0.72991	0.62985
Preferred shares	0.72991	0.69283

Dividends per share

Common shares	0.40661	0.50697
Preferred shares	0.40661	0.55767

Proposed dividends, net of taxes on the installment paid as interest on capital (15% of withholding income tax (IRRF)), represent 40% of profit after legal deductions.

The proposed balance allocated to the investment reserve corresponds to 63% of profit and 24.8% of share capital. The accumulated balance represents 94% of share capital.

The adjustment of the investment reserve balance will be discussed at the Annual Shareholders' Meeting to be held on April 29, 2011.

20. OPERATING REVENUE

The table below shows the reconciliation between gross revenue for tax purposes and revenue stated in the income statement for the year:

	Company		Consolidated	
	2010	2009	2010	2009
Gross revenue	2,132,607	1,400,679	2,167,478	1,448,673
Returns and discounts	(24,281)	(20,353)	(24,286)	(19,894)
Revenue less returns and discounts	2,108,326	1,380,326	2,143,192	1,428,779
Sales taxes	(271,491)	(204,739)	(271,665)	(204,938)
Operating revenue	1,836,835	1,175,587	1,871,527	1,223,841

21. COSTS AND EXPENSES BY NATURE

The table below shows the breakdown of costs and expenses by maturity reconciled with costs and expenses by function presented in the income statement for the year:

	Company		Consolidated	
	2010	2009	2010	2009
Raw materials	481,602	309,088	479,947	314,317
Processing materials	324,826	212,245	323,710	215,836
Maintenance and other supplies	148,540	119,224	148,647	119,355
Payroll and related taxes	347,783	244,647	351,122	252,537
Employee benefits	83,900	54,424	84,884	55,203
Electricity	80,720	58,105	80,471	59,116
Depreciation	76,255	67,988	76,433	68,196
Freight on sales	49,942	28,859	60,911	36,924
Management compensation	6,942	4,029	6,942	4,029
Other costs	2,446	9,132	8,934	16,176
	1,602,955	1,107,742	1,622,000	1,141,689
Cost of sales	1,476,157	1,019,421	1,476,131	1,037,144
Selling expenses	78,116	51,831	94,567	65,027
Administrative expenses	41,740	32,461	44,360	35,489
Management compensation	6,942	4,029	6,942	4,029
	1,602,955	1,107,742	1,622,000	1,141,689

22. FINANCIAL INCOME (EXPENSES)

	Company		Consolidated	
	2010	2009	2010	2009
Financial expenses				
Interest on borrowings and financing	(30,423)	(28,125)	(30,423)	(28,125)
Interest on taxes and payroll taxes in installments	(4,547)	(2,976)	(4,570)	(2,976)
Other expenses	(2,034)	(6,167)	(3,090)	(5,506)
	<u>(37,004)</u>	<u>(37,268)</u>	<u>(38,083)</u>	<u>(36,607)</u>
Financial income				
Interest on short-term investments	32,990	13,358	32,990	13,358
Interest on Eletrobrás receivables	4,129	3,684	4,129	3,684
Other income	5,787	3,727	5,846	2,624
	<u>42,906</u>	<u>20,769</u>	<u>42,965</u>	<u>19,666</u>
Inflation adjustment and exchange differences, net				
Foreign exchange rate changes, net:	(4,286)	50,762	(9,052)	45,055
Inflation adjustments	333	1,893	333	1,893
	<u>(3,953)</u>	<u>52,655</u>	<u>(8,719)</u>	<u>46,948</u>
Financial income, net	<u>1,949</u>	<u>36,156</u>	<u>(3,837)</u>	<u>30,007</u>

Financial income includes primarily income earned on short-term investments, and gains on the adjustment of assets and on hedging instruments, which is recognized in profit or loss.

Financial expenses include primarily interest and inflation adjustments on bank financing and borrowings that are not directly attributable to the acquisition, construction or production of a qualifying asset, interest and inflation adjustments on taxes and payroll taxes in installments, bank expenses, taxes on financial transactions, and losses on hedging instruments, and are recognized in profit or loss.

Gains and losses arising on exchange differences on the translation of assets and liabilities denominated in foreign currencies are reported on a net basis.

23. OTHER OPERATING INCOME (EXPENSES)

	Company		Consolidated	
	2010	2009	2010	2009
Recognition of and adjustments to provisions:				
Tax	(1,362)	(9,029)	(1,362)	(9,030)
Civil	(62,972)	(9,364)	(8,806)	(9,364)
Social security	(2,812)	(871)	(11,769)	(15,048)
Labor	(6,056)	-	(6,056)	-
Reversal of provisions:				
Tax	-	16,237	-	11,693
Civil	-	10,905	-	10,905
Reversal of part of IPI premium credits for 1988-1990 (note 8)	(40,741)	-	(40,741)	-
Reversal of IPI premium credits for 1981-1985 (note 8)	(5,766)	-	(5,766)	-
Proportional reversal of lawyers' fees on IPI premium Credit	20,449	-	20,449	-
Loss and allowance for write-off of property, plant and equipment items	(4,428)	(7,072)	(4,628)	(7,072)
Depreciation of nonoperating assets	(1,355)	(1,093)	(1,401)	(1,139)
Impacts of enrollment with REFIS	-	71,524	-	79,348
Eletrobrás compensatory interest (note 11)	-	27,896	-	27,896
Gain on sale of forestry assets (note 12)	-	-	-	21,382
Gain (loss) on sale of unusable assets and write-off of third-party tools and other assets	6,786	(10,940)	6,083	(2,503)
	<u>(98,257)</u>	<u>88,193</u>	<u>(53,997)</u>	<u>107,068</u>

Impacts of enrollment with REFIS

In November 2009, the Company and subsidiaries Sociedade Técnica de Fundições Gerais – SOFUNGE (under liquidation) and Tupy Agroenergética Ltda. (TASA) joined the payment and tax debt installment plans created by Law 11941/09 and Provisional Act 470/09, as described below.

Law 11941/09

- Company: debts related to the Tax on Financial Transactions (IOF) and Withholding Income Tax (IRRF) on intragroup loan transactions and disallowance of IPI credits due to a tax classification error;
- Subsidiaries: in SOFUNGE, social security debts related to nonpayment of INSS on premiums and transportation ticket, and in TASA, debts related to IOF and IRRF on intragroup loan transactions.

Provisional Act 470/09

- Company: debts related to the offset of IPI premium credit against IPI, PIS, COFINS, IRPJ and CSLL, whose approvals were pending Board of Tax Appeals' decisions.

The enrollment with the REFIS had a positive impact on profit of R\$71,524 in Company and R\$79,348 in consolidated.

24. INCOME TAX AND SOCIAL CONTRIBUTION

	Company		Consolidated	
	2010	2009	2010	2009
Pretax profit	187,567	210,702	191,693	219,227
Combined tax rate	34%	34%	34%	34%
Expenses at combined tax rate	(63,773)	(71,639)	(65,176)	(74,537)
Tax effect of permanent (additions) deductions:				
- Equity in subsidiaries	16,998	6,293	-	-
- Depreciation of assets revalued in 1990	(660)	(660)	(660)	(660)
- Depreciation of nonoperating assets	(461)	(372)	(476)	(387)
- Interest on capital	14,180	12,243	14,180	12,243
- Gain on sale of forestry assets taxed based on deemed income at subsidiary	-	-	-	7,270
- Write-off of social security provision without deferred tax assets at subsidiary	-	-	18,416	-
- Other permanent (additions) deductions	580	169	(926)	(5,223)
Effect on tax loss carryforwards of subsidiaries without recognition of deferred tax assets	-	-	(2,620)	(1,197)
Tax effects allocated to profit or loss	(33,136)	(53,966)	(37,262)	(62,491)

Breakdown of the tax effect allocated to profit or loss:

	Company		Consolidated	
	2010	2009	2010	2009
Current income tax and social contribution	(41,363)	(21,571)	(47,082)	(21,914)
Deferred income tax and social contribution	8,227	(32,395)	9,820	(40,577)
Tax effects allocated to profit or loss	(33,136)	(53,966)	(37,262)	(62,491)

25. EARNINGS PER SHARE

The table below shows the calculation of basic and diluted earnings per share:

	2010	2009
Profit attributable to Company shareholders	154,431	156,736
Weighted average number of outstanding shares	57,139	57,139
Basic and diluted earnings per share - R\$	2.7027	2.7431

26. INSURANCE

The Company adopts an insurance policy which takes into consideration the nature and level of risks involved, according to the guidance of its insurance advisors, and considered adequate by management.

The risk assumptions adopted, in view of their nature, are not part of the scope of an audit of the financial statements and, therefore, were not reviewed by our independent auditors.

The covered risks include the following items and corresponding amounts:

	2010	2009	1/1/2009
Buildings	73,965	67,222	61,471
Machinery, equipment, furniture and fixtures	901,954	779,138	729,912
Inventories	141,623	184,498	105,628
Loss of profits	483,089	439,570	518,513
Civil liability	36,706	21,783	16,500

27.SEGMENT REPORTING

The Company starts to disclose information by operating segment based on the information reported to management and used in decision-making in order to allocate resources to the segments and to assess their performance, as described below.

Automotive products: manufacturing of casted and machined products, with high technological content, such as powertrain (blocks and cylinder heads), vehicle brake, transmission, steering, axle, and suspension components, developed on demand for world engine, passenger vehicle, commercial vehicle (trucks, buses, etc.), construction machine, tractor, agricultural machine, and power generator manufacturers.

Industrial products: manufacturing of malleable iron fittings, iron and steel granules, and cast iron shapes and sections that are supplied to the construction, and the marble and granite industries, and several industrial engineering segments, among others.

The following is information on each segment.

Reconciliation of the revenues, costs and expenses, results, and assets and liabilities of the reported segments

	Consolidated					
	Automotive products		Industrial products		Total	
	2010	2009	2010	2009	2010	2009
Operating revenue (note 20)	1,651,235	1,046,652	220,292	177,189	1,871,527	1,223,841
Costs and expenses (note 21)	(1,464,427)	(1,014,368)	(157,573)	(127,321)	(1,622,000)	(1,141,689)
Profit before financial income (expenses), net and income tax and social contribution	186,808	32,284	62,719	49,868	249,527	82,152
Financial income (expenses), net (note 22)					(3,837)	30,007
Other operating income (expenses) (note 23)					(53,997)	107,068
Profit after financial income (expenses), net					191,693	219,227
Income tax and social contribution (note 24)					(37,262)	(62,491)
Profit for the year					154,431	156,736

	Consolidated					
	Automotive products		Industrial products		Total	
	2010	2009	2010	2009	2010	2009
ASSETS						
Trade receivables, net (note 6)	199,680	149,323	15,057	24,693	214,737	174,016
Inventories (note 7)	148,461	137,281	52,735	35,363	201,196	172,644
Third-party tools	30,224	36,673	35	51	30,259	36,724
Notes and other receivables	16,507	13,471	2,438	2,515	18,945	15,986
Property, plant and equipment (note 14)	929,305	863,119	31,944	30,110	961,249	893,229
Other unallocated assets	-	-	-	-	978,289	886,006
Total consolidated assets	1,324,177	1,199,867	102,209	92,732	2,404,675	2,178,605
LIABILITIES						
Trade payables	102,613	84,713	18,678	13,315	121,291	98,028
Taxes payable	2,454	4,994	509	1,077	2,963	6,071
Payroll, related taxes and profit sharing (note 17)	80,550	36,904	10,137	4,259	90,687	41,163
Advances from customers	49,338	49,646	6,677	7,311	56,015	56,957
Notes and other payables	24,688	18,544	560	2,732	25,248	21,276
Other unallocated liabilities	-	-	-	-	1,137,712	1,073,501
Equity					970,759	881,609
Total consolidated liabilities	259,643	194,801	36,561	28,694	2,404,675	2,178,605

Dedicated assets and liabilities are allocated directly to the segments and criteria on their applicability and origin are used for common assets and liabilities. The Company does not allocate to the reportable segments cash and cash equivalents, recoverable and deferred taxes, escrow deposits, and other, and investments in other companies as they are not directly related to the operation. For the same reason, borrowings and financing, taxes and payroll taxes in installments, dividends, provisions, deferred taxes, and other long-term liabilities are not allocated to reportable segments either.

The Company has a diversified portfolio of local and foreign customers. The automotive products segment has customers that individually account for more than 10% of the consolidated operating revenue, as follows:

	Consolidated			
	2010	%	2009	%
Operating revenue				
Customer A	370,196	19.8	193,742	15.8
Customer B	262,913	14.0	127,980	10.5
Customer C	-	-	135,110	11.0
Other customers and automotive products and industrial products	1,238,418	66.2	767,009	62.7
Total	<u>1,871,527</u>	100.0	<u>1,223,841</u>	100.0

The distribution of the industrial products segment is quite diluted.

28. FINANCIAL INSTRUMENTS

This note presents information on the Company's exposure to each one of the risks below, for risk measurement and management purposes, and the management of the Company's capital.

Financial risk management

The Company is exposed to risks arising from the use of financial instruments, related to credit, liquidity, market, and operational risks.

The Company manages financial risks by following short-term investments criteria, entering into derivatives, monitoring the ratings of the financial institutions with which it enters into transactions, and using other control procedures. In addition, management permanently monitors and controls the exposure of foreign currency-denominated assets and liabilities to foreign exchange risks.

Due to exchange volatility and the different periods of realization of assets and settlement of liabilities, the Company contracts, when considered necessary, derivative financial instruments to limit exposure to foreign exchange risks.

a. Fair value

The fair values of financial assets and financial liabilities are as follows, presented together with their carrying amounts disclosed in the balance sheet:

	Consolidated			
	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	578,366	578,366	437,240	437,240
Trade receivables, net	214,737	214,737	174,016	174,016
Notes and other receivables	18,945	18,945	15,986	15,986
Trade payables	121,291	121,291	98,028	98,028
Borrowings and financing	838,317	838,317	662,361	662,361
Notes and other payables	25,248	25,248	21,276	21,276

Financial instruments, which are recognized in the consolidated financial statements at their carrying amount, are substantially similar to those that would be obtained if they were traded in the market. However, because there is no active market for these instruments, differences could exist if the Company and its subsidiaries decide to settle them in advance.

b. Credit risk

Credit risk is the risk of the Company incurring in losses if a customer or a counterparty to a financial instrument fails to perform its contractual obligations, and arises mainly from trade receivables and investment securities.

Trade and other receivables

The Company sets exposure limits for each customer to limit the credit risk of trade receivables and risks are managed according to specific credit rating criteria.

The Company recognizes an allowance for impairment that represents its estimates of losses incurred on trade and other receivables according to the criteria described in note 6.

c. Liquidity risk

The liquidity risk is the risk related to Company difficulties to settle its obligations arising from to its financial liabilities, which are settled in cash or with another financial asset. The Company's approach to manage this risk is to ensure that it has enough liquidity to settle its obligations without incurring losses or impairing its operations.

As at December 31, 2010, the Company had sufficient cash and cash equivalent to settle all contracted commitments.

The table below shows the contractual maturities of financial liabilities:

	Carrying amount	Consolidated				
		Contractual cash flows				
		6 months Or less	6 to 12 months	1 to 2 years	2 to 5 years	Over 5 years
Financial liabilities						
Bank borrowings	513,729	39,433	18,378	250,751	188,201	16,966
Finance lease payables	178	162	16	-	-	-
Unsecured bank borrowings	324,410	9,398	8,331	128,350	178,331	-
Trade and other payables	146,539	146,539	-	-	-	-
	984,856	195,532	26,725	379,101	366,532	16,966

It is not expected that the cash outflows, included in the Company's maturity analyses, will occur significantly sooner or in amounts significantly different. In addition, the Company has an excellent cash generation capacity.

d. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, impact Company earnings or its share in financial instruments. The objective of the management of the market risk is to maintain exposures within acceptable standards and, at the same time, optimize returns.

Currency risk

The Company is exposed to the currency risk in sales, purchases and borrowings denominated in currencies other than the Company's functional currency, the Brazilian real. The main currencies in which these transactions are denominated are the US dollar and the euro.

The Company has a natural hedge against this risk, which is its export revenue; however, because of concerns regarding exchange volatility and the different periods of realization of assets and settlement of liabilities the Company contracts financial instruments to limit exposure to the foreign exchange risks.

The table below shows the Company's exposure to the foreign exchange risk:

ASSETS	Note	2010	2009	1/1/2009
Short-term investments abroad	4	178,502	165,815	185,882
Foreign market customers	6	130,391	100,048	128,741
		308,893	265,863	314,623
LIABILITIES				
Foreign currency borrowings	15	(133,095)	(216,885)	(451,723)
NDF transactions		-	(127,107)	-
Other amounts		(46,368)	(60,490)	(66,165)
		(179,463)	(404,482)	(517,888)
Net exposure (R\$'000)		129,430	(138,619)	(203,265)
Net exposure (US\$'000)		77,680	(79,611)	(86,977)

As at January 1 and December 31, 2009, the level of Company exposure to US dollar liabilities was considered appropriate for the reporting period then ended. In 2010, the

Company gradually reversed this exposure by maintaining funds arising from export revenue because it considered the scenario for the inflow of resources was unfavorable, resulting in a change in the export profile.

Sensitivity analysis of foreign exchange exposure

This analysis is based on the foreign exchange rate fluctuation, pursuant to Regulatory Instruction CVM 475, in which the risk variable is assessed with a 25 and 50 percent fluctuation as compared to the probable scenario estimated by the Company. This analysis considers that all other variables, especially the interest rate, will remain constant.

ACCOUNTING CURRENCY EXPOSURE	Risk	Disclosed	Scenario Probable (i)	Scenario (ii)	Scenario (iii)
US dollar rate	Dollar depreciation	R\$ 1.6662	R\$ 1.70	R\$ 1.27	R\$ 0.85
Long position		308,893	315,159	235,442	157,580
Short position		(179,463)	(183,104)	(136,789)	(91,552)
Net exposure (R\$'000)		129,430	132,056	98,653	66,028
Net exposure (US\$'000)		77,680	77,680	77,680	77,680
Potential impact (R\$'000)		-	2,626	(30,777)	(63,402)

The simulation considered an appreciation of the Brazilian real in relation to the US dollar as compared to the probable scenario indicated by the Company.

Interest rate risk

Refers to the Company's exposure to changes in the interest rates on its short-term investments and bank borrowings with a direct impact on profit or loss. To mitigate this risk, the Company seeks to diversify its borrowings and short-term investments, as follows:

Profile

At the end of the reporting period, the profile of the Company's interest-bearing financial instruments was as follows:

	Note	Consolidated Carrying amount		
		2010	2009	1/1/2009
Variable rate instruments				
Financial assets	4 and 5	418,505	283,269	64,460
Financial liabilities	15	286,315	360,334	575,650
Fixed rate instruments				
Financial assets	4	178,502	165,815	185,882
Financial liabilities	15	552,002	302,027	3,712

Sensitivity analysis to fluctuations in variable and fixed interest rates

The Company has short-term investments in bank certificates of deposit (CDBs) pegged to the fluctuation of the interbank deposit rate (CDI). The simulation considers a fluctuation of 1% per year, upward or downward, in the variable CDI, which would represent an impact of R\$4,185 per year.

The Company also has short-term investments abroad at fixed rates. The simulation considers a fluctuation of 0.50% per year, upward or downward, in the LIBOR, which would represent an impact of R\$893 per year.

The Company's foreign currency borrowings and financing are also exposed to interest rate risks related to the LIBOR fluctuation. A fluctuation of 0.50% per year, upward or downward, in the LIBOR would have an impact of R\$588 per year.

Similarly, the Company is exposed to changes in fixed interest rates of its borrowings and financing pegged to the TJLP, and a fluctuation of 1% per year, upward or downward, in this rate would have an impact of R\$1,788 per year.

Price risk

Derives from the possibility of fluctuations in market prices of the inputs used in the manufacturing process, especially scraps, metal alloys, coke, and electricity. These price fluctuations can impact Company costs. The Company has the policy of monitoring these prices to pass on possible changes to its sales prices.

Capital structure risk

Derives from the ratio between equity and the debt used by the Company to finance its operations. To mitigate liquidity risks and optimize the average cost of capital, the Company monitors the compliance with financial ratios required under its loan agreements.

The equity-to-debt ratio at the end of the reporting period is as follows:

	Consolidated		
	2010	2009	1/1/2009
Own capital (equity)	970,759	881,609	767,518
Total payables	1,433,916	1,296,996	1,271,170
Cash and cash equivalents	(578,366)	(437,240)	(252,581)
Borrowings	855,550	859,756	1,018,589
Capital to debt ratio	1.13	1.03	0.75

e. Operational risk

Arises from all Company operations and can cause direct losses associated to a variety of factors, such as processes, personnel, technology, infrastructure, and external factors.

The Company's objective is to manage the operational risk to avoid any damages to its reputation and seek cost efficiency.

The top management has the primary responsibility to develop and implement controls over operational risks.

f. Derivative financial instruments

The Company uses derivatives and complies with financial requirements to manage market risks. All derivative transactions are conducted according to the guidelines provided by the risk management framework.

The Company and its subsidiaries do not have as a policy to invest in speculative financial transactions, while entering into some financial derivative transactions to hedge certain assets and/or liabilities against fluctuations, especial exchange rate fluctuations.

The most common transaction entered into by the Company is the non-deliverable forward (NDF).

As at December 31, 2010, the Company was not a party to any derivative transactions. The transactions outstanding at December 31, 2009 are disclosed in note 15.

29. AUTHORIZATION FOR COMPLETION OF FINANCIAL STATEMENTS

The Company's executive board authorized the completion of these financial statements on March 23, 2011.
