Financial Statements

Magnesita Refratários S.A.

December 31, 2014
with Independent Auditor's Report

MANAGEMENT REPORT - 2014

The Shareholders,

Magnesita Refratários S.A., “Company” hereby submits to you this Management Report accompanied with the financial statements of the Company and its subsidiaries, including the reports issued by the Supervisory Board and the Independent Auditor for the year ended December 31, 2014.

1 Messagem from the CEO

"In 2014 we continued experiencing a challenging macro environment in our established markets. In the US, despite the gradual improvement in the economy, steel production in the country has been below our expectation due to higher steel imports which reached record level in 2014. Nevertheless, we had a very satisfactory performance in sales for the stainless steel industry, a segment where we are leaders in the region. We remain very optimistic about our opportunity set in North America, especially in sales to the integrated mills. We believe that the steel industry in North America should become our largest market in 2015.

Our performance in Europe was neutral in 2014, with stable sales. We continue with a solid presence in the stainless and mini-mills, segments in which we have been sustaining leadership for several years.

In Brazil, although we faced another year of declining steel production, cost inflation and economic uncertainties, our sales grew in 2014, both to the steel and industrial clients, which reinforces our competitive advantages in the region, such as raw material integration, logistics advantage, and one of a kind products and services. By the way, our service business had an outstanding performance in the year, with revenue growing by 37% and further diversification, into new sectors, such as cement, and new markets, such as North America and South America outside Brazil.

Finally, I would like to highlight our performance in the growth markets, which have been the main revenue driver. We expanded sales again to the integrated mills in North America and grew by double digits in Mexico for the second consecutive year. We also saw good sales performance in Asia and the Middle East, the latter where we already have an important presence in the cement industry. Thus, the growth markets accounted for approximately 50% of the expansion achieved in sales to the steel industry in 2014.

Our consolidated revenues reached R$2.9 billion in the year, 8% above 2013. In addition to the growth in sales to the steel industry and in the services segment, we also benefitted from the positive impact of the real devaluation in 2014. However, EBITDA was below our expectations and our potential, impacted by one-off effects such as the decline in sales to the industrial segment outside Brazil and lower sales of minerals. On the other hand, we believe the factors that had positive contributions were structural and recurring, such as fixed costs and expenses dilution and the improvement of the service segment.

We know there is still a lot to be done going forward. In 2015, we will continue our focus on expanding sales, cost control, search for operational efficiency and cash generation. I would like to thank our employees for their commitment and dedication. Thanks also to our customers and shareholders for their confidence in Magnesita.”

Octavio Pereira Lopes

2 Corporate profile

Magnesita Refratários S.A. (BM&FBOVESPA, Novo Mercado: MAGG3 | OTCQX: MFRSY) is a publicly-held company, with shares traded at the top level corporate governance of Bovespa, the so-called Novo Mercado. The Company is a global leader in the refractories, services and industrial minerals market.

Embracing its mission to provide integrated solutions in services, refractories and minerals that will maximize customers' results, in order to create profitable, lasting relationships that are replicable in various regions, Magnesita Refratários is present in 4 continents worldwide, counting on 28 mining and industrial units in Brazil, Argentina, the United States, Germany, Belgium, France, Taiwan and China.

The Company is widely recognized in the world market of refractory solutions for being a verticalized company, supplying approximately 80% of its raw material needs with own mineral reserves, thus being the lowest-cost producer in its segment. Among these reserves are the world's best and largest magnesite and dolomite mines, minerals which are essential for refractory production. Having an installed capacity for refractory production by 1.6 million tons/year, the Company maintains a long term relationship with the world's largest steel and cement producers, which are the largest consumers of services and refractory products.

In addition to producing refractories and as it holds various mineral rights on significant inputs for several areas, Magnesita offers a diversified industrial minerals portfolio, including talc, caustic magnesia, magnesite sinter, among others.

Magnesita closed 2014 with a total 7,227 employees, having recorded net revenue in the amount of R$2,872.0 million.

3 Company strategy

In 2012, Magnesita designed a long-term strategic plan, through which all global expansion works in recent years and the efforts to consolidate the Company as the most profitable in its industry were reassessed. The result was a new strategic vision: "To be the best provider of refractory solutions and industrial minerals, leveraging and developing our minerals resources".

This strategy is supported by four pillars which will permeate the Company's strategic decisions in the following years:

Ensure leadership in our core markets – By means of our industrial and mineral asset base, long-term and unrivaled relationships with our customers and the quality of our products and services, Magnesita has maintained its position as a leader in the steel and cement markets in South America and in the stainless steel market in North America and Europe. The Company continuously strives to sustain this position, offering our customers the best combination between quality, innovation and value.

Grow selectively, but aggressively - In a focused selective manner, the Company will seek to expand in specific markets, which have interesting dynamics of market and where Magnesita can be an expressive player, with sustainable competitive advantages that are not replicable in the long run.

3 Company strategy (Continued)

Expand industrial minerals base - Continue to develop high quality, low cost raw material sources to support our current businesses.

Maintain a global low-cost production base – Magnesita is of the belief that maintaining a competitive cost structure base is a fundamental step in order to enable the Company to successfully execute its plan and ensure sustainability in the long run. To this end, on a daily basis, Magnesita will focus on strong control over expenses and costs throughout its supply chain, from raw material production to transportation, plants, sales operations and administrative units.

4 Operating segments

Refractory Solutions*:* Refractories are heat-resistant materials that maintain their physical and chemical characteristics even when subject to extreme temperatures, corrosion, abrasion and chemical reactions, which is why refractories are essential for equipment protection in industrial facilities which depend on high temperature processes, such as the steel, cement, metal and chemical industries. Refractories are available in a wide range of forms: bricks, masses, mortars, valves and pre-molded concrete, among others. The main base materials used in the production of refractories are magnesite, dolomite and alumina. In 2014, net revenue from this segment represented 89.2% of Company consolidated revenue.

Minerals: Having maintained its focus on vertical integration, Magnesita is currently able to supply with its assets approximately 80% of the raw materials used in its refractory production. While guaranteeing the quality of raw material, essential for refractories' performance, the Company is subject to low exposure to industrial minerals price volatility and also renders it possible to expand the range of products included in our minerals portfolio. Among the industrial minerals produced and sold to third parties, we highlight magnesite sinter, talc and caustic magnesia. In 2014, the minerals segment represented 5.0% of Company consolidated revenue.

Services: Magnesita also holds knowledge of processes ranging from refractory assembly and removal to monitoring the customer's production process and conducting post mortem tests at Company research and development center. Services is a strategic segment, since it adds value to our products. In 2014, this segment represented 5.8% of Company consolidated revenue.

	2014		2013		Var. %	
	Net Revenue (millions of R$)	Volume (thousand ton)	Net Revenue (millions of R$)	Volume (thousand ton)	Net Revenue	Volume
Refractory Solutions	2,562.0	1,034.4	2,367.3	993.3	7.8%	4.1%
Minerals	144.9	N/A	158.9	N/A	-8.8%	N/A
Services	165.1	N/A	120.8	N/A	36.7%	N/A
Total	**2,872.0**	**1,034.4**	**2,656.0**	**993.3**	**8.1%**	**4.1%**

5 2014 Highlights

- **Consolidated Revenue increased 8.1% in 2014,** to R$2.87 billion, due to the increase in sales of refractories to the steel industry, the expansion of the services business, and the foreign exchange effect on revenues denominated in foreign currency;
- **Volume of sales of refractories increased 4.1%**, especially sales to the steel industry, which grew above steel production in the established markets, besides the increase in growth markets, which represented approximately 50% of total year growth;
- **The services segment increased 36.7%**, including margin expansion and higher diversification, both in geographic terms, by entering into agreements in North and South America, and in terms of activities, since the Company expanded the services provided to the cement industry;
- **Expansion by 185.3% in operating cash generation**, to R$387.8 million, as compared with R$135.9 million in 2013. This increase is mostly due to more efficient working capital management;
- **EBITDA excluding other operating income (expenses) of R$386,7milhões,** practically in line with prior year (R$395.1 million). Margin reached 13.4%, as compared with 14.9% in 2013. This decrease is mostly due to one-off impacts, such as the decrease in sales to industrial customers, above-inflation increase in fuel oil cost and decrease in the sales of minerals to third parties.

6 Economic and industry scenario

2014 was marked by the continued weakening of emerging economies, in addition to stagnation of developed economies. The year was again marked by concern about the slowdown in the Chinese economy and impacts on other economies, especially those exporting commodities.

The USA grew 2.4% in 2014, above market expectations after a weak first quarter. Unemployment rates decreased throughout the year and inflation pressures became more stable, also reflecting the U.S. dollar appreciation and the decrease in oil prices. Without taking into consideration a temporary contraction seen in early 2014, the USA has been growing above world average since 2013. Based on that, in 2014, recovery was stronger than expected, driven by the large increase in oil production over the year. This increase may also be explained by less strict tax policies, improvements in real estate market and the increase in income, which kept consumption as the largest source of growth for 2015.

In the Euro zone, growth has been lower than expected, mainly in France, Germany and Italy. Concerns about the long-term impacts of the crisis walk hand in hand with a fragile recovery and low expectations of growth. Factors such as financial fragmentation and high unemployment rates may further disrupt the region's recovery. However, after a small increase of 0.8% in the 2014 GDP, the region is expected to be emerging from recession and initiating a recovery cycle, with a 1.2% projected increase for this year, according to the International Monetary Fund (IMF). The region’s activity should remain stable, supported by lower oil prices, less strict monetary policies and the recent depreciation of the Euro.

6 **Economic and industry scenario** (Continued)

In 2014, Brazil was marked by uncertainty. Domestic and foreign market expectations for the country were several times subject to change, driven by the elections and voting intention polls, since a change in government would bring significant changes to Brazil's macroeconomic dynamics. 2014 was also marked by the SELIC increase and the devaluation of the real as compared with the US dollar, which closed the year at 11.75% p.a. and R$2.66, respectively. Brazil's inflation rate was 6.41% at year end. For 2015, the latest projections of the Central Bank of Brazil indicate inflation at 7.4%, GDP decrease by 0.58% and expected SELIC of 13% at year end.

In 2015, global growth should be driven by lower oil prices, due to a greater supply of this commodity. However, this impulse should be outweighed by negative factors, including a decrease in investments, due to the expected decrease in medium-term growth of emerging economies. In view of that, the USA was the only country whose projected growth for 2015 was revised upwards by the IMF.

For 2015, the IMF projects a global GDP increase by 3.5%, as compared with 3.3% in 2014.

Steel industry

According to the World Steel Association, in 2014, global steel production increased 1.2% as compared with 2013, having reached 1.66 billion tons. The regions which increased production were the following: Middle East (+7.9%), Asia ex-China (+2.8%), European Union (+1.8%) and North America (+2.1%).

Magnesita's established markets (North America ex-Mexico, Brazil and EU-28) increased only 1.5% on average in 2014. Despite the 2.6% increase in US economy, steel production increased only 1.7% and the USA saw an increase in the number of steel import transactions. In 2014, steel import transactions increased 38% as compared with 2013 and reached market share of 28%, which is the highest percentage ever observed. Part of this increase reflects the US dollar appreciation and part is explained by the current steel industry overcapacity on a global basis. Stainless steel production, a segment in which Magnesita plays a leading role as a provider of refractories in North America, performed well and increased 5% in 2014.

In Brazil, steel production dropped 0.7%, which reflects the weak economic performance in 2014. Industrial GDP is estimated to decrease by 2.5% in 2014. The industrial sectors which are steel consumption intensive had significant decreases in 2014, with apparent consumption suffering a fall of 6.8%. The production of capital goods decreased 9.6% and of durable goods, 9.2%. According to Brazil's National Association of Motor Vehicle Manufacturers (ANFAVEA), in 2014, vehicle production decreased 15.3% and agricultural machines, 17.9%.

In the European Union (UE-28), there was a 1.8% increase in steel production in 2014. In Germany, largest producer in the region and main market of Magnesita, production increased more mildly (0.7%). In the United Kingdom, the economy has been performing more robustly and there was a 1.8% increase in production. On the other hand, production increased in other major producing countries, such as Italy and Spain (-1.4% and -0.6%, respectively). Despite no longer facing recession, the region is still recovering from the high sovereign debt of some countries, in addition to political risks arising from the conflicts between Russia and Ukraine.

7 Economic and financial performance

7.1 Net revenue

7.1.1.a Refractory Solutions - Steel industry

Despite the challenging scenario faced by the steel industry, Magnesita's main market, the sales of refractory materials to this segment performed quite well in 2014. Volume sold reached 883 thousand tons in the year, a 5.2% increase, far above the average growth of 1.5% in steel production in the established markets. Volume sold in North America (ex-Mexico and integrated plants) increased 8.2%, which reflects the good performance in the stainless steel segment, in addition to market share gains both in the stainless steel market and in power plants.

Although Brazil faced a decrease in steel production of 0.7% in 2014, volume sold grew 4.2%, which reflects the good position of Magnesita in Brazil, with state-of-the-art services and technical assistance, and logistics advantage, in addition to the high performance of its products and strong relationship with customers.

In Western Europe, despite the 1.8% increase in steel production in UE-28, sales volume remained stable.

In the growth markets, volume sold rose 8.5% in 2014, outperforming the sales in established markets. Worth mentioning, performance in the USA integrated mills market, a segment which has been an important strategic focus. Other highlights in the year were Mexico, Eastern Europe and Asia ex-China. The sales performance in the growth markets would have been higher, if not for the decrease of over 80% in sales to Venezuela.

The growth markets responded for 46% of the increase in sales to the steel industry and represented 29% of the total sales to this industry in 2014.

Revenue from sales to the steel industry amounted to R$2,139 million, 11.5% above 2013, an increase which may be explained by the sales expansion and by the depreciation of the real, which had a positive impact on the sales denominated in foreign currency.

7.1.1.b Refractory Solutions - Industrial

The sales volume in the industrial segment decreased 1.9% in 2014. This variation is explained by the decrease in one-time sales to a cement green field project in North America and in sales of refractories to the glass industry in Argentina, which in 2013 had an outstanding performance due to the import restrictions imposed in this country.

Sales in established markets presented a stable performance in 2014, and Europe and Brazil made up for the decrease in sales in the USA, as explained above. In the growth markets, performance was impacted by the sales decrease in South America ex-Brazil on account of the sales to the glass industry in Argentina. Excluding South America ex-Brazil, industrial sales increased 3.8% in 2014, emphasis provided to the increase of over 10% in sales to the cement industry in the Middle East and Mexico.

7 Economic and financial performance (Continued)

7.1 Net revenue (Continued)

7.1.1.b Refractory Solutions – Industrial (Continued)

Industrial sales revenue totaled R$423 million, an increase of 1.8% in relation to 2013. The depreciation of the real, with positive effect on sales in foreign currency made up for the decreased volume sold. In 2014, industrial segment sales accounted for 16.5% of total sales of refractories, as compared with 17.8% (prior year).

7.1.2 Minerals

Sales of minerals, which in 2014 represented 5.0% of Company consolidated sales reached R$145 million in 2014, an 8.8% decrease as compared with 2013. This decrease is explained by the fall in sales of magnesite sinter to third parties due to maintenance services in the Brumado ovens, which reduced the availability of surplus to foreign sales, in addition to the drop in sales of by-products in China.

7.1.3 Services

Revenue from this segment, which represented 5.8% of Company total revenues, amounted to R$165 million in 2014, 36.7% above revenue recorded in 2013.

Driven by the positive effect of the acquisition of Reframec, consolidated as from June 2013, the increase referring to industrial segment customers went over 100% in 2014, both in Brazil and in South America ex-Brazil.

In the steel segment, service revenues also increased significantly, 17% in 2014. The highlight was the strong performance in North America, both in the USA and in Mexico. Lastly, revenue from services provided to the steel industry in Brazil also performed quite well, an increase of 12% in 2014.

We stress not only the growth of the services business, but also diversification, both geographically and sector-wise. The steel industry in Brazil, which has already represented nearly 100% of the services segment, accounted for 72% of the service revenue in 2014 and 84% in 2013.

7.2 Costs, Gross Profit and Gross Margin

Gross margin in the refractory segment closed the year at 31.3%, a decrease of 200 pbs as compared with 2013, when this margin reached 33.3%. The main factors which explain the margin decrease in 2014 are as follows: decrease in sales to the industrial segment, which has higher margins than the sales to the steel industry; decrease in operating margins in Brazil, mainly due to the increase in fuel oil cost above inflation; and decrease in sales to high margin markets, such as Venezuela.

7 Economic and financial performance (Continued)

7.2 Costs, Gross Profit and Gross Margin (Continued)

The gross margin of the minerals segment closed the year at 33.5%, as compared with 40.1% obtained in 2013. This variation mainly reflects the decrease in sales of higher value-added products such as magnesite sinter, which is not so easily available, and talc, in reason of the slowdown of the automobile industry in Brazil, the main customer for this product. The fuel oil increase also contributed to the margin decrease, since this is the main raw material for the production of magnesite sinter in Brumado.

The accumulated gross margin of services in 2014 was 20.0%, compared with 14.1% in 2013. The increase in 2014 results from Company strategic redirection, to focus on higher value-added services, boosted by the acquisition of Reframec in 2013. The growth in sectors other than the steel industry also contributed to segment expansion.

7.3 Operating Expenses

General and administrative expenses remained stable in 2014, despite the foreign exchange impact on portions denominated in foreign currency, and closed the year at R$235.1 million, compared with R$235.5 million in 2013. However, due to the sales increase in 2014, general and administrative expenses were diluted to 8.2% of revenue, as compared with 8.9% in 2013.

Commercial expenses reached R$408.5 million, 13.5% above 2013, which may be explained mainly by the increase in freight costs and the exchange rate effect on expenses denominated in foreign currency.

Fixed commercial expenses (excluding freight) were also diluted in 2014, due to the sales increase, and represented 8.1% of revenues, compared with 8.4% in 2013. These expenses amounted to R$232.9 million in 2014, which is 4.9% above 2013 and may be explained by the exchange rate effect on expenses denominated in foreign currency.

On the other hand, freight expenses increased 27.4% in 2014 and closed the year at R$175.6 million. This increase above the sales growth reflects Company’s performance in locations where Magnesita has no local production, in addition to increased intercompany sales, as part of the strategy adopted by the Company to grow in new markets. The exchange rate effect also contributed, on accounting terms, to the increase in freight expenses.

7 Economic and financial performance (Continued)

7.4 Other operating income (expenses)

In 4Q14, Magnesita made adjustments referring to assets written off and recorded provisions due to changes to its internal policies, which are summarized as follows:

- R$20.7 million: this refers to the write-off of assets relating to exploration and development of new mineral resources, in accordance with Material Fact disclosed on 11/13/2014;
- R$20.4 million: write-off of goodwill in subsidiary Magnesita Finance without operating cash effect for the Company;
- R$10.5 million: this refers to the write-off of inventories out of specification and provisions for obsolescence, for years prior to 2014;
- R$30.8 million: this refers to the write-off of receivables, especially commercial disputes with customers; and allowance for doubtful accounts, mostly focused on receivables from Venezuelan customers, for years prior to 2014;
- R$6.7 million: periodical re-measurement at fair value of the land for sale in Suzano.

7.5 EBITDA and EBITDA margin

EBITDA ex-other for 2014 amounted to R$386.7 million, a 13.5% margin, compared with R$395.1 million and a 14.9% margin in 2013. The 140 pb decrease in the 2014 margin may be explained by nonstructural issues, such as lower revenue from industrial customers; a decrease in sales of minerals and; an increase above inflation in fuel oil costs in Brazil.

In addition, the increase in freight costs also contributed to the 2014 margin decrease, given the Company's effort to expand to new geographies. However, even if the increase is structural, the Company believes that freight costs have stabilized at approximately 6% of sales.

On the other hand, Company achievements, such as the dilution of fixed costs and expenses, are permanent and will continue jointly with the sales increase, and revenue and margin expansion in the services segment, also recurring.

7.6 Financial Income (Expenses)

This year's net financial result was an expense of R$264.6 million, 34.1% above 2013, due to the increase in net debt and consequent 28.1% increase in interest expenses; exchange rate effect on interest denominated in foreign currency; and decrease in revenue from short-term investments, which may be explained by Company decision to translate practically all its cash to US dollars, in order to mitigate currency risk exposure. The expense with non-cash exchange variation of R$90.2 million in 2014, due to the 13.4% appreciation of the dollar as compared with the real, also contributed to this increase vis-à-vis 2013, when this expense amounted to R$44.9 million.

7 Economic and financial performance (Continued)

7.7 Net income (loss)

In 2014, the Company recorded net loss amounting to R$97,0 million, whereas in 2013, the Company had recorded net income amounting to R$58,5 million. This decrease is mostly due to the increase in “other operating expenses” mainly referring to amounts written off, as previously mentioned. The increase in financial expenses, referring both to interest and to exchange losses, also contributed to the decrease in the results obtained in 2014.

The Company recorded two deferred tax assets: R$26.3 million due to the tax benefit of future interest deduction in Germany, since the American subsidiary became the debtor of noncurrent bonds; and R$11.0 million due to the tax counterparty of all provisions recorded under “other operating expenses”.

8 Investments

Total CAPEX in 2014 amounted to R$176.8 million, a 13.5% decrease as compared with the R$204.5 million invested in 2013. This decrease may be explained by a decrease in investments in mining projects, and other operational improvement projects.

Out of the total CAPEX in 2014, R$101.9 million was invested in maintenance, renovation, system adjustments, environment, and investments in customers; R$37.1 million in IT projects; R$15.2 million in expansion projects and productivity gains; and R$22.6 million in the mining project, which includes investments in Geology, prospection, research and certification of new projects, in addition to strategic investments relating to the talc project, which has been subject to a potential expansion assessment.

9 Indebtedness

At year end, Company net debt amounted to R$1,591.8 million, 3.6% above the prior quarter and 9.5% above debt at year end 2013. This increase is due to the impact of exchange fluctuation on the debt portion denominated in foreign currency. In the period, approximately 43% of Company net debt was in reais whereas the remaining amount was denominated in foreign currency. At quarter end, cash increased to R$917.4 million, as compared with R$885.0 million in the prior quarter.

Leverage, measured by Net Debt/EBITDA for the last 12 months, excluding other operating income (expenses) stood at 4.1x at the end of 2014, as compared with 3.8x in 3Q14 and 3.7x at the end of 2013. The main reason for the decrease in the quarter is the exchange rate impact, since debt is recorded at the closing exchange rate for the period, whereas EBITDA is marked by the average exchange rate for the year, which directly impacts leverage. The difference between the average exchange rate for the year (R$2.35) and at year end (R$2.65) was the most significant in the past seven years. If not subject to this effect, leverage measured by Net Debt/EBITDA for the last 12 months, excluding other operating income (expenses), would have remained at the same level of prior quarters.

9 **Indebtedness** (Continued)

Magnesita one more time reinforces its trust in Company current capital structure. Although leverage is higher than deemed ideal by management, Company liquidity position remains quite comfortable. Company cash balance amounting to R$917.4 million at quarter end was sufficient to cover amortization needs for the following 5 years, and only 11.4% of gross debt matures in the short term. Additionally, the Company has perpetual bonds amounting to US$250 million, which represent approximately 40% of its net debt, and the remaining long-term debt matures within approximately 5 years. Excluding perpetual bonds, leverage would stand at 2.4x at year end.

10 Capital market

At December 31, 2014, Company capital amounted to R$ 2,528,1 million, comprising 283,270,134 common registered shares with no par value.

Magnesita common shares (Novo Mercado: MAGG3 | OTCQX: MFRSY) quoted R$2.07 at the end of 2014, with a 64.5% devaluation in the year and 34.3% in 4Q14. In 2014, Ibovespa depreciated by 2.9%, closing the period at 50,007 points, whereas in the quarter, this decrease was 7.6%.

Average daily financial volume in 2014 was R$1.2 million, an average 299 thousand shares traded per day, whereas in 4Q14, average daily financial volume was R$926 thousand, an average 347 thousand shares traded per day. Market value of Magnesita at year end was R$586 million.

Company shares are traded in the Novo Mercado of BM&FBovespa under ticker MAGG3 and integrate IGC, IGC-NM, ITAG, INDX e MSCI Global Small Caps Indices. These shares are also traded via ADR – American Depositary Receipt – level 1, in the OTC market (OTCQX) in the USA, under ticker MFRSY.

Company ownership structure as at December 31, 2014 was as follows:

Shareholders	No. of shares	%
Control Group	**120,350,670**	**42.5%**
Alumina Holdings LLC **(GP Investimentos)**	88,654,796	31.3%
MAG Fundo de Invest. em Participações **(GP Investimentos)**	9,537,978	3.4%
GPCP4 Fundo de Invest. em Participações **(GP Investimentos)**	1,138,301	0.4%
Rearden L Holdings 3 S.À R.L **(Rhône)**	21,019,595	7.4%
Outstanding shares	**162,919,464**	**57.5%**
Total	**283,270,134**	**100.0%**

11 Corporate governance

Magnesita is committed to best practices in corporate governance, seeking to follow the recommendations of the Brazilian Code of best Corporate Governance practices of the Brazilian Institute of Corporate Governance (IBGC). The company believes that the continuous improvement of its governance practices contributes to the increase in the value of the Company, performance improvement, facilitates access to capital at lower costs and contributes to its perpetuation.

In its relationship with shareholders, investors and the capital market, Magnesita emphasizes transparency, fairness, quality of accountability and corporate responsibility. Since April 2008, the Company has been part of the Novo Mercado of BM&FBovespa, a segment which trades shares of companies committed to the highest level of corporate governance.

Always aiming at complying with best practices, Magnesita employs various media for communicating with analysts and investors. In addition to maintaining a specific investor relations website, the Company conducts quarterly video conferences in Portuguese and English for results presentation, publishes financial statements in Portuguese and English, carries out visits, meetings, conference calls, participates in conferences and conducts public meeting along with the Association of Market Capital Investment Analysts and Professionals (APIMEC) focused on the general public.

In order to resolve conflicts of interest, Company Shareholders' Meetings may resort to arbitration, provided by the Arbitration Chamber of BM&FBovespa, in accordance with the arbitration clause included in Company articles of incorporation.

Company Board of Directors comprises 8 members and an equal number of alternate members, two of which (25%) are independent. In April 2013, the tenure of the Board of Directors was completed and the Shareholders' Meeting held on April 19, 2013 elected, to be part of the current Board for a term of 2 years, the following members: (i) Fersen Lamas Lambranho; (ii) Thiago Emanuel Rodrigues; (iii) Sergio Carvalho Dias Carneiro; (iv) Eduardo Alcalay; (v) Nelson Rozental; (vi) Robert Frank Agostinelli; (vii) Eduardo Fontana D'Ávilla; and (viii) Bernardo Guimarães Rodarte; their respective alternate members are: (i) Marcelo Cunha Ribeiro; (ii) Danilo Gamboa; (iii) João Henrique Braga Junqueira; (iv) Santos de Araújo Fagundes; (v) Ricardo Propheta Marques; (vi) Franz-Ferdinand Buerstedde; (vii) Alexandre Grzybowski; and (viii) Luiz Gustavo de Miranda Lage.

On October 15, 2013, Mr. Sergio Carvalho Dias Carneiro resigned and Mr. Eduardo Romeu Ferraz was elected for this position. On October 16, 2013, Mr. Marcelo Cunha Ribeiro resigned from his alternate member position and this position was vacant until year end. On February 19, 2014, Mr. Rubens Mário Marques de Freitas took the alternate member position, previously occupied by Mr. Marcelo Cunha Ribeiro. On August 13, 2014, Mr. Eduardo Romeu Ferraz resigned and Mr. Rodrigo Boscolo was elected for this position.

12 Environment

Magnesita is a pioneer in reverse logistics of refractories waste. Approximately ten years ago, before enactment of the law requiring adoption of such a procedure in Brazil, Company research and development area began improving the methods to almost fully reuse refractories rendered unusable. For that purpose, two specific plants were created, Magnesita Ecobusiness in Contagem - MG and in Coronel Fabriciano - MG. The entire process is monitored by the Company, which still receives these materials after they are processed. A technical and operational team fully dedicated to the disposal of refractories waste evaluates the material sent by the customer before forwarding it to the recycling plants, and the process is run in conjunction with the customers. Recycling generates new products (slow moving refractories) and raw materials for new refractories, paving and construction purposes.

In Brazil, the production of refractory waste is estimated at 65.0 thousand tons per year. In 2014, Magnesita recycled 12.5 thousand tons of refractory waste. Since this project began, 38 thousand tons of MgO refractory waste of were recycled, which is equivalent to 76.7 thousand tons of magnesite ore and 2.81 thousand liters of fuel oil. In addition, approximately 21 tons of CO^2 are no longer thrown in the atmosphere (equivalent to cutting 110 thousand trees).

As a leader in integrated solutions for refractories and holder of significant mineral reserves in Brazil, China, United States and Belgium, Magnesita believes that preserving the environment is a guarantee for maintenance of Company business. All raw materials for the production of magnesite sinter and dolomite used in Company production of refractory materials are extracted from these mines. Exploration is planned in order to protect all the surrounding areas. In 2014, we re-vegetated an area of 26,000 m², and plan to re-vegetate another 32,000 m² in 2015.

In 2014, Magnesita maintained all its certifications in accordance with International Standard ISO 14001 previously obtained.

In addition, the Company maintained all ISO 9001 certificates for quality system management in 11 units in Brazil, in addition to the units in Europe, Asia and United States. Certificates OHSAS 18001 for occupational health and safety management systems in the units of the Vitória Regional office and Usiminas Cubatão were also maintained.

13 Social responsibility

Each year, Magnesita outgrows its functions as a job generator and taxpayer, among other mandatory distributions of value added on account of its activities. The Company is committed to community development and environmental protection as an essential value and counts on management support for implementing projects and partnerships.

13 Social responsibility (Continued)

In recent years, Magnesita sponsored numerous projects in the State of Minas Gerais, such as the campaign for the popularization of theatre and dance (SINPARC), Orquestra Jovem das Gerais, Projeto Fred, among other initiatives that promote cultural development, income and sustainable development of the communities in the proximity of the locations where the Company operates. In addition to sponsoring external entities, internal activities are also promoted, such as toy and food donation campaigns, and other initiatives which make it possible for the employees to also share this value. Some initiatives in the communities close to the Brumado mine are also of great importance, such as maintenance of a digital center, Projeto Cidadão do Futuro, in partnership with SESI-BA, and various volunteer actions taken by our employees, such as painting the school and the community soccer field. Multiple fronts reinforce the commitment assumed by Magnesita and its continuous search for sustainable development.

In 2014, the Company continued with the PRISMA - Magnesita's social inclusion program, by including new people with special needs and rehabilitated professionals. The Portas Abertas project, implemented in 2010, was largely accepted by Company employees in 2014 and provided for a closer relationship between the employees' families and the Company through visits of relatives to Company headquarters. During the year, two encounters occurred with the participation of approximately 1,000 people in total. PREPARAR - a retirement preparation program, created in 2012, ended the cycle with the first 20 participants. The goal of this program is to support our employees, along with their families, in building a post-work life plan, addressing issues such as quality of life and health, relationship, financial and social aspects.

Based on values like Respect for Safety, Environment and Communities, Magnesita seeks sustainable growth, developing the communities around the Company and aiming at a better environment for its employees.

14 Human Resources

At the end of 2014, the Company had 7,227 employees (6,258 as at December 31, 2013). In terms of geography, these employees are distributed as follows: South America – 77.4%, Europe – 7.7%; North America – 8.4% and Asia - 6.5%.

Turnover was 1.4%, due to restructurings and term of customer agreements. Changes in personnel resulted from administrative reformulations and a few restructurings aimed at higher productivity.

The complexity of Company business requires attention in terms of career plans and succession management; therefore, since 2008, 8 trainee programs and 8 intern programs have been carried out. In 2014, 14 global trainees and 110 interns began in the Company. The introduction of young talent enables the development of new projects, work in strategic areas, renovation and greater alignment with the values and competencies of Magnesita. In 2014, 81% of these talents were retained or hired.

14 Human Resources (Continued)

In addition to the variable compensation, Magnesita offers its employees the following benefits: health and dental plan, pharmacy card, basket of food staples, paycheck deductible loans, life insurance, private pension plan, transportation and food. At the end of 2014, the retirement plan counted on 7,096 active members, 776 inactive members, retirees and pensioners, 1,462 deferred members and 53 self-sponsored members. The Company has increasingly been acting on merit, recognizing employees who work in a differentiated manner by delivering sustainable results. In 2014, 2,678 merit-based salary increases, promotions and reclassifications were granted.

In training and development initiatives, the Company invested approximately R$ 894 thousand, which corresponded to 247,214 hours and a total 8,110 participants, an average 108 hours per person.

15 Arbitration clause

The Company, its officers, managers and members of the Board of Directors agree to resolve through arbitration any dispute or controversy which may arise between them, related to, or originating from, in particular, the application, validity, effectiveness, interpretation, breach and the effects of the provisions contained in the Novo Mercado Participation Agreement, Novo Mercado Listing Regulations, Company Articles of Incorporation, Brazilian Corporate Law, standards issued by the Brazil's National Monetary Council, by the Central Bank of Brazil or by the Brazilian SEC (CVM), in the regulations of BM&FBovespa, other standards applicable to the capital market in general, in the Arbitration Clauses and Arbitration Regulation of the Market Arbitration Chamber, conducted in accordance with the latter.

16 Independent Auditor

"Pursuant to CVM Rule No. 381/03, items I to IV of article 2, Magnesita hereby represents that it has paid its Independent Auditor for services other than those referring to audit of Company Financial Statements. In 2014, firms belonging to the Ernst & Young network in Brazil and abroad were hired for additional advisory services to be provided to expatriates and for tax reviews. The corresponding fees amounted to R$408.4 thousand. Company management is responsible for defining the procedures to be performed and application thereof. Accordingly, the Company and its external auditor are of the understanding that such services have no impact on professional independence and that there was no loss of objectivity or conflict of interests".

17 Acknowledgements

Finally, we wish to thank our customers, shareholders and suppliers for the decisive assistance provided to us in the year ended.

We also wish to thank our employees for their valuable dedication and commitment to our Company.

Contagem, March 16, 2015.

Magnesita Refratários S.A.

Financial statements

December 31, 2014

Contents

A free translation from Portuguese into English of Independent Auditor's Report on individual and Consolidated Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and in accordance with International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board (IASB)

Independent auditor's report on financial statements

The
Shareholders, Board of Directors and Officers
Magnesita Refratários S.A.
Belo Horizonte – MG

We have audited the accompanying individual and consolidated financial statements of Magnesita Refratários S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2014, and the related statement of operations, statement of comprehensive income (loss), statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Company's 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 practices 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Magnesita Refratários S.A. as at December 31, 2014, its individual and consolidated operating performance and individual and consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Other matters

Statement of value added

We have also audited the individual and consolidated statement of value added (SVA) for the year ended December 31, 2014, prepared under management’s responsibility, whose presentation is required by the Brazilian Corporation Law for publicly-held companies and as additional information by the IFRS, which do not require SVA presentation. These statements have been subject to the same auditing procedures previously described and, in our opinion, are presented fairly, in all material respects, in relation to the overall financial statements.

Belo Horizonte (MG), March 13, 2015.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6-F-MG

Rogério Xavier Magalhães
Accountant CRC-1MG080613/O-1

Luciana Ferreira Barbosa
Accountant CRC-1MG068775/O-9

Magnesita Refratários S.A.

Balance sheets
December 31, 2014 and 2013
(In thousands of reais)

	Consolidated		Company	
	12/31/2014	**12/31/2013**	**12/31/2014**	**12/31/2013**
Assets				
Current assets				
Cash and cash equivalents (Note 8)	**887,374**	949,097	**102,766**	719,976
Marketable securities	**26,100**	11,596	**26,100**	11,596
Trade accounts receivable (Note 9)	**515,554**	605,087	**482,511**	409,169
Inventories (Note 10)	**948,377**	758,602	**318,461**	308,618
Income and social contribution taxes recoverable	**34,876**	22,588	**4,216**	5,360
Other taxes recoverable (Note 11)	**96,242**	162,201	**50,390**	117,589
Receivable from sale of property (Note 13)	**2,687**	5,018	**2,687**	5,018
Other	**45,352**	46,352	**23,877**	26,055
	2,556,562	2,560,541	**1,011,008**	1,603,381
Noncurrent assets				
Long-term receivables				
Deferred income and social contribution taxes (Notes 12 (a) and 12 (c))	**32,795**	8,128	**485**	-
Other taxes recoverable (Note 11)	**49,296**	16,487	**49,278**	16,391
Judicial deposits (Note 22)	**16,126**	18,080	**15,007**	16,988
Receivable from sale of property (Note 13)	**6,410**	7,125	**6,410**	7,125
Receivables from subsidiaries (Note 14(c))	**-**	-	**58,052**	49,628
Investments (Note 14)	**7,220**	6,051	**1,833,297**	1,404,145
Investment property (Note 15)	**60,833**	67,490	**60,833**	67,490
Property, plant and equipment (Note 16)	**1,310,611**	1,248,865	**714,613**	657,178
Intangible assets (Note 17)	**2,568,292**	2,541,166	**1,084,807**	1,084,939
	4,051,583	3,913,392	**3,822,782**	3,303,884
Total assets	**6,608,145**	6,473,933	**4,833,790**	4,907,265

	Consolidated		Company	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Liabilities and equity				
Current liabilities				
Trade accounts payable	**419,216**	412,066	**167,983**	195,279
Liabilities arising from purchase of raw materials (Note 19)	**166,519**	-	**58,171**	-
Loans and financing (Note 20)	**305,220**	88,121	**205,238**	38,137
Salaries, provisions and social charges	**103,571**	106,490	**58,227**	65,301
Income and social contribution taxes payable	**12,650**	7,385	**-**	-
Other taxes payable (Note 21)	**44,851**	38,674	**18,793**	17,011
Dividends	**642**	13,778	**353**	13,403
Accounts payable for investment acquisition	**23,140**	29,727	**23,140**	29,727
Other liabilities	**70,850**	80,242	**31,486**	40,306
	1,146,659	776,483	**563,391**	399,164
Noncurrent liabilities				
Loans and financing (Note 20)	**2,203,939**	2,325,612	**1,266,849**	1,367,129
Provision for contingencies (Note 22)	**39,326**	38,514	**38,542**	38,502
Post-employment liabilities (Note 23)	**300,169**	221,990	**88,640**	64,217
Deferred income and social contribution taxes (Note 12 (c))	**8,339**	72,444	**-**	33,813
Other liabilities	**16,836**	14,964	**-**	-
	2,568,609	2,673,524	**1,394,031**	1,503,661
Equity (Note 24)				
Capital	**2,528,146**	2,528,146	**2,528,146**	2,528,146
Capital reserves	**260,803**	254,663	**260,803**	254,663
Treasury shares	**(47,154)**	(19,869)	**(47,154)**	(19,869)
Income reserve	**23,199**	119,008	**23,199**	119,008
Other comprehensive income (loss)	**111,374**	122,492	**111,374**	122,492
Controlling shareholders	**2,876,368**	3,004,440	**2,876,368**	3,004,440
Noncontrolling shareholders	**16,509**	19,486	**-**	-
	2,892,877	3,023,926	**2,876,368**	3,004,440
Total liabilities and equity	**6,608,145**	6,473,933	**4,833,790**	4,907,265

See accompanying notes.

Magnesita Refratários S.A.

Statements of operations
Years ended December 31, 2014 and 2013
(In thousands of reais, except basic and diluted earnings per share, in reais)

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Net revenue from products sold and services (Note 32)	**2,872,042**	2,655,962	**1,383,546**	1,299,412
Cost of sales and services rendered (Note 27)	**(1,989,489)**	(1,792,017)	**(970,563)**	(858,328)
Gross profit	**882,553**	863,945	**412,983**	441,084
Operating income (expenses)				
Selling expenses (Note 27)	**(408,504)**	(359,928)	**(185,561)**	(164,479)
General and administrative expenses (Note 27)	**(228,968)**	(226,875)	**(129,996)**	(137,131)
Stock options (Note 27)	**(6,140)**	(8,603)	**(6,140)**	(8,603)
Equity pickup (Note 14)	**1,125**	448	**(23,017)**	1,405
Other operating income (expenses), net (Note 29)	**(109,525)**	43,543	**(80,995)**	31,855
Operating income (expenses) before financial income (expenses)	**130,541**	312,530	**(12,726)**	164,131
Financial income (expenses) (Note 30)				
Financial income	**183,412**	118,430	**115,018**	96,094
Financial expenses	**(448,046)**	(315,716)	**(224,917)**	(184,754)
	(264,634)	(197,286)	**(109,899)**	(88,660)
Income (loss) before income and social contribution taxes	**(134,093)**	115,244	**(122,625)**	75,471
Income and social contribution taxes (Note 12 (b))	**37,077**	(56,775)	**26,816**	(20,032)
Net income (loss) for the year	**(97,016)**	58,469	**(95,809)**	55,439
Attributable to:				
Company shareholders	**(95,809)**	55,439	**(95,809)**	55,439
Noncontrolling shareholders	**(1,207)**	3,030	**-**	-
	(97,016)	58,469	**(95,809)**	55,439
Earnings (loss) per share attributable to Company shareholders for the year (Reais/share)				
Basic earnings (loss) per share - R$ (Note 31 (a))	**(0.34)**	0.19		
Diluted earnings (loss) per share - R$ (Note 31 (b))	**(0.34)**	0.18		

See accompanying notes.

Magnesita Refratários S.A.

Statements of comprehensive income (loss)
Years ended December 31, 2014 and 2013
(In thousands of reais)

	Consolidated		Company	
	2014	2013	2014	2013
Net income (loss) for the year	**(97,016)**	58,469	**(95,809)**	55,439
Other comprehensive income to be reclassified to P&L for subsequent periods				
Actuarial gain (loss) on post-employment benefit obligations				
Actuarial valuation result	**(22,006)**	39,630	**(22,006)**	39,630
Deferred income and social contribution taxes (Note 12)	**7,482**	(13,474)	**7,482**	(13,474)
Fair value adjustment of investment property				
Loss from fair value adjustment	**-**	(6,000)	**-**	(6,000)
Foreign exchange gain on investments in subsidiaries abroad	**1,636**	157,741	**3,406**	159,888
	(12,888)	177,897	**(11,118)**	180,044
Total comprehensive income for the year	**(109,904)**	236,366	**(106,927)**	235,483
Attributable to:				
Company shareholders	**(106,927)**	235,483		
Noncontrolling shareholders	**(2,977)**	883		
	(109,904)	236,366		

See accompanying notes.

Magnesita Refratários S.A.

Statements of changes in equity
December 31, 2014 and 2013
(In thousands of reais)

			Capital reserves				Income reserve								
	Capital	Treasury shares	Share issue premium reserve	Share issue expenses	Special Law No. 8200/91	Incorporation of goodwill	Reserve for investments	Legal reserve	Retained earnings (accumulated losses)	Granted stock options	Other comprehensive income (loss)	Total	Non-controlling interest	Total equity
Balance at December 31, 2012	2,528,146	(1,134)	139,327	(17,226)	5,973	88,874	71,218	5,518	-	29,112	(57,552)	2,792,256	18,603	2,810,859
Actuarial gain (loss) on post-employment benefit obligations	-	-	-	-	-	-	-	-	-	-	26,156	26,156	-	26,156
Fair value adjustment of investment property	-	-	-	-	-	-	-	-	-	-	(6,000)	(6,000)	-	(6,000)
Exchange variation on foreign investments	-	-	-	-	-	-	-	-	-	-	159,888	159,888	(2,147)	157,741
Treasury shares	-	(18,735)	-	-	-	-	-	-	-	-	-	(18,735)	-	(18,735)
Granted stock options	-	-	-	-	-	-	-	-	-	8,603	-	8,603	-	8,603
Net income for the year	-	-	-	-	-	-	-	-	55,439	-	-	55,439	3,030	58,469
Destination of net income for the year:														
Legal reserve	-	-	-	-	-	-	-	2,772	(2,772)	-	-	-	-	-
Reserve for investments	-	-	-	-	-	-	39,500	-	(39,500)	-	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	-	(13,167)	-	-	(13,167)	-	(13,167)
Balance at December 31, 2013	**2,528,146**	**(19,869)**	**139,327**	**(17,226)**	**5,973**	**88,874**	**110,718**	**8,290**	**-**	**37,715**	**122,492**	**3,004,440**	**19,486**	**3,023,926**
Actuarial gain (loss) on post-employment benefit obligations	-	-	-	-	-	-	-	-	-	-	(14,524)	(14,524)	-	(14,524)
Exchange variation on foreign investments	-	-	-	-	-	-	-	-	-	-	3,406	3,406	(1,770)	1,636
Cancelled treasury shares	-	(27,285)	-	-	-	-	-	-	-	-	-	(27,285)	-	(27,285)
Granted stock options	-	-	-	-	-	-	-	-	-	6,140	-	6,140	-	6,140
Loss for the year	-	-	-	-	-	-	-	-	(95,809)	-	-	(95,809)	(1,207)	(97,016)
Allocation of loss for the year:														
Reserve for investments	-	-	-	-	-	-	(95,809)	-	95,809	-	-	-	-	-
Balance at December 31, 2014	**2,528,146**	**(47,154)**	**139,327**	**(17,226)**	**5,973**	**88,874**	**14,909**	**8,290**	**-**	**43,855**	**111,374**	**2,876,368**	**16,509**	**2,892,877**

See accompanying notes.

Magnesita Refratários S.A.

Cash flow statements - Indirect method
Years ended December 31, 2014 and 2013
(In thousands of reais)

	Consolidated		Company	
	2014	2013	2014	2013
Cash flow from operating activities				
Net income (loss) for the year	**(97,016)**	58,469	**(95,809)**	55,439
Adjustments				
Monetary and exchange gains/(losses), net	**90,196**	44,924	**8,100**	13,694
Interest charges	**213,709**	134,716	**135,810**	157,993
Depreciation and depletion (Note 16)	**139,925**	119,932	**58,619**	48,580
Amortization of intangible assets (Note 17)	**6,729**	6,214	**6,430**	5,918
Equity pickup (Note 14)	**(1,125)**	(448)	**23,017**	(1,405)
Deferred income and social contribution taxes (Note 12)	**(70,336)**	28,662	**(26,816)**	20,032
Derivative instruments – Fair value swap (Note 6)	**(34,759)**	13,139	**(6,835)**	-
Stock options (Note 27)	**6,140**	8,603	**6,140**	8,603
Noncontrolling shareholders	**1,207**	(3,030)	**-**	-
Provision for obsolete inventory items (Note 10)	**3,156**	4,016	**4,783**	-
Write-off of goodwill on investments (Note 17)	**31,024**	-	**-**	-
Loss on fair value of investment properties (Note 15)	**6,657**	-	**6,657**	-
Allowance for doubtful accounts (Note 9)	**16,046**	(3,660)	**19,692**	-
	311,553	411,537	**139,788**	308,854
Decrease (increase) in assets:				
Trade accounts receivable	**110,299**	(90,731)	**(66,375)**	(62,429)
Inventories	**(192,931)**	(124,188)	**(14,626)**	(47,559)
Taxes recoverable	**20,862**	(73,332)	**68,343**	(66,049)
Other	**(77,104)**	(14,481)	**1,303**	(45,764)
	(138,874)	(302,732)	**(11,355)**	(221,801)
Increase (decrease) in liabilities				
Trade accounts payable	**1,938**	64,125	**(20,443)**	31,195
Liabilities arising from purchase of raw materials	**166,519**	-	**58,171**	-
Taxes payable	**11,442**	7,299	**1,782**	(2,552)
Dividends	**(13,136)**	(16,664)	**(13,050)**	(16,664)
Other	**82,077**	(2,619)	**(14,740)**	14,243
	248,840	52,141	**11,720**	26,222
Income and social contribution taxes paid	**(33,720)**	(25,022)	**-**	-
Net cash from operating activities	**387,799**	135,924	**140,153**	113,275
Cash flow from investing activities				
Marketable securities	**(14,504)**	11,114	**(14,504)**	11,114
Fixed asset, investment and intangible asset disposals (Note 16)	**18,256**	49,173	**77**	26,286
Fixed and intangible asset purchases	**(183,436)**	(204,474)	**(106,431)**	(150,006)
Acquisition of company	**-**	(30,304)	**-**	(30,304)
Payment of capital of subsidiary	**-**	-	**(458,589)**	(50,235)
Reduction of capital of subsidiary	**-**	-	**-**	29,937
Receivables for fixed asset disposals	**3,046**	6,205	**3,046**	6,205
Divestitures	**-**	-	**9,671**	-
Interest on capitalized loans (Note 16)	**(15,988)**	-	**(15,988)**	-
Acquisition of investments	**-**	(1,725)	**-**	-
Dividends received	**-**	-	**-**	1,250
Net cash used in investing activities	**(192,626)**	(170,011)	**(582,718)**	(155,753)
Cash flows from financing activities				
Loans and financing	**72,320**	536,762	**14,652**	531,042
Loans and financing repayment	**(90,664)**	(223,459)	**(16,063)**	(223,459)
Payment of interest on loans and financing	**(229,374)**	(145,426)	**(145,949)**	(68,977)
Treasury shares	**(27,285)**	(18,735)	**(27,285)**	(18,735)
Net cash provided by (used in) financing activities	**(275,003)**	149,142	**(174,645)**	219,871
Increase (decrease) in cash and cash equivalents	**(79,830)**	115,055	**(617,210)**	177,393
Cash and cash equivalents at beginning of year	**949,097**	796,739	**719,976**	542,583
Effect of exchange rate changes on cash	**18,107**	37,303	**-**	-
Cash and cash equivalents at end of year	**887,374**	949,097	**102,766**	719,976
Increase (decrease) in cash and cash equivalents	**(79,830)**	115,055	**(617,210)**	177,393

See accompanying notes.

Magnesita Refratários S.A.

Statements of value added
Years ended December 31, 2014 and 2013
(In thousands of reais)

	Consolidated		Company	
	2014	2013	2014	2013
Revenues				
Gross revenue from sales of goods, products and services	**3,324,400**	2,999,140	**1,725,278**	1,626,929
Other revenues	**11,071**	40,030	**9,451**	36,621
Revenues related to construction of own assets	**110,394**	149,778	**110,394**	149,778
Allowance for doubtful accounts				
Reversal (setting up)	**(30,808)**	-	**(22,768)**	-
	3,415,057	3,188,948	**1,822,355**	1,813,328
Inputs acquired from third parties				
(including the amount of taxes - ICMS, IPI, PIS and COFINS)				
Cost of products sold and/or services rendered	**(1,503,270)**	(1,419,753)	**(888,260)**	(813,405)
Materials, electricity, third-party services and others	**(808,613)**	(701,751)	**(465,670)**	(425,010)
	(2,311,883)	(2,121,504)	**(1,353,930)**	(1,238,415)
Gross value added	**1,103,174**	1,067,444	**468,425**	574,913
Depreciation, amortization and depletion	**(146,654)**	(126,146)	**(65,049)**	(54,498)
Net value added produced by the entity	**956,520**	941,298	**403,376**	520,415
Value added received in transfer				
Equity pickup (Note 14)	**1,125**	448	**(23,017)**	1,405
Financial income	**183,412**	118,430	**115,018**	96,094
	184,537	118,878	**92,001**	97,499
Total value added to be distributed	**1,141,057**	1,060,176	**495,377**	617,914
Distribution of value added				
Personnel and charges	**628,748**	520,900	**345,912**	299,202
Taxes, charges and contributions	**144,367**	143,952	**4,528**	57,554
Creditors				
Interest and monetary and exchange variation	**448,046**	315,716	**224,917**	184,754
Rent	**16,912**	21,139	**15,829**	20,965
Noncontrolling shareholders	**(1,207)**	3,030	**-**	-
Retained profit (loss) for the year	**(95,809)**	55,439	**(95,809)**	55,439
	1,141,057	1,060,176	**495,377**	617,914

See accompanying notes.

1 Operations

Magnesita Refratários S.A. ("Company" or "Magnesita"), controlled through investment vehicles of GP Investments, Ltd. and Rhône Group, is a publicly-held company listed in the "Novo Mercado" of BM&F BOVESPA and whose business purpose, in conjunction with its subsidiaries, is to manufacture refractory products, which are essential for processes performed under high temperatures. Company products are basically made of magnesite or dolomite and are available in a wide range of forms, such as: bricks, masses, mortars and concrete. Taking advantage of its synergy with customers, the Company renders electromechanical maintenance and refractory assembly services. In addition, the Company operates with processing and sale of industrial minerals such as talc, caustic magnesia and magnesite sinter.

In addition to its plant located in Contagem, MG, Brazil (the Company's headquarters), the Company has other direct and indirect subsidiaries and jointly-controlled entities, holdings, manufacturing plants, trading companies, mining or non-operating subsidiaries, which are included in the consolidated financial statements ("Magnesita Group" or "Group"). These companies are described in Note 14.

2 Approval of the financial statements

These financial statements were approved by the Company's Board of Directors on March 13, 2015.

3 Summary of significant accounting practices

Significant accounting practices adopted in the preparation of these individual and consolidated financial statements are described below.

Accounting policies on transactions deemed immaterial were not included in the financial statements.

We also emphasize that the accounting policies were consistently applied in the current year, that they are consistent with the prior year statements and are applied to both Company and subsidiaries, and, when necessary, the subsidiaries' financial statements are adjusted to meet this criterion.

The financial statements were prepared using the historical cost as a value basis, and adjusted to reflect the measurement of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

3 Summary of significant accounting practices (Continued)

3.1 Basis of preparation and statement of compliance

The preparation of financial statements requires the use of certain critical accounting estimates as well as the exercise of judgment by Company management in applying the Company's accounting practices. Those areas which involve greater judgment calls or more complexity or where the assumptions and estimates are significant for the financial statements are disclosed in Note 4.

The individual and consolidated financial statements were prepared in accordance with the IFRS, issued by IASB, and in accordance with accounting practices adopted in Brazil, issued by the Brazilian Financial Accounting Standards Board (CPC), approved by the Brazilian Securities and Exchange Commission (CVM).

Additionally, the Company considered the guidelines contained in Technical Guidance OCPC 07, issued by CPC in November 2014, when preparing its financial statements. Accordingly, significant information shown on the face of the financial statements is being disclosed and refers to information used by management in the discharge of their responsibilities.

3.2 Consolidation criteria

At December 31, 2014 and 2013, the consolidated financial statements include those of the Company and the subsidiaries described in Note 14.

The fiscal year of direct and indirect subsidiaries coincides with that of the Company and the accounting practices were consistently applied to the consolidated companies.

3.3 Presentation of segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, identified as the Executive Board and the Board of Directors, also responsible for the Company's strategic decisions.

3.4 Foreign currency translation

(a) <u>Functional and reporting currency</u>

The financial statements of each subsidiary and jointly-controlled subsidiary included in the consolidation and those used as a basis to evaluate investments on the equity method are prepared using the functional currency of each entity. The consolidated financial statements are presented in Brazilian reais (R$), which is Magnesita's functional and reporting currency.

3 Summary of significant accounting practices (Continued)

3.4 Foreign currency translation (Continued)

(b) Transactions and balances denominated in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing on the transaction or evaluation dates, on which the items are measured. Exchange gains and losses stemming from the settlement of these transactions and translation at the exchange rate at year end, referring to monetary assets and liabilities denominated in foreign currency, are recognized in P&L, as financial income (expenses), except when deferred in equity.

Foreign exchange gains/losses of investments in subsidiaries abroad whose functional currency is different from the Company's functional currency are recognized in "Other comprehensive income" and recorded in P&L for the year only in proportion to the amount of a sale or write-off due to loss or extinguishment.

3.5 Fair value measurement

The Group measures financial instruments, for instance derivatives and non-financial assets, as investment properties, at fair value at each balance sheet closing date. Further to that, the fair values of financial instruments measured at amortized cost are disclosed in Note 7.

The Group uses valuation techniques appropriate for the circumstances and for which there is sufficient data for fair value measurement, maximizing the use of relevant available information and minimizing the use of unavailable information.

All assets and liabilities that are measured or disclosed at fair value in the financial statements are classified within the fair value hierarchy, as described below:

• Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
• Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is either directly or indirectly observable; and
• Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is not available.

No assets or liabilities were transferred between fair value hierarchy levels in 2014 and 2013.

The Group's Valuation Committee determines the policies and procedures for fair value measurement. The Valuation Committee comprises the leadership of investment properties segment, the leadership of the mergers and acquisitions internal team, the leadership of the risk management department, as well as financial officers and managers of each property.

External appraisers are involved in the valuation of significant assets, for example, properties and financial assets available for sale.

Every disclosure date, the Valuation Committee analyzes the changes in asset and liability values that must be measured and revaluated according to the Group's accounting practices.

For the purposes of fair value disclosures, the Group determined classes of assets and liabilities based on the nature, characteristics and risks of assets or liabilities and the fair value hierarchy level, as mentioned above.

3 Summary of significant accounting practices (Continued)

3.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits and highly liquid short-term investments redeemable within 90 (ninety) days with immaterial risk of change in fair value.

3.7 Financial assets and liabilities

3.7.1 Classification and measurement of financial assets

Management determines the classification of the financial assets on initial recognition. The classification depends on the nature and purpose for which the financial assets were acquired.

a. <u>Financial assets measured at fair value through profit or loss</u>

Financial assets measured at fair value through profit or loss are financial assets held for frequent and active trading. Derivatives are also categorized as held for trading and are therefore classified in this category. Gains or losses arising from changes in fair value of financial assets measured at fair value through profit or loss are presented in P&L, under “Financial income (expenses)”, in the period in which they occur.

b. <u>Loans and receivables</u>

Loans granted and receivables that are non-derivative financial assets with fixed or determinable payments not traded in an active market are recorded in this category. The Company’s loans and receivables comprise loans to subsidiaries, trade accounts receivable, other accounts receivable and cash and cash equivalents, except for short-term investments. Loans and receivables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method.

A financial asset (or, whenever the case, a part of a financial asset, or a part of a group of similar financial assets) is derecognized, mainly, when:

(i) The rights to receive the cash flows from the asset have expired
(ii) Impairment of financial assets

The Group assesses at the balance sheet dates whether there is any objective evidence of impairment of the financial asset or group of financial assets.

3.7.2 Classification and measurement of financial liabilities

The Group determines the classification of its financial liabilities upon their initial recognition.

Financial liabilities are initially recognized at fair value plus, in the case of loans and financing, transaction cost directly attributable thereto.

3 Summary of significant accounting practices (Continued)

3.7 Financial assets and liabilities (Continued)

3.7.2 Classification and measurement of financial liabilities (Continued)

The Group's financial liabilities include trade accounts payable, other accounts payable, overdraft facility (checking account with a negative cash balance), loans and financing, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

Measurement of financial liabilities depends on their classification, which can be as follows:

a. <u>Financial liabilities at fair value through profit or loss:</u>

These include financial liabilities held for trading and financial liabilities initially recognized at FVTPL.

Financial liabilities are classified as held for trading if acquired to be sold within short term.

Gains and losses on liabilities held for trading are recognized in P&L.

b. <u>Loans and financing</u>

After initial recognition, loans and financing subject to interest are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in P&L when liabilities are derecognized, and through the amortization process by the effective interest rate method.

Derecognition (write-off)

A financial liability is derecognized when the liability has been revoked, cancelled or expired.

When an existing financial liability is replaced by another of the same lender with substantially different terms, or the terms of an existing liability are significantly changed, this replacement or change is treated as write-off of the original liability with recognition of a new liability, the difference in the respective book values is recognized in P&L.

3.7.3 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3 Summary of significant accounting practices (Continued)

3.7 Financial assets and liabilities (Continued)

3.7.4 Impairment of financial assets

The Magnesita Group assesses at balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

3.8 Derivative instruments

Although the Magnesita Group uses derivatives for hedging purposes, it does not use hedge accounting.

Changes in fair value of these derivative financial instruments are immediately recognized in P&L under "Financial income (expenses)".

3.9 Inventories

Inventories are stated at the average acquisition or production cost, which is lower than replacement cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses. Imports in progress are recorded at the accumulated cost of each import.

3.10 Current and deferred income and social contribution taxes

Income taxes are recognized in P&L, except to the extent that they are related to items directly recognized in equity. In this case, the taxes are also recognized in equity.

Except for foreign subsidiaries, for which the ruling tax rates in the country in which they are located shall be observed, Corporate Income Tax ("IRPJ") and Social Contribution Tax on Net Profit ("CSLL") are calculated based on net profit, adjusted by additions and exclusions determined as per the Brazilian tax legislation.

The recognition of tax credits is based on a study of expected future taxable profits prepared and based on internal assumptions and in future economic scenarios which may, therefore, suffer change. Said study was reviewed by the Supervisory Board and approved by the Board of Directors.

With the merger into the Company of the holder of 10.97% of its capital, the goodwill arising from the acquisition of the related shares, recorded in intangible assets of the merged company, was reduced by a provision pursuant to CVM Rule No. 349/01, and a special reserve was set up with a corresponding entry to the net amount merged. The reserve will benefit all the shareholders when it is used for a capital increase. The net balance of this goodwill represents the amount of the tax benefit expected from its amortization and is classified together with other deferred tax credits.

3 Summary of significant accounting practices (Continued)

3.11 Investments

3.11.1 Investments in subsidiaries

Investments in subsidiaries are accounted for and evaluated in the Company under the equity method, recognized in P&L for the year as operating income or expense.

3.11.2 Investments in jointly-controlled entities

The Company participates in *joint ventures* under contractual agreements establishing joint control over several activities of the Company.

Investments in jointly-controlled subsidiaries are accounted for and evaluated in Company and Consolidated under the equity method, recognized in P&L for the year as operating income or expense.

3.11.3 Investment property

Investment properties are initially measured at cost, including transaction costs. After initial recognition, investment properties are presented at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in fair value of investment properties are included in P&L for the year in which they are generated.

Investment properties are written off when sold or when they are no longer permanently used and no future economic benefit from the disposal thereof is expected. The difference between the net sales value and asset book value is recognized in P&L for the period in which write-off takes place.

3.12 Property, plant and equipment

Property, plant and equipment are recorded at acquisition, buildup, or construction cost, less depreciation and, where applicable reduced to their recoverable amount.

The principal components of certain property, plant and equipment, upon their replacement, are accounted for as separate and individual assets using the specific useful life of this component, while the replaced component is written off. Maintenance costs to recover or maintain the original performance standards are recognized in P&L during the period in which they are incurred.

Depreciation of other assets is calculated using the straight-line method to allocate its costs to their net book value during their estimated useful lives. Depletion of ore mines is calculated based on extracted ore volume.

The assets' useful lives and net book value are reviewed every year end and prospectively adjusted, as applicable. The book value of an asset is immediately reduced to its recoverable amount when it exceeds its estimated recoverable amount.

3 Summary of significant accounting practices (Continued)

3.13 Intangible assets

(a) Goodwill

Goodwill is represented by the positive difference between the cost of acquisition paid or payable and the net fair value of the acquiree's assets and liabilities. Goodwill recorded by the Magnesita Group arises from the expectation of future profitability and was recognized as an "intangible asset".

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the book value of the goodwill on the entity disposed of.

Goodwill is allocated to Cash Generating Units (CGUs) for the purpose of impairment test. Goodwill is allocated to CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, and segregated by operating segment. The assumptions considered in the impairment test are shown in Note 18.

(b) Software

Acquired software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Development costs that are directly attributable to designing and testing of identifiable and unique software products controlled by the Magnesita Group are also capitalized when the technical criteria to recognize intangible assets are met.

Software development costs that do not meet these criteria are recognized as expense as incurred.

Software-related costs recognized as assets are amortized using the straight-line method over the useful lives of assets, at the rates described in Note 17.

3.14 Impairment of non-financial assets

Indefinite-lived assets, such as goodwill, are not subject to amortization and are annually tested for impairment. Finite-lived assets are tested for impairment every balance sheet date and whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

If there is an indicator, assets are tested for impairment. An impairment loss is recognized at the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (i.e., cash-generating units - CGUs).

3 Summary of significant accounting practices (Continued)

3.15 Provision for contingencies and contingent assets

Provision for contingencies related to legal, administrative, labor, social security, tax and civil proceedings are recognized when the Company has a present obligation, legal or constructive, arising from past events, the settlement of which is likely to result in an outflow of economic benefits and for which a reliable estimate can be made.

Contingent assets not recorded in the books, unless favorable non-appealable court decisions characterize the gain as certain.

Significant contingent assets and liabilities are disclosed in Note 22.

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

3.16 Employee benefits

(a) Supplemental retirement plans

The Company and certain of its subsidiaries are sponsors of pension plans that are managed by closed private pension plan entities, which provide their employees with pensions and other post-employment benefits.

The liability with respect to defined-benefit pension plans are determined by independent actuaries on an annual basis. This liability is the present value of the defined benefit obligation at the balance sheet date, less the market value of the plan assets, adjusted for actuarial gains or losses and costs of unrecognized past service. Significant assumptions adopted by the Company are undisclosed in Note 23.

For the defined contribution plan, the Company pays contributions to a privately administered pension plan on a mandatory, contractual or voluntary basis. Except for the portion relating to defined benefits, represented by claims for disability and death, where the actuarial computation is made by independent actuaries, the Company has no further payment obligations after the contributions have been paid. Regular contributions comprise the net costs for the periods when they are due and are included in personnel costs.

The recognition and measurement criteria, as well as the actuarial assumptions, are described in Note 23.

3 Summary of significant accounting practices (Continued)

3.16 Employee benefits (Continued)

(b) Share-based compensation

The Company has a share-based compensation plan, to be settled with treasury preferred shares, which allows Management members and other professionals appointed by the Board of Directors to acquire their shares. The fair value of the employee's services received in exchange for the stock options grant is recognized as expense.

When options are exercised, the amounts received, net of any directly attributable transaction costs, are credited in capital (par value).

3.17 Revenue recognition

Revenue is presented net of taxes, returns, rebates and discounts and, after eliminating sales within the Magnesita Group, it is recognized at the fair value of the consideration received or receivable, to the extent it is probable that future economic benefits will flow to the entity, and revenues and costs can be reliably measured. Additionally, specific criteria for each of the Company's activities must be met, as follows:

a. Sale of products

Sales revenue is recognized when all significant risks and benefits inherent to the goods are transferred to purchaser. The Company adopts as policy for revenue recognition the date on which the product is delivered to the purchaser.

b. Sale of services

Service revenue is recognized based on services rendered up to the balance sheet date, provided that all costs associated with the services can be reliably measured.

c. Financial income

Financial income is recognized according to the time elapsed, using the effective interest rate method.

3.18 Treasury shares

Own equity instruments that are repurchased (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the income statement upon purchase, sale, issue or cancellation of own equity instruments of the Group. Any difference between carrying amount and consideration is recognized in other capital reserves.

3 Summary of significant accounting practices (Continued)

3.19 Business combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition-date fair value, and the value of any noncontrolling interests in the acquiree.

Upon acquiring a business, the Group assesses financial assets and liabilities assumed so as to classify and allocate them in accordance with contractual terms, economic circumstances and relevant conditions on the acquisition date, including the segregation, by the acquiree, of embedded derivatives existing in host contracts in the acquiree.

In the event of a business combination in stages, fair value on acquisition date of ownership interest previously held in the acquiree's capital is reassessed at fair value on the acquisition date, and any impacts are recognized in P&L.

The net positive difference between the transferred consideration and the fair value of identified assets and assumed liabilities, net on the acquisition date is recorded as goodwill attributed to each purchased CGU.

3.20 New or revised pronouncements first-time adopted in 2014

The Company first-time adopted certain standards and amendments effective for annual periods beginning on or after January 1, 2014. The nature and impact of each of the new standards and amendments are described below:

- Revised IAS 27: Upon issuance of IAS 27 (Separate Financial Statements) revised by IASB in 2014, separate financial statements in accordance with IFRS now allow for the use of the equity method for measurement of investments in subsidiaries, affiliates and jointly-controlled subsidiaries. Thus, with the adoption of IAS 27, revised by the Company in 2014, the Company's individual financial statements, as well as the comparative information, are in compliance with the IFRS as from 2014.

The new standards and amendments described below have no significant impact on the Company's financial information.

- Amendments to CPC 39 - Offsetting Financial Assets and Financial Liabilities; These amendments clarify the meaning of "currently has a legally enforceable right to set off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively.

- Amendments to CPC 38 - Novation of Derivatives and Continuation of Hedge Accounting: These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.

- IFRIC 21 Levies: IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

3 Summary of significant accounting practices (Continued)

3.20 New or revised pronouncements first-time adopted in 2014 (Continued)

- Annual improvements 2011-2013 Cycle: In the 2011-2013 annual improvements cycle, the IASB issued seven amendments to four standards, which included an amendment to IFRS1 – First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at January 1, 2014 and it clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatorily effective, provided that the new or revised IFRS permits early adoption. An entity is required to apply the same version of the IFRS throughout the periods covered by those first IFRS financial statements.

3.21 Pronouncements issued, but not yet effective at December 31, 2014

The standards and pronouncements issued applicable to the Group, but which were not adopted until the issue date of the Company's financial statements, are presented below. The Magnesita Group intends to adopt these standards, if applicable, when they become effective.

- IFRS 9 - Financial Instruments: In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments, which reflects all the phases of the financial instruments and replaces IAS 39 - Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information disclosure is not required. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if first-time adoption is before February 1, 2015. The adoption of IFRS 9 is applicable on or after January 1, 2018, and will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

- IFRS 15 - Revenue from Contracts with Customers: IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

- IAS 19 Employee benefits: In an active market which comprises different countries with a common functional currency, discount rates must be determined based on low-risk securities traded in the country rather than at functional currency level. The amendment is effective as from January 1, 2016.

4 Critical accounting estimates and judgments

Accounting estimates and judgments are continuously assessed based on historical experience and other factors, including expectations with regard to future events, considered reasonable under the circumstances.

The Magnesita Group makes future estimates based on assumptions. Estimates and assumptions that present a significant risk, likely to cause a significant adjustment to book values of assets and liabilities for the next financial year are as follows.

(a) Estimated impairment of non-financial assets

The Magnesita Group annually tests non-financial assets, such as property, plant and equipment, intangible assets (when there are impairment indicators) and goodwill, for impairment, in accordance with the accounting policy stated in Note 3.14 and assumptions described in Note 18. The recoverable amounts of cash-generating units (CGUs) were determined based on value-in-use calculations, which require the use of estimates.

(b) Current and deferred income taxes

The Magnesita Group is subject to income taxes in all countries in which it operates. Significant judgment is required in determining the worldwide provision for income taxes.

The Magnesita Group recognizes deferred assets and liabilities based on the difference between the book value presented in the financial statements and the tax base of assets and liabilities using rates in force. The Magnesita Group regularly reviews the deferred tax assets in terms of recoverability, considering historical profit generated and projected future taxable profits, according to technical feasibility studies.

(c) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in active markets is determined by using valuation techniques. The Magnesita Group uses its professional judgment to choose various methods and define assumptions that are mainly based on market conditions existing at the balance sheet date.

(d) Pension plan benefits

The current amount of liabilities deriving from pension plans depends on a series of events that are determined based on actuarial calculations, which uses a number of assumptions.

Among the assumptions used in determining the net cost (revenue) for the employees' pension plans, the discount rate is also used.

The Magnesita Group determines the appropriate discount rate at every year end. This is the interest rate that should be used to determine the present value of estimated future cash outflows, which must be necessary to settle the employees' pension plan liabilities. Other significant assumptions for pension plan obligations are partially based on current market conditions. Further information is disclosed in Note 23.

4 **Critical accounting estimates and judgments** (Continued)

(e) Provision for contingencies

Provisions are set up for all risks referring to legal proceedings that represent probable loss. Assessment of the likelihood of loss includes analysis of available evidence, including the opinion of internal and external legal advisors of the Magnesita Group.

(f) Fair value measurement of investment property

The Company engaged specialized independent appraisers to determine fair value at December 31, 2014. For investment properties, the appraiser used valuation based on the Evolutional Method, under which land value was obtained using the Method of Comparison with Market Data and the amount of improvements through the Method of Quantification of Cost of Improvements. The assumptions adopted to determine fair value of the investment property are described in Note 15.

(g) Classification of control over investments

Classification of the Company's investments is subject to judgment in the determination of investment control and significant influence.

(h) Transactions involving share-based payments

Estimated fair value of share-based payments requires determination of the most appropriate valuation model for equity instrument granting purposes, which depends on the granting terms and conditions. This also requires determination of the most appropriate data for the valuation model, including expected life of the option, volatility and dividend earnings and corresponding assumptions. The assumptions and models used to estimate fair value of share-based payments are disclosed in Note 26.

5 Financial risk management

5.1 Financial risk factors

The Magnesita Group's activities expose it to various financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's global risk management aims at minimizing potential adverse impacts on the Magnesita Group's financial performance and maintain the intended liquidity. The Magnesita Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Company's Central Treasury Department under policies approved by the Board of Directors. The Board of Directors establishes written rules and policies for overall risk management, as well as for specific areas, such as currency risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, and investment of cash surplus.

5 **Financial risk management** (Continued)

5.1 **Financial risk factors** (Continued)

a. Financial risk management policy

The Company has no speculative transactions. The Company's internal control procedures provide monitoring on a consolidated manner of financial results and impacts on cash flow. The principal parameters used to manage these risks are: exchange rates, interest rates and prices of products. Derivative transactions are conducted with top-tier financial institutions, which are monitored regularly by having their limits and credit risk exposures of its counterparties assessed.

b. Credit risk

Credit risk arises from cash and cash equivalents, marketable securities, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures with customers, including outstanding receivables.

The Company's and its subsidiaries' sales policies are subordinated to the credit policies established by management and are designed to minimize any problems arising from customer default. This objective is achieved through careful credit rating analysis of customers that considers each customer's capacity to pay, indebtedness ratio and balance sheet, through diversification of trade accounts receivable (risk dilution).

Concerning short-term investments and other investments, the Magnesita Group policy is to work with top-tier financial institutions. Only notes and papers from entities classified with the minimum "AA" rate are accepted. Considering the total amount invested, no financial institution holds individually more than 30% of total short-term investments and other investments of the Magnesita Group.

c. Liquidity risk

The policy responsible for management of financial assets and liabilities requires a thorough review of the Magnesita Group's counterparties, by means of the analysis of financial statements, equity and rating, in order to help the Company maintain the intended liquidity, define a concentration level of their operations, control the exposure level to financial market risks, as well as spread liquidity risk.

The cash flow projection is prepared based on the budget approved by the Board of Directors and later updates. This projection takes into account, in addition to all operational plans, the fundraising plan to support the expected investments and the entire maturity schedule of the Magnesita Group's debts. Throughout the work, it is observed the compliance with covenants and internal leverage level goals. The Treasury Department monitors, on a daily basis, the projections contained in the Company's direct cash flow to ensure it has enough cash to meet its operational needs, investments, as well as payments of its obligations.

The Treasury invests the cash surplus in interest-yielding bank accounts, time deposits, short-term deposits and marketable securities, choosing instruments with adequate maturities of enough liquidity to provide sufficient margin as determined by the above-mentioned forecasts.

5 Financial risk management (Continued)

5.1 Financial risk factors (Continued)

d. Market risks

(i) Currency risk

The Magnesita Group operates internationally and is subject to foreign exchange risk arising from certain currency exposures, primarily with respect to the U.S. dollar, the yen and the euro. Currency risk arises from recognized assets and liabilities and net investments in foreign transactions. The financial policy of the Magnesita Group emphasizes that derivative transactions are intended to reduce their costs, volatility in cash flow, currency exposure and avoid mismatch among currencies.

5 Financial risk management (Continued)

5.1 Financial risk management (Continued)

d. Market risks (Continued)

(i) *Currency risk* (Continued)

As a preventive measure and to reduce the impacts of exchange variations, it is management's policy to enter into swap transactions and maintain assets denominated in foreign currencies, as shown below:

	Consolidated							
	In R$ thousand – 12/31/2014				In R$ thousand – 12/31/2013			
	USD	€	Other currencies	Total	USD	€	Other currencies	Total
Assets and liabilities in foreign currency								
Cash and banks	596,495	154,536	38,354	789,385	275,280	139,014	31,529	445,823
Accounts receivable, net of provision for credit risks	208,031	73,942	64,084	346,057	158,716	151,034	101,330	411,080
Trade accounts payable, liabilities arising from purchase of raw materials	(173,412)	(70,504)	(18,715)	(262,631)	(103,888)	(180,610)	(94,637)	(379,135)
Loans and financing	(1,649,767)	(10,816)	(56, 571)	(1,717,154)	(1,563,637)	(34,956)	(23,522)	(1,622,115)
Derivative financial instruments	399,658	(395,733)	-	3,925	442,751	(362,981)	-	79,770
Other monetary assets (liabilities) abroad, net	(7,080)	(5,223)	(26,858)	(39,161)	3,738	3,360	9,898	16,996
Net exposure	(626,075)	(253,798)	294	(879,579)	(787,040)	(285,139)	24,598	(1,047,581)

Management seeks to mitigate the risks from currency exposure related to loans through transactions carried out in the United States and Europe. It also takes out derivative financial instruments in order to reduce this exposure.

In the currency risk sensitivity analysis, management considered as probable the scenario expected for the end of the following year. Scenarios I and II were calculated considering deterioration of 25% and 50% in the rates, respectively, in relation to the probable scenario, considering these hypotheses for December 31, 2014.

5 Financial risk management (Continued)

5.1 Financial risk management (Continued)

d. Market risks (Continued)

(i) *Currency risk (Continued)*

This analysis considers the following position:

Description	Probable scenario	Scenario I	Scenario II
Currency risk exposure (US dollar appreciation)	(626,075)	(626,075)	(626,075)
US dollar rate at 12/31/2014	2.6562	2.6562	2.6562
Currency risk exposure (translation to US dollar)	(235,703)	(235,703)	(235,703)
Estimated exchange rate based on the probable scenario	2.6562	3.3203	3.9843
Rate difference	-	0.6641	1.3281
Effect on financial expense (in R$)	-	(156,519)	(313,038)
Currency risk exposure (Euro appreciation)	(253,798)	(253,798)	(253,798)
Euro rate at 12/31/2014	3.2270	3.2270	3.2270
Currency risk exposure (translation to Euro)	(78,648)	(78,648)	(78,648)
Estimated exchange rate based on the probable scenario	3.2270	4.0338	4.8405
Rate difference	-	0.8068	1.6135
Effect on financial expense (in R$)	-	(63,450)	(126,899)

(ii) *Cash flow or fair value risk associated with interest rate*

The Magnesita Group's interest rate risk arises from short-term investments and loans and financing. Loans taken out at fixed rates expose the Magnesita Group to the fair value interest rate risk.

The Magnesita Group's financial policy states that derivative transactions are intended to reduce risks by replacing floating with fixed interest rates or replacing interest rates based on international indices with indices in local currency.

During 2014 and 2013, the Magnesita Group's borrowings at variable rates were denominated in reais and U.S. dollars.

5 Financial risk management (Continued)

5.1 Financial risk management (Continued)

d. Market risks (Continued)

(ii) *Cash flow or fair value risk associated with interest rate* (Continued)

The contracted interest rates on loans and financing and long-term notes recognized in current and noncurrent liabilities are shown below:

	Consolidated				Company			
	12/31/2014	%	12/31/2013	%	12/31/2014	%	12/31/2013	%
Loans and financing								
CDI	**633,422**	**25.2**	630,275	30.2	**633,422**	**43.0**	630,275	44.85
	633,422	**25.2**	630,275	30.2	**633,422**	**43.0**	630,275	44.85
Other loans not subject to interest rate risk								
Fixed rate loans	**907,843**	**36.2**	817,400	29.8	**838,665**	**57.0**	774,991	55.15
Long-term debt notes (Interest)	**18,812**	**0.8**	18,448	0.8	**-**	**-**	-	-
Long-term debt notes (Principal)	**949,082**	**37.8**	918,565	38	**-**	**-**	-	-
Derivative financial instruments	**-**	**-**	29,045	1.2	**-**	**-**	-	-
	1,875,737	**74.8**	1,783,458	69.8	**838,665**	**57.0**	774,991	55.15
	2,509,159	**100**	2,413,733	100	**1,472,087**	**100**	1,405,266	100.0

Interest rate risks related to investments are set out below:

	Consolidated				Company			
	12/31/2014	%	12/31/2013	%	12/31/2014	%	12/31/2013	%
CDI								
CDB and fixed-income operations	**89,697**	**77.5**	701,832	98	**72,490**	**73**	692,184	**98**
Marketable securities	**26,100**	**22.5**	11,596	2	**26,100**	**27**	11,596	**2**
	115,797	**100**	713,428	100	**98,590**	**100**	703,780	**100**

The Company has no derivative financial instruments to manage the risks associated with fluctuations in short-term investments rates.

5 Financial risk management (Continued)

5.1 Financial risk management (Continued)

d. Market risks (Continued)

(ii) *Cash flow or fair value risk associated with interest rate* (Continued)

We set out below exposure to interest risk of Company operations:

	Consolidated 12/31/2014
	CDI
Cash equivalents and marketable securities	**115,797**
Export credit notes	**(209,854)**
Advances on export bills	**(8,188)**
Debentures	**(401,162)**
Banking Credit Bill (CCB)	**(16,467)**
Total liability exposure	**(635,671)**
Net exposure	**(519,874)**

The table below sets out the incremental loss that would be recognized in P&L for the year ended December 31, 2014. In the interest rate risk sensitivity analysis, management considered as probable scenario that expected for the end of the following year. Scenarios I and II were calculated considering deterioration of 25% and 50% in the rates, respectively, in relation to the probable scenario, considering these hypotheses for December 31, 2014. This analysis leads to the following position:

Description	Probable scenario	Scenario I	Scenario II
Exposure to CDI risk (increase in rate)	(519,874)	(519,874)	(519,874)
Accumulated CDI rate at 12/31/2014	10.77%	10.77%	10.77%
Interest rate based on the probable scenario	10.77%	13.46%	16.16%
Rate difference	-	2.69%	5.39%
Effect on financial expense	-	(13,985)	(28,021)

5 Financial risk management (Continued)

5.2 Capital management

When managing its capital, the Magnesita Group intends to safeguard its ability to continue as a going concern in order to provide return to shareholders and benefits to other stakeholders, in addition to keeping an optimal capital structure to reduce this cost.

In order to maintain or adjust its capital structure, the Company may revise the policy for payment of dividend, return capital to shareholders, issue new shares, or sell assets to reduce its indebtedness, for example.

The Magnesita Group monitors capital based on the financial leverage ratio. Net debt, on the other hand, corresponds to total loans, financing and long-term debt notes, net of cash and cash equivalents. Total capital is calculated through the sum of equity and net debt, as stated in the balance sheet.

The debt/net equity ratios can be presented as follows:

	Consolidated		Company	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Total loans, financing and derivative financial instruments	**2,509,159**	2,413,733	**1,472,087**	1,405,266
Less: cash, cash equivalents, marketable securities and derivative financial instruments	**(917,399)**	(960,693)	**(132,791)**	(731,572)
Total	**1,591,760**	1,453,040	**1,339,296**	673,694
Total equity	**2,892,877**	3,023,926	**2,876,368**	3,004,440
Total capital	**4,484,637**	4,476,966	**4,215,664**	3,678,134
Financial leverage ratio	**35%**	32%	**32%**	18%

5.3 Fair value estimate

The carrying values of trade receivables, less the impairment provision, and trade payables are assumed to approximate their fair values due to their short maturity term.

For swap and Non-Deliverable Forward (NDF) transactions, the Company independently calculates asset and liability positions, using the mark to market methodology in accordance with the rates practiced and verified on the BM&F Broadcast and Bloomberg websites. When no trading exists for the term of the Company's portfolio, the interpolation methodology is used to find out rates relating to specific terms. In both cases, the present value of flows is calculated. The difference between amounts payable and receivable is the fair value of transactions.

5 **Financial risk management** (Continued)

5.3 **Fair value estimate** (Continued)

(a) <u>Financial instruments measured at fair value in the balance sheet</u>

The Magnesita Group's assets and liabilities measured at fair value through P&L comprise cash equivalents, marketable securities and derivative financial instruments, which fall under level 2 of the fair value hierarchy.

6 Derivative financial instruments

The Company does not contract derivative operations for speculative purposes and does not settle them prior to respective maturities, on a regular basis.

			Consolidated	
			12/31/2014	12/31/2013
Description	Maturity - month / year	Reference amount	Fair value R$	Fair value R$
Hedging of foreign exchange rate:				
Swap	03/30/2015			
Long position		US$ 150,000	**3,925**	-
Short position		Euro 118,110	**-**	(29,045)
NDF	02/03/2014			
Long position		US$ 39,000	**-**	5,475
Short position		R$ 86,241	**-**	-

The effect of R$ 34,759 was recognized in P&L for 2014, under the accounting group of "Financial income (expenses)" (2013 - R$ 13,139 as financial expenses).

7 Financial instruments by category

	Consolidated			Company		
	Financial assets measured at fair value through profit or loss	**Loans and receivables**	**Total**	**Financial assets measured at fair value through profit or loss**	**Loans and receivables**	**Total**
Assets						
December 31, 2014						
Cash and cash equivalents and marketable securities						
- Cash and banks	**797,677**	**-**	**797,677**	**30,276**	**-**	**30,276**
- CDB and repurchase agreements	**89,697**	**-**	**89,697**	**72,490**	**-**	**72,490**
Marketable securities	**26,100**	**-**	**26,100**	**26,100**	**-**	**26,100**
Trade accounts receivable	**-**	**515,554**	**515,554**	**-**	**482,511**	**482,511**
Other accounts receivable (not including prepayments)	**-**	**9,097**	**9,097**	**-**	**9,097**	**9,097**
Judicial deposits	**-**	**16,126**	**16,126**	**-**	**15,007**	**15,007**
Derivative financial instruments	**3,925**	**-**	**3,925**	**3,925**	**-**	**3,925**
	917,399	**540,777**	**1,458,176**	**132,791**	**506,615**	**639,406**

	Consolidated			Company		
	Financial assets measured at fair value through profit or loss	**Loans and receivables**	**Total**	**Financial assets measured at fair value through profit or loss**	**Loans and receivables**	**Total**
Assets						
December 31, 2013						
Cash and cash equivalents and marketable securities						
- Cash and banks	247,265	-	247,265	27,792	-	27,792
- CDB and repurchase agreements	701,832	-	701,832	692,184	-	692,184
Marketable securities	11,596	-	11,596	11,596	-	11,596
Trade accounts receivable	-	605,087	605,087	-	409,169	409,169
Other accounts receivable (not including prepayments)	-	12,143	12,143	-	12,143	12,143
Judicial deposits	-	18,080	18,080	-	16,988	16,988
Derivative financial instruments	5,475	-	5,475	5,475	-	5,475
	966,168	635,310	1,601,478	737,047	438,300	1,175,347

7 Financial instruments by category (Continued)

	Consolidated	Company
	Financial liabilities not intended for trading	**Financial liabilities not intended for trading**
Liabilities		
December 31, 2014		
Loans and financing and bonds	**2,509,159**	**1,472,087**
Trade accounts payable, liabilities arising from purchase of raw materials and freight	**585,735**	**226,154**
	3,094,894	**1,698,241**

	Consolidated			Company
	Liabilities measured at fair value through profit or loss	**Financial liabilities not intended for trading**	**Total**	**Financial liabilities not intended for trading**
Liabilities				
December 31, 2013				
Loans and financing and bonds	-	2,384,688	2,384,688	1,405,266
Trade accounts payable, liabilities arising from purchase of raw materials and freight	-	412,066	412,066	195,279
Derivative financial instruments	29,045	-	29,045	-
	29,045	2,796,754	2,825,799	1,600,545

7.1 Fair value

	Consolidated In 12/31/2014	
	Book value	**Fair value**
Cash and banks	**797,677**	**797,677**
CDB and repurchase agreements	**89,697**	**89,697**
Marketable securities	**26,100**	**26,100**
Trade accounts receivable	**515,554**	**515,554**
Other accounts receivable (less prepayments)	**9,097**	**9,097**
Judicial deposits	**16,126**	**16,126**
Derivative financial instruments	**3,925**	**3,925**
	1,458,176	**1,458,176**
Loans and financing and bonds	**2,509,159**	**2,508,840**
Trade accounts payable, liabilities arising from purchase of raw materials and freight	**585,735**	**585,735**
	3,094,894	**3,094,575**

The fair value of financial assets and liabilities is included in the amount for which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced sale or liquidation.

The fair value of marketable securities and bonus is based on price quotes at the financial statements date. The fair value of non-trading instruments, of bank loans and other debts is estimated through the discounted future cash flows at rates currently available for similar and remaining debts or maturities.

8 Cash and cash equivalents

	Consolidated		Company	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Cash and banks	**797,677**	247,265	**30,276**	27,792
CDB and repurchase agreements	**89,697**	701,832	**72,490**	692,184
	887,374	949,097	**102,766**	719,976

"Marketable securities" were classified as fair value through profit or loss and correspond to fixed income transactions, immediately redeemable. In the consolidated statements, the amount of R$789,385 in cash and cash equivalents is stated in foreign currency (12/31/2013 – R$445,823).

9 Trade accounts receivable

	Consolidated		Company	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Trade accounts receivable – in reais	**156,774**	168,424	**141,075**	159,776
Trade accounts receivable – in other currencies	**369,908**	418,885	**51,169**	86,158
Other receivables from subsidiaries	**-**	-	**297,236**	137,652
Provision for impairment losses	**(23,851)**	(7,805)	**(19,692)**	-
Trade notes receivable, net	**502,831**	579,504	**469,788**	383,586
Unbilled measurements	**12,723**	25,583	**12,723**	25,583
Trade accounts receivable	**515,554**	605,087	**482,511**	409,169

The accounts receivable do not qualify for financing and are initially measured and recorded at fair value.

The aging list of trade notes receivable is as under:

	Consolidated		Company	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Trade notes falling due:				
Up to 90 days – Third parties	**339,065**	412,005	**93,122**	154,439
Up to 90 days - Intercompany	**-**	-	**69,777**	60,704
Over 90 days – Third parties	**65,801**	94,768	**55,088**	82,958
Over 90 days - Intercompany	**-**	-	**16,157**	14,316
Trade notes overdue:				
Up to 30 days – Third parties	**116,965**	82,797	**18,113**	16,199
Up to 30 days - Intercompany	**-**	-	**30,714**	15,349
Over 30 days – Third parties	**17,574**	23,322	**38,644**	17,921
Over 30 days - Intercompany	**-**	-	**180,588**	47,283
(-) Provision for impairment losses	**(23,851)**	(7,805)	**(19,692)**	-
	515,554	605,087	**482,511**	409,169

9 Trade accounts receivable (Continued)

Below are the changes in the provision for losses:

	Consolidated	Company
At January 1, 2013	(11,465)	-
Additions	-	**-**
Write-offs	3,492	**-**
Foreign exchange variation	168	**-**
At December 31, 2013	**(7,805)**	**-**
Additions	**(22,103)**	**(19,692)**
Write-offs	**6,590**	**-**
Foreign exchange variation	**(533)**	**-**
At December 31, 2014	**(23,851)**	**(19,692)**

10 Inventories

	Consolidated		Company	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Finished products	**315,696**	282,896	**102,796**	92,105
Work in process	**38,787**	40,668	**23,879**	26,978
Raw materials	**536,499**	386,996	**152,166**	145,820
Supplies (replacement material and other)	**86,504**	72,023	**44,403**	43,715
Provision for inventory losses	**(29,109)**	(23,981)	**(4,783)**	-
	948,377	758,602	**318,461**	308,618

Changes in provision for inventory losses are as follows:

	Consolidated	Company
Balance at December 31, 2012	(18,589)	-
Additions	(5,161)	-
Write-offs	1,145	-
Foreign exchange variation	(1,376)	-
Balance at December 31, 2013	**(23,981)**	**-**
Additions	**(5,760)**	**(4,783)**
Write-offs	**2,604**	**-**
Foreign exchange variation	**(1,972)**	**-**
Balance at December 31, 2014	**(29,109)**	**(4,783)**

11 Other taxes recoverable

	Consolidated			
	12/31/2014		12/31/2013	
	Current	Noncurrent	Current	Noncurrent
Indirect taxes	**93,383**	**49,296**	156,965	16,487
Taxes on shipment of goods on consignment	**2,757**	**-**	5,236	-
Other	**102**	**-**	-	-
	96,242	**49,296**	162,201	16,487

11 Other taxes recoverable (Continued)

	Company			
	12/31/2014		12/31/2013	
	Current	Noncurrent	Current	Noncurrent
Indirect taxes	**47,545**	**49,278**	112,211	16,391
Taxes on shipment of goods on consignment	**2,743**	**-**	5,222	-
Other	**102**	**-**	156	-
	50,390	**49,278**	117,589	16,391

12 Income and social contributions taxes

(a) Tax credits

The tax credits, demonstrated by nature of such temporary additions, comprise:

	Consolidated		Company	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Tax credits on temporary differences				
Provision for losses on permanent assets	**-**	193	**-**	193
Provision for contingencies	**21,617**	20,080	**21,617**	20,080
Post-employment liabilities	**70,210**	31,447	**30,138**	21,834
Provision for bonuses	**5,967**	8,707	**5,967**	8,707
Accelerated depreciation	**438**	13,608	**-**	-
Other	**38,447**	8,431	**9,592**	3,118
	136,679	82,466	**67,314**	53,932
Tax credits on IRPJ and CSLL losses	**385,591**	317,030	**352,516**	310,874
Tax credit due to merger of shareholder	**32,952**	43,138	**32,952**	43,138
Total tax credit	**555,222**	442,634	**452,782**	407,944

The realization of deferred income and social contribution tax credits depends on future events that will make provisions that gave rise to such events deductible, in accordance with tax legislation in force, as well as on generation of future taxable profit.

As a result, the projection of tax asset realization should not be taken as the only indication of Magnesita’s future P&L. Taxable profit takes into account a number of variables, such as: tax incentives, permanent and temporary differences, etc., thus having no direct correlation with the Company’s net income.

Projections of results available, combined with the history of its operations, indicate that the Company and its subsidiaries will record taxable profits in amounts sufficient to absorb the referred to tax credits. The projections of future taxable profits consider estimates related to Company's performance, the market behavior, certain economic aspects, among other variables. Actual amounts may differ from the estimates adopted.

12 Income and social contribution taxes (Continued)

(a) Tax credits (Continued)

Management estimates that realization of the deferred tax asset will occur as follows:

	Consolidated	Company
1 year	30,531	16,907
2 years	29,553	19,220
3 years	36,411	25,426
4 years	37,427	25,735
5 years and over	421,300	365,494
Balance at December 31, 2014	**555,222**	**452,782**

Tax credit from income and social contribution tax losses is generated especially from amortization of goodwill on future profitability arising from acquisition of subsidiaries. Referred to goodwill will be amortized by 2018 (R$238,628), which provides a basis for management's expectation to realize these credits.

It is important to stress that the tax credit recorded is supported by the technical study provided for in CVM Ruling No. 371/02.

The Group has tax losses totaling R$114,103 generated in China. A deferred tax asset was not recognized in respect of such losses, since these cannot be used to offset taxable profits of other Group companies and because they were generated in subsidiaries recording losses for some time. Subsidiaries do not have taxable temporary differences or other tax planning opportunities available that can support the recognition of such losses as deferred tax assets. If the Group could recognize all deferred tax assets, the amount would total R$28,526.

Noncurrent liabilities break down as under:

	Consolidated		Company	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Deferred taxes on tax amortization of goodwill	**435,564**	430,230	**427,225**	416,685
Deferred taxes on accelerated tax depreciation	**70,130**	51,648	**-**	-
Deferred taxes on net fair value gains	**18,525**	18,525	**18,525**	18,525
Other	**6,547**	6,547	**6,547**	6,547
	530,766	506,950	**452,297**	441,757

12 Income and social contribution taxes (Continued)

(b) Reconciliation of IRPJ and CSLL expenses

	Consolidated		Company	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Income (loss) before income and social contribution taxes	**(134,093)**	115,244	**(122,625)**	75,471
Combined statutory rate - %	**34%**	34%	**34%**	34%
Tax benefit at statutory rate	**45,592**	(39,183)	**41,693**	(25,660)
Income and social contribution taxes on				
Equity pickup	**383**	-	**(7,826)**	477
Effect of different rates used by the subsidiaries located in other jurisdictions	**(4,430)**	(8,711)	**-**	-
Effect of the interest deductibility limitation in Germany	**(10,910)**	(10,578)	**-**	-
Other permanent differences, net	**6,442**	1,697	**(7,051)**	5,151
Income and social contribution tax expenses	**37,077**	(56,775)	**26,816**	(20,032)
Current	**(33,259)**	(28,113)	**-**	-
Deferred	**70,336**	(28,662)	**26,816**	(20,032)

(c) Reconciliation of deferred tax assets and liabilities, net

	Consolidated		Company	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Deferred tax assets	**555,222**	442,634	**452,782**	407,944
Deferred tax (liabilities)	**(530,766)**	(506,950)	**(452,297)**	(441,757)
Deferred tax assets (liabilities)	**24,456**	(64,316)	**485**	(33,813)
Reflected in the balance sheet				
Assets	**32,795**	8,128	**485**	-
Liabilities	**(8,339)**	(72,444)	**-**	(33,813)
Net	**24,456**	(64,316)	**485**	(33,813)

(d) Changes in deferred tax assets and liabilities, net

	Consolidated	Company
Balance at December 31, 2013 – Assets (liabilities)	**(64,316)**	**(33,813)**
Tax income / (expense) recognized in P&L	**70,336**	**26,816**
Tax (expense) recognized in equity	**7,482**	**7,482**
Foreign exchange variation	**10,954**	**-**
Balance at December 31, 2014 – Assets (liabilities)	**24,456**	**485**

(e) Law No. 12973/13

The Company prepared a study of possible effects that could result from application of the provisions set forth in Law No. 12973, and concluded that it will not result in significant adjustments in its financial statements as of December 31, 2014 and December 31, 2013.

13 Property sale credit

The Company sold urban and rural areas located in the states of São Paulo and Minas Gerais. Such credits receivable are classified below:

	Consolidated	
	12/31/2014	**12/31/2013**
Group 1	**704**	787
Group 2	**8,393**	11,356
	9,097	12,143
Current	**2,687**	5,018
Noncurrent	**6,410**	7,125

- Group 1 - Large economic groups, whose risk of default is very low.
- Group 2 - Customers backed by top-tier financial institutions.

These credits are restated based on the Civil Construction Price Index (IPCC) on a monthly basis.

14 Investments in subsidiaries and joint arrangements

- <u>Information on investments</u>

Book value - Company

				Interest			
	Equity interest %	**Adjusted equity**	**Adjusted net income (loss)**	**Total Assets**	**Liabilities**	**Net revenue**	**Income (loss) before IR/CS**
Iliama II Trading (sole proprietorship company) Lda Capital of 3 thousand EUROS and 3,010 units of interest	100	-	(233)	18,508	18,508	-	(233)
Magnesita Finance Ltd. (*) Capital of 489,077 thousand EUROS and 2,204 units of interest	100	1,285,844	(13,768)	2,250,361	964,517	-	(24,482)
Magnesita Grundstucks Beteiligungs GmbH Capital of 25 thousand EUROS and 1 unit of interest	100	415	-	448	33	-	-
Metal Data S.A. - Mineração e Metalurgia Capital of R$382 thousand and 381,703 units of interest	50	-	(2,985)	-	-	4,058	(3,164)
Magnesita Insider Refratários Ltda. Capital of R$64,490 thousand and 944,900 units of interest	100	67,621	3,476	81,415	13,794	27,759	6,190
MAG-Tec Ltda. Capital of R$ 200 thousand and 800,000 units of interest	100	245	-	285	40	-	-
RASA - Refractarios Argentinos S.A. I. C. y M. Capital of ARS1,000 thousand and 1,000,000 shares	100	(4,034)	(3,276)	127,472	131,506	118,064	(4,251)
Refractários Magnesita Colômbia S.A Capital of COP11,673,200 thousand and 1,167,320,000 units of interest	100	27,241	997	40,068	12,827	63,376	5,910
Refractários Magnesita Peru S.A.C. Capital of PEN6,890 thousand and 1,000 units of interest	100	12,812	1,332	14,722	1,910	16,118	1,595
Refractários Magnesita Uruguay S.A. Capital of UYU450 thousand and 450,000 units of interest	100	786	162	2,207	1,421	2,492	181
Reframec Manutenção e Montagem de Refratários Ltda. Capital of R$1,786 and 1,786,000 units of interest	57	9,149	5,246	13,268	4,119	38,136	7,629
Dalian Magnesita Refractories Co. Limited Capital of US$13,550 thousand and 1 unit of interest	100	13,814	(13,968)	94,008	80,194	50,987	(13,968)
Total in 2014		**1,413,893**	**(23,017)**				
Total in 2013		974,208	1,405				

(*) The Company has indirect investment in jointly-controlled subsidiary, 40% interest in Krosaki Magnesita Refractories LLC (USA).

14 Investments in subsidiaries and joint arrangements (Continued)

(a) Information on investments

Goodwill

	Goodwill generated on acquisition
Subsidiary Magnesita Finance Ltd.	397,673
Subsidiary Reframec Manutenção e Montagem de Refratários Ltda.	21,369
Total in 2014	**419,042**
Total in 2013	429,564

(b) Changes in investments in subsidiaries

The changes recorded in investment accounts for the year ended December 31 were as follows:

	Company	
	2014	**2013**
Balance at beginning of year	**1,404,145**	1,217,016
Equity pickup	**(23,017)**	1,405
Foreign exchange variation on investments (i)	**3,349**	99,958
Exchange rate fluctuation on goodwill (ii)	**57**	59,930
Capital contribution to indirect subsidiary (iii)	**458,589**	-
Acquisition of subsidiary (iv)	**-**	50,235
Dividend received	**-**	(1,250)
Capital reduction at subsidiary (v)	**-**	(29,937)
Write-off of subsidiaries (vi)	**(9,671)**	-
Other	**(155)**	6,788
Balance at end of year	**1,833,297**	1,404,145

(i) Exchange rate fluctuation on investments matched against equity (Note 24 (d)).
(ii) Exchange rate fluctuation on goodwill matched against equity.
(iii) Refers to capital payment in subsidiary Magnesita Finance Ltd.
(iv) Refers to acquisition of Reframec Manutenção e Montagem de Refratários Ltda. and Dalian Mayerton Refractories Co Limited.
(v) Refers to Magnesita Insider Refratários Ltda.
(vi) Refers to write-off of investment in company Metal Data S.A. Metal Data S.A. - Mineração e Metalurgia, in accordance with minutes of the Board of Directors' meeting held on November 13, 2014.

(c) Related parties (Company)

Balances and transactions

At December 31, 2014, key trade accounts receivable and payable balances and major transactions carried out for the year then ended, such as sales, purchase of services and products and dividend received, involving Company subsidiaries are described below:

14 Investments in subsidiaries and joint arrangements (Continued)

(c) Related parties (Company) (Continued)

Balances and transactions (Continued)

	Balances			Transactions	
	Accounts receivable	Accounts payable	Credits (debits)	Sales	Purchase of products
Magnesita Insider Refratários Ltda. (i)	265	4,800	(611)	3,692	11,351
Dalian Magnesita Refractories Co. Limited	-	-	30.697	-	-
RASA - Refractarios Argentinos S.A. I. C. y M. (ii)	73,524	-	-	16,177	-
Iliama II Trading (sole proprietorship company) Lda	-	-	18,347	-	-
Refractários Magnesita Uruguay S.A. (iii)	-	-	-	158	-
Refractários Magnesita Colômbia S.A. (iii)	2,533	-	-	10,936	-
Refractários Magnesita Peru S.A.C. (iii)	1,289	-	-	8,245	-
Refractários Magnesita Chile (iii)	4,232	-	-	4,524	-
LWB Companies (i)	202,671	4,675	9,619	263,799	-
Other	-	-	-	-	2,833
In 2014	**284,514**	**9,475**	**58,052**	**307,531**	**14,184**
In 2013	137,652	12,249	49,628	249,302	10,578

(i) Sale of raw materials by the Company for production of refractory materials by the subsidiary;

(ii) Sale of raw materials and refractory materials by the Company for production and sale of refractory products by the subsidiary;

(iii) Sale of refractory products for resale in the countries where the subsidiaries are located.

The purchase and sale transactions of products and services between Company and subsidiaries are carried out under terms agreed upon by the parties, which are eliminated in the consolidated information.

The Company fully and unconditionally guarantees bonds issued by its subsidiaries, Rearden G Holdings Eins GmbH and Magnesita Finance Ltd. (LWB Companies).

15 Investment properties

Investment properties are as follows:

	Consolidated and Company	
	12/31/2014	12/31/2013
Opening balance at January 1	**67,490**	67,490
Loss from fair value adjustment	**(6,657)**	-
Closing balance	**60,833**	67,490

The Company owns a piece of land in the city of Suzano - São Paulo state, currently not used in its business activities.

In 2014, the Company re-measured land fair value and detected the need to adjust the property value. Land depreciation was recognized in profit or loss for the year.

16 Property, plant and equipment

	Consolidated						
	12/31/2014			12/31/2013			
	Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount	Annual weighted average depreciation rate %
Land	**84,566**	**-**	**84,566**	80,105	-	80,105	
Mineral deposits	**64,258**	**(15,122)**	**49,136**	42,224	(5,900)	36,324	Based on volume
Buildings and improvements	**610,605**	**(257,763)**	**352,842**	521,919	(208,482)	313,437	4
Machinery, facilities and equipment, including IT equipment	**1,690,798**	**(1,124,947)**	**565,851**	1,604,229	(1,018,651)	585,578	7
Transport equipment	**16,767**	**(15,638)**	**1,129**	15,759	(14,780)	979	6
Furniture, fixtures and other	**73,517**	**(39,904)**	**33,613**	65,900	(35,787)	30,113	9
Construction in progress	**223,474**	**-**	**223,474**	202,329	-	202,329	
Total property, plant and equipment	**2,763,985**	**(1,453,374)**	**1,310,611**	2,532,465	(1,283,600)	1,248,865	

	Company						
	12/31/2014			12/31/2013			
	Cost	Accumulated depreciation	Net amount	Cost	Accumulated depreciation	Net amount	Annual weighted average depreciation rate %
Land (ii)	**12,126**	**-**	**12,126**	12,127	-	12,127	
Mineral deposits	**28,067**	**(5,458)**	**22,609**	10,078	(3,103)	6,975	Based on volume
Buildings and improvements (i) (ii)	**234,962**	**(100,319)**	**134,643**	222,732	(94,985)	127,747	4
Machinery, facilities and equipment, including IT equipment (i)	**936,502**	**(603,271)**	**333,231**	882,802	(553,843)	328,959	10
Transport equipment	**11,376**	**(11,367)**	**9**	11,386	(11,370)	16	20
Furniture, fixtures and other	**34,316**	**(17,235)**	**17,081**	30,386	(15,196)	15,190	10
Construction in progress	**194,914**	**-**	**194,914**	166,164	-	166,164	
Total property, plant and equipment	**1,452,263**	**(737,650)**	**714,613**	1,335,6 75	(678,497)	657,178	

(i) The Company reassessed the useful life of these assets for 2014 and concluded that there were no significant changes eventually impacting the depreciation rates currently used.

(ii) The Company has assets given in guarantee in administrative and legal proceedings totaling R$28,679 at December 31, 2014 (R$31,437 at December 31, 2013).

16 Property, plant and equipment (Continued)

Changes in property, plant and equipment were as follows:

	Consolidated	Company
At December 31, 2012	1,082,495	594,157
Additions	182,762	150,006
Acquisition of assets in other subsidiaries (i)	30,304	-
Write-offs	(49,173)	(26,040)
Depreciation	(119,932)	(48,580)
Transfer to intangible assets	(12,365)	(12,365)
Exchange rate fluctuation (assets abroad)	134,774	-
At December 31, 2013	**1,248,865**	**657,178**
Additions	**178,416**	**106,431**
Capitalized interest	**15,988**	**15,988**
Write-offs	**(18,256)**	**(67)**
Depreciation	**(139,925)**	**(58,619)**
Transfer to intangible assets	**(14,513)**	**(6,298)**
Exchange rate fluctuation (assets abroad)	**40,036**	**-**
At December 31, 2014	**1,310,611**	**714,613**

(i) Refers to assets arising from the acquisition of Reframec- Manutenção e Montagem de Refratários Ltda., MMD Araçuaí Holding Ltda. and Dalian Mayerton Refractories Co Limited.

17 Intangible assets

	Consolidated						
	12/31/2014			12/31/2013			
	Cost	Accumulated amortization	Net amount	Cost	Accumulated amortization	Net amount	Annual amortization rate (%)
Software and other (i)	**146,787**	**(86,686)**	**60,101**	127,788	(81,634)	46,154	12 to 20
Goodwill on investment acquisition							
Magnesita S.A.	**1,316,509**	**(272,855)**	**1,043,654**	1,316,509	(272,855)	1,043,654	
LWB	**1,405,934**	**(2,602)**	**1,403,332**	1,382,176	(2,602)	1,379,574	
Insider Insumos Refratários para Siderurgia Ltda.	**40,536**	**(699)**	**39,837**	40,536	(699)	39,837	
Metal Data S.A. - Mineração e Metalurgia	**-**	**-**	**-**	10,579	-	10,579	
Reframec Montagens e Manutenção de Refratários Ltda.	**21,368**	**-**	**21,368**	21,368	-	21,368	
Total intangible assets	**2,931,134**	**(362,842)**	**2,568,292**	2,898,956	(357,790)	2,541,166	

	Company						
	12/31/2014			12/31/2013			
	Cost	Accumulated amortization	Net amount	Cost	Accumulated amortization	Net amount	Annual amortization rate (%)
Software and other	**93,767**	**(52,614)**	**41,153**	87,525	(46,240)	41,285	12 to 20
Goodwill on investment acquisition							
Magnesita S.A.	**1,316,509**	**(272,855)**	**1,043,654**	1,316,509	(272,855)	1,043,654	
Total intangible assets	**1,410,276**	**(325,469)**	**1,084,807**	1,404,034	(319,095)	1,084,939	

(i) The Company reassessed the useful life of these assets for 2014 and concluded that there were no significant changes eventually impacting the amortization rates currently used.

17 Intangible assets (Continued)

Changes in intangible assets were as follows:

	Consolidated	Company
At December 31, 2012	2,327,415	1,078,492
Additions	21,712	-
Transfers from PPE	12,365	12,365
Foreign exchange variation	185,888	-
Amortization	(6,214)	(5,918)
At December 31, 2013	**2,541,166**	**1,084,939**
Additions	**5,020**	**-**
Write-offs (i)	**(31,024)**	**-**
Transfers from PPE	**14,513**	**6,298**
Foreign exchange variation	**45,346**	**-**
Amortization	**(6,729)**	**(6,430)**
At December 31, 2014	**2,568,292**	**1,084,807**

(i) Refers to the write-off of goodwill in two investees of the Company in 2014. The amount of R$ 20,445 refers to goodwill in Magnesita Finance Ltd., and R$ 10,579, to goodwill in Metal Data S.A. Mineração e Metalurgia.

18 Impairment test of non-financial assets

	2014			2013		
	Goodwill	Property, plant and equipment	Other	Goodwill	Property, plant and equipment	Other
South America	**1,702,551**	**731,812**	**45,711**	1,779,242	665,640	33,482
North America	**365,455**	**165,777**	**-**	319,873	139,162	-
China	**13,154**	**116,994**	**1,965**	11,725	112,742	70
Dalian	**-**	**46,760**	**1,644**	-	48,068	-
Europe	**427,031**	**249,268**	**10,781**	418,509	260,951	567
	2,508,191	**1,310,611**	**60,101**	2,529,349	1,226,563	34,119

The recoverable amount of a CGU is based on value-in-use calculations. Calculations of value in use are based on cash flow projections, before calculation of income and social contribution taxes, in accordance with budgets for 2015 approved by management, and projections for an additional period of nine years, given the period necessary for consolidation of operations in China, which started up in 2008.

18 Impairment test of non-financial assets (Continued)

In conducting the impairment tests, the following key assumptions are considered: i) growth projected for each region, calculated by macroeconomic assumptions specific for the industries; ii) profitability of operations, based on management's experience in each region; and iii) discount rate used to calculate present value of cash flows, according to widely used financial models. The calculation used average growth rates between 2.0% and 12.0% (2% and 20.0% in 2013), in line with the growth of the steel and cement industries in the individual regions, the economic growth in each region and the growth strategy in new markets. The discount rates applied to the cash flow projections varied from 7.6% to 10.8% (2013 – 5.1% to 10.5%), according to the assessed risk for each region.

Based on the assumptions above, the tests did not indicate existence of other impairment losses on non-financial assets in 2014 and 2013.

19 Liabilities arising from purchase of raw materials

Over 2014, the Company purchased raw materials from suppliers located mainly in China, in an attempt to obtain the best cost conditions and reduce the risk of mineral prices. These purchases led the Company to store imported raw materials for a period longer than usual, with expected realization within 12 months.

These purchases were negotiated with payment terms in line with the use of such raw materials. Company suppliers discounted the securities with first-tier financial institutions by means of a trade finance transaction named forfaiting, which basically consists in selling these receivables, without recourse, at interest rates ranging from 1.5% and 2%. Accordingly, at December 31, 2014, financial liabilities payable to financial institutions, and balances related to these purchases corresponded to R$ 58,171 in the Company and R$ 166,519 in the Consolidated, with average payment term in the region of 360 days.

The Company classified these operations in the operating cash flow statements, as these raw-material purchases are matched against changes in inventories.

20 Loans and financing

	Consolidated			
	Currency	Annual average interest rate	12/31/2014	12/31/2013
Export credit notes	R$	CDI+1.10%	**209,854**	208,219
Perpetual bonds	US$	8.63%	**664,209**	598,278
(-) Unamortized transaction costs	-	-	**(9,567)**	(10,847)
Long-term debt securities	US$	7.88%	**968,815**	950,401
(-) Unamortized transaction costs	-	-	**(921)**	(13,388)
BNDES Revitaliza-Export	R$	8,00%	**101,660**	101,508
Debentures	R$	112% of CDI	**401,162**	400,495
(-) Unamortized transaction costs	-	-	**(2,249)**	-
CCB	R$	CDI+1.34%	**16,467**	3,620
PP&E financing				
In local currency	R$	7.50%	**75,564**	75,097
Advances on export bills	US$	63.9% of CDI	**8,188**	21,280
Swap (Germany)	US$ vs €	-	**-**	29,045
Other	US$	7,25%	**8,555**	14,574
Other	€	5,31%	**10,816**	11,434
Other	¥	-	**56,571**	23,522
Other	R$	-	**35**	495
			2,509,159	2,413,733
		Current	**305,220**	88,121
		Noncurrent	**2,203,939**	2,325,612

	Company			
	Currency	Annual average interest rate	12/31/2014	12/31/2013
Export credit notes	R$	CDI+1.10%	**209,854**	208,219
Perpetual bonds	US$	8.63%	**664,209**	598,386
(-) Unamortized transaction costs	-	-	**(2,768)**	(3,339)
BNDES Revitaliza-Export	R$	8.00%	**101,660**	101,508
Debentures	R$	112% of CDI	**401,162**	400,495
(-) Unamortized transaction costs	-	-	**(2,249)**	-
CCB	R$	CDI+1.34%	**16,467**	3,620
PP&E financing				
In local currency	R$	7.50%	**75,564**	75,097
Advances on export bills	US$	63.9% of CDI	**8,188**	21,280
			1,472,087	1,405,266
		Current	**205,238**	38,137
		Noncurrent	**1,266,849**	1,367,129

20 Loans and financing (Continued)

(a) Perpetual bonds

In 2012, the Company issued US$ 250 million in perpetual bonds denominated in U.S. dollars through its wholly-owned subsidiary Magnesita Finance Ltd. These bonds are not backed by or subordinated to Magnesita Finance Ltd. and are fully and unconditionally guaranteed by the Company and its major subsidiaries. At December 31, 2014, total perpetual bonds amount to R$ 664,209 in the long-term, and interest amounts to R$ 18,812 in the short-term.

(b) Long-term debt securities

In 2010, the Company issued US$ 400 million in long-term debt securities denominated in US dollars by means of its wholly-owned subsidiary Rearden G Holdings Eins GmbH. These bonds are not backed by or subordinated to Rearden G Holdings Eins GmbH. and are fully and unconditionally guaranteed by the Company and its major subsidiaries. Long-term debt securities have incurrence covenants, which may limit the Company's ability take out new debts if net debt/EBITDA exceeds 3.75. At December 31, 2014, total long-term debt securities amount to R$ 968,815. All covenants were complied with.

(c) Export credit notes (Consolidated)

Characteristics of Company operations involving export credit notes are as follows:

- Creditor: Banco do Brasil S.A.
- Amount: R$ 200,000
- Term: 7 years
- Grace period: 3 years
- Annual interest: CDI + 1.50% until September 4, 2012 and, after the amendment, CDI + 1.10%

Export credit notes have covenants similar to the covenants of long-term debt securities. All covenants were complied with.

The transaction costs to be amortized correspond to the commission paid at the time of renegotiation of agreements and will be amortized over their terms.

(d) Debentures

On December 20, 2013, the Company issued 40,000 (forty thousand) unsecured debentures non-convertible into shares, with unit value of R$ 10,000 (ten thousand reais), totaling R$ 400,000, bearing interest of 112% of accumulated average daily rates of DI – Interbank deposits. Interest is payable semiannually. The debentures have a two-year grace period for

the principal, and final maturity on December 20, 2018, with the first payment to be made on December 20, 2017.

The transaction costs to be amortized correspond to the commission paid at the time of renegotiation of agreements and will be amortized over their terms. Covenants (net debt / EBITDA adjusted to 3.75) were complied with.

20 Loans and financing (Continued)

(e) Maturities

At December 31, 2014, current and noncurrent undiscounted balances payable mature as under:

	Consolidated	Company
Up to 180 days	83,074	62,652
From 180 to 360 days	222,146	142,586
2016	87,919	85,172
2017	287,755	285,172
2018 onwards	1,828,265	896,505
	2,509,159	1,472,087

(f) Borrowing facilities

The Company has the following unused borrowing facilities:

	12/31/2014	12/31/2013
Floating rate		
- Expiring within one year	**89,528**	14,779
- Expiring after one year	**546,007**	609,922
Fixed rate		
- Expiring within one year	**116,741**	-
- Expiring after one year	**724,692**	759,905
	1,476,968	1,384,606

The facilities expiring within one year are annual facilities subject to review at various dates during 2014. The other facilities have been agreed to help finance the proposed expansion of the Group's activities.

21 Other taxes payable

	Consolidated		Company	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Indirect taxes	**20,780**	13,105	**15,072**	13,144
Direct taxes	**24,071**	25,569	**3,721**	3,867
	44,851	38,674	**18,793**	17,011

22 Provision for contingencies

	Consolidated		Company	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Tax - provision	**12,933**	12,721	**12,149**	12,709
Tax – judicial deposit	**(8,345)**	(7,408)	**(7,749)**	(6,815)
Labor - provision	**24,653**	23,056	**24,653**	23,056
Labor – judicial deposit	**(5,803)**	(7,460)	**(5,280)**	(7,004)
Civil - provision	**127**	127	**127**	127
Social security - provision	**1,613**	2,610	**1,613**	2,610
Social security – judicial deposit	**(1,978)**	(3,169)	**(1,978)**	(3,169)
Other – judicial deposit	**-**	(43)	**-**	-
	23,200	20,434	**23,535**	21,514
Noncurrent - provision	**39,326**	38,514	**38,542**	38,502
Noncurrent – judicial deposit	**(16,126)**	(18,080)	**(15,007)**	(16,988)
	23,200	20,434	**23,535**	21,514

22 Provision for contingencies (Continued)

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

The main contingent liabilities with a probable unfavorable outcome, with provisions, are described below:

Description	Position	12/31/2014 Balance	12/31/2013 Balance
Brazilian social security contribution tax (INSS) notice amounting to R$26,677, of June 30, 2008, issued without observing the five-year statute of limitations period	Pending judgment	**1,613**	2,610
This refers to a statement of the legality of the determination by the Brumado unit of the matching IPI credit as reimbursement of the amount of the Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (COFINS) levied on the acquisition of raw materials in the domestic market.	Appeal	**9,069**	8,700
Financial Compensation for the Exploration of Mineral Resources compensation base	Injunction	**2,238**	2,046

For the labor lawsuits, the Company adopts the criterion of setting up provisions taking into consideration the actual chances of a favorable outcome in each case. The main claims in these labor lawsuits are: salary parity, indemnity for occupational disease, work injuries, health exposure pay, hazardous duty pay and overtime.

Additionally, the Company is party to tax, civil and labor proceedings involving risks of loss classified as possible by management, based on the evaluation of its legal advisors in the estimated amount of R$233,349, for which no provision was set up. Major lawsuits are shown below:

Description	Position	12/31/2014 Balance	12/31/2013 Balance
Corporate income and social contribution tax proceeding arising from goodwill from acquisition of Rpar Holding and LWB Group	Suspended	**112,515**	112,515
Social security suit – the Company was served a notice on April 26, 2013 for the alleged non-payment of the social security taxes for the period between January and December 2009	Pending judgment	**13,877**	13,887

Other minor lawsuits relate to a number of assessments concerning various taxes and accessory obligations.

23 Post-employment liabilities

The Company and its subsidiaries sponsor pension plans for their employees, the actuarial liabilities of which, as recorded in the consolidated financial statements for 2014, can be summarized as follows:

	Region				
	Subsidiaries			Company	Consolidated
Description	Europe	USA	China	South America	
Defined benefit plan	142,267	63,175	-	88,640	294,082
Bonus for length of service	6,087	-	-	-	6,087
At December 31, 2014	**148,354**	**63,175**	**-**	**88,640**	**300,169**
At December 31, 2013	133,109	24,664	-	64,217	221,990

Company

The Company provides its employees with a Defined Contribution (CD) benefit plan with contributions by the sponsor and the participant.

The employees' contributions range from 0.7% to 3.95% of their salaries and the sponsor's contributions range from 0.25% to 1.30%, in accordance with the salary and the age of the participant.

For 2015, the Company will record estimated expenses referring to the Defined Contribution Plan of R$8,199 which will be posted to financial expenses. At December 31, 2014, the pension plan had 7,096 active participants (7,334 at December 31, 2013).

At December 31, 2014, the Defined Benefit (DB) plan had 273 (278 at December 31, 2013) inactive members - retirees and pensioners –, and 1,462 (1,234 at December 31, 2013) participants who will remain entitled to defined benefits.

An independent actuary carried out the actuarial valuation of the defined benefit plan for 2014, using the projected unit credit method, to determine the present value of the obligations.

The liabilities corresponding to the beneficiaries of the Defined Benefit Plan were recognized by the sponsoring entity in noncurrent liabilities - post-employment liabilities, as follows:

23 Post-employment liabilities (Continued)

Company (Continued)

	Company		
	Present value of liabilities	Fair value of assets	Liability recognized
At December 31, 2012	(270,451)	167,099	(103,352)
Current service cost	(1,973)	-	(1,973)
Interest cost	(21,770)	-	(21,770)
Expected earnings from plan assets	-	(22,567)	(22,567)
Benefits paid	15,538	(15,538)	-
Actuarial gains/losses	67,857	13,349	81,206
Contributions paid by the sponsors	-	4,239	4,239
Changes and reductions	12,265	(12,265)	-
At December 31, 2013	**(198,534)**	**134,317**	**(64,217)**
Current service cost	**(840)**	**-**	**(840)**
Interest cost	**(22,296)**	**-**	**(22,296)**
Expected earnings from plan assets	**-**	**3,872**	**3,872**
Benefits paid	**16,134**	**(16,134)**	**-**
Actuarial gains/losses	**(16,435)**	**15,022**	**(1,413)**
Contributions paid by the sponsors	**-**	**4,239**	**4,239**
Changes and reductions	**5,730**	**(5,730)**	**-**
Silicosis adjustment	**(7,985)**	**-**	**(7,985)**
At December 31, 2014	**(224,226)**	**135,586**	**(88,640)**

The projected actuarial costs for the Defined Benefit Plan for 2015 and 2014 are as follows:

	Company	
	2015	2014
Current service cost	**(996)**	(841)
Interest cost	**(22,853)**	(22,296)
Earnings from plan assets	**33,621**	31,251
	9,772	8,114

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

	December 31, 2014	December 31, 2013
Actuarial assumptions		
Economic		
Discount rate	10.99% p.a.	11.70% p.a.
Return on investment	10.99% p.a.	11.70% p.a.
Salary increases	7.10% p.a.	7.10% p.a.
Adjustment of benefits	5.00% p.a.	5.00% p.a.
Capacity factor	97.62%	97,62%
Inflation	5% p.a.	5% p.a.
Demographic		
General mortality	AT- 1983	AT- 1983
Disability	RRB - 1983	RRB - 1983
Turnover	0%	0%
Probability of entry into retirement	1st requirement	1st requirement

23 Post-employment liabilities (Continued)

Subsidiaries

(i) Defined contribution plans

The general characteristics and conditions of the defined contribution plans in the United States and the United Kingdom, as well as the assumptions used for the purpose of calculating the plan obligations, remain unchanged and consistent with those presented in Note 23 to the Company's financial statements for the year ended December 31, 2013, filed with the CVM.

The total cost of these Plans amounted to R$5,190 (R$3,643 in 2013), calculated at the rates defined in the respective rules.

(ii) Defined benefit plans

The subsidiaries also have Defined Benefit Plans in Europe and the United States, which are determined based on the projected unit credit method and whose valuation was prepared by an independent actuary, who maintained the actuarial economic hypotheses in line and consistent with those presented in Note 23 to the Company's financial statements as of December 31, 2014, as follows:

	Europe		USA	
	12/31/2014	**12/31/2013**	**12/31/2014**	**12/31/2013**
Present value of actuarial liability	**(141,754)**	(127,286)	**(261,347)**	(330,052)
Fair value of assets	**-**	-	**191,572**	305,388
Actuarial liabilities	**(141,754)**	(127,286)	**(69,775)**	(24,664)
Active members	**443**	443	**209**	227
Assisted members	**1,144**	1,144	**347**	547
Terminated members, but eligible to the plan	**325**	325	**209**	445
Economic actuarial hypotheses:				
Discount rate	**5% p.a.**	5% p.a.	**4.14% p.a.**	4.98% p.a.
Return on investment	**-**	-	**4.14% p.a.**	4.98% p.a.
Salary increases	**2.50% p.a.**	2.50% p.a.	**3.75% p.a.**	3.75% p.a.
Adjustment of benefits	**1.75% p.a.**	1.75% p.a.	**-**	-
Inflation	**-**	-	**2.25% p.a.**	2.25% p.a.

23 Post-employment liabilities (Continued)

Subsidiaries (Continued)

(ii) Defined benefit plans (Continued)

	Europe	
	Present value of liabilities	Liability recognized
At December 31, 2012	(121,645)	(121,645)
Current service cost	(855)	(855)
Interest cost	(4,136)	(4,136)
Benefits paid	8,960	8,960
Actuarial gains/losses	14,361	14,361
Foreign exchange effect	(23,971)	(23,971)
At December 31, 2013	(127,286)	(127,286)
Current service cost	**(671)**	**(671)**
Interest cost	**(4,139)**	**(4,139)**
Benefits paid	**8,975**	**8,975**
Actuarial gains/losses	**(19,360)**	**(19,360)**
Foreign exchange effect	**727**	**727**
At December 31, 2014	**(141,754)**	**(141,754)**

	USA		
	Present value of liabilities	Fair value of assets	Liability recognized
At December 31, 2012	(276,815)	240,935	(35,880)
Current service cost	(2,606)	-	(2,606)
Amortization of past service cost	795	-	795
Interest cost	(13,047)	(1,629)	(14,676)
Earnings from plan assets	-	12,810	12,810
Benefits paid	11,259	(10,490)	769
Actuarial gains/losses	(4,832)	13,877	9,045
Contributions paid by the sponsors	(71)	9,134	9,063
Foreign exchange effect	(44,735)	40,751	(3,984)
At December 31, 2013	(330,052)	305,388	(24,664)
Current service cost	**(3,038)**	**-**	**(3,038)**
Amortization of past service cost	**797**	**-**	**797**
Interest cost	**(17,140)**	**-**	**(17,140)**
Earnings from plan assets	**-**	**16,675**	**16,675**
Benefits paid	**12,032**	**(12,008)**	**24**
Actuarial gains/losses	**(59,731)**	**59,384**	**(347)**
Contributions paid by the sponsors	**-**	**3,009**	**3,009**
Contributions paid by participants	**(83)**	**83**	**-**
Foreign exchange effect	**10,446**	**(10,149)**	**297**
IAS 19 – assets limit	**-**	**(45,388)**	**(45,388)**
At December 31, 2014	**(386,769)**	**316,994**	**(69,775)**

Total cost of defined benefit plans amounted to R$ 3,992 in 2014 (R$ 3,717 in 2013).

23 Post-employment liabilities (Continued)

Subsidiaries (Continued)

(iii) Early retirement plan

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

Sensitivity analysis

The quantitative sensitivity analyses in relation to the significant hypotheses at December 31, 2014 are set out below. These sensitivity analyses were made using a method that extrapolates the net impact on the liability for defined benefits as a result of reasonable changes in the main assumptions at period end.

(i) Company

	Present value of liabilities
Decrease by 1% in discount rate	24,665
Mortality table down-rated by 1 year	8,969
Increase by 1% in salary growth rate	1,121

(i) Subsidiaries

	Europe Present value of liabilities
Increase by 0.25% in interest rate	(3,796)
Decrease by 0.25% in interest rate	3,991

	USA Present value of liabilities
Increase by 0.50% in discount rate	(24,470)
Decrease by 0.50% in discount rate	28,679

23 Post-employment liabilities (Continued)

Sensitivity analysis (Continued)

Pension plan assets comprise the following:

(i) Company

	12/31/2014		12/31/2013	
	Amount	**%**	**Amount**	**%**
Fixed income	**126,231**	**93.1**	117,059	87.1
Floating income	**8,230**	**6.1**	16,225	12.1
Structured investments	**1,125**	**0.8**	1,033	0.8
	135,586	**100.0**	134,317	100.0

(ii) Subsidiaries

	USA			
	12/31/2014		12/31/2013	
	Amount	**%**	**Amount**	**%**
Fixed income	**109,771**	**34.7**	107,878	35.3
Floating income	**102,704**	**32.4**	115,742	37.9
Cash and cash equivalents	**81,856**	**25.8**	83,463	27.3
Derivatives	**22,463**	**7.1**	20,212	6.6
Provision for losses	**-**	**-**	(21,907)	-7.1
	316,994	**100.0**	305,388	100.0

The expected return on plan assets corresponds to the discount rate defined based on long-term government notes pegged to inflation, aligned with average term weighted by the future flow of payments of benefits now estimated.

24 Equity

(a) Capital

At December 31, 2014, the Company's capital amounted to R$ 2,528,146 (R$ 2,528,146 at December 31, 2013), comprising 283,270,134 common registered shares (290,677,834 at December 31, 2013), with no par value.

The Company is authorized to increase capital by up to R$ 4,000,000, irrespective of any corporate restructuring, as resolved by the Board of Directors, which will set the conditions for issue.
Given the Company's 2nd Stock Buy-back Program, until December 31, 2014, the Company acquired 7,407,700 shares for R$ 38,050, until program closing on August 15, 2014.

24 **Equity** (Continued)

(a) Capital (Continued)

Information on the acquisition of shares issued by the Company is as follows:

2nd Share buyback program							
Period	Type	Number of buyback shares	Share buyback price (R$)			Market closing quote[2](R$)	Market value (R$ thousand)
			Minimum	Weighted average	Maximum		
Dec/31[1]	**Common shares**	**5,634,500**	**4.35**	**4.83**	**5.37**	**2.07**	**11,663**

1) The chart above refers to share buyback in 2014, until August 15, 2014, closing date of the Company's 2nd Share buyback program.

2) Quote at the end of the trading session disclosed by BM&FBOVESPA - Bolsa de Valores, Mercadorias e Futuros S.A., referring to common shares of Magnesita, ticker MAGG3, based on the last trading session in December 2014.

(b) Capital reserves

- Share issue premium reserve: In the amount of R$ 139,327, referring to 50% premium on the subscription of shares issued in 2011.
- Special reserve - Law No. 8200/91: refers to special monetary restatement set up in 1991, in conformity with Law No. 8200/91. This reserve may be used to increase capital or absorb accumulated losses.
- Special reserve – absorption of goodwill: Corresponds to the goodwill on the merger of Mukden Participações Ltda., a company holding interests in Magnesita Refratários S.A., net of the provision organized under CVM Rule No. 349/01. When this reserve is utilized for capital increase, shares will be distributed to all shareholders.
- Stock options granted: Represents the value of the Company's stock options granted to management. In 2014, this provision was set up against an expense recognized in P&L for the year, in the amount of R$ 6,140 (R$ 8,603 in 2013).

(c) Income reserve

- Legal reserve: This is set up by allocating 5% of net income for the year, after legal adjustments and deductions, including the deduction of accumulated losses, if any, to the limit of 20% of the Company's capital, in accordance with article 193 of the Brazilian Corporation Law.
- Investment reserve: It is set up based on article 27, item d of the Company's articles of incorporation, which provides for a provision for new investments with the remaining portion of net income, after legal reserve and mandatory minimum dividend. The balance of this reserve, added to the balance of the other income reserves, excepting unearned income reserve and provision for contingencies, may not exceed the amount of capital.

24 **Equity** (Continued)

(d) Other comprehensive income

It records the contra entry of exchange variation of investments in subsidiaries abroad, intercompany loans with subsidiaries abroad and goodwill, resulting from actuarial valuation and gain from fair value adjustment of investment property.

The recorded amounts of exchange variation of investments and goodwill abroad were:

	Company
Balance at December 31, 2013	**122,492**
Exchange variation on foreign investments	**3,349**
Exchange variation on goodwill abroad	**57**
Actuarial valuation of post-employment benefits	**(14,524)**
Balance at December 31, 2014	**111,374**

25 Segment information

Management and the board of directors perform their business analyses, and have segregated them, since October 2012, into the following business lines: Refractory Products, Minerals and Services.

The revenue generated by the reported operating segments is mostly a result of the manufacturing and sale of refractory products.

The amounts provided for the Board of Directors are consistent with the balances recorded in the consolidated financial statements.

Information by business segment, reviewed by Company management, for the years ended December 31, 2014 and 2013, is as follows:

	Consolidated - 12/31/2014			
	Refractory products	Minerals	Services	Total
Sales and service revenue, net	**2,563,950**	**144,507**	**163,585**	**2,872,042**
Cost of sales	**(1,761,935)**	**(95,876)**	**(131,678)**	**(1,989,489)**
Gross profit	**802,015**	**48,631**	**31,907**	**882,553**

	Consolidated - 12/31/2013			
	Refractory products	Minerals	Services	Total
Sales and service revenue, net	2,369,642	168,028	118,292	2,655,962
Cost of sales	(1,587,279)	(101,834)	(102,904)	(1,792,017)
Gross profit	782,363	66,194	15,388	863,945

25 Segment reporting (Continued)

Net sales revenue by geographic region for the years ended December 31, 2014 and 2013 are as follows:

	Consolidated – 12/31/2014						
	South America	**Europe**	**North America**	**China**	**Dalian**	**Eliminations**	**Total**
Sales and service revenue, net	**1,596,760**	**778,703**	**770,999**	**92,801**	**50,987**	**(418,208)**	**2,872,042**

	Consolidated - 12/31/2013						
	South America	**Europe**	**North America**	**China**	**Dalian**	**Eliminations**	**Total**
Sales and service revenue, net	1,457,108	728,968	671,738	133,218	7,303	(342,373)	2,655,962

There is no concentration of sales to specific customers.

26 Stock option plan

In conformity with its articles of incorporation and bylaws, the Company has a stock option plan approved in General Shareholders Meeting, which intends to integrate executives in the process of development of the Company in the medium and long term. This plan is managed by the Board of Directors or, at its discretion, by a committee that will approve the stock option programs. These options will account to no more than 6% of total number of shares.

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

The amount to be recognized on an accrual basis, considering a five-year term for exercising the options, adjusted for probability, amounts to R$ 51,554 for the entire period, of which R$ 6,140 was recorded in 2014 (R$8,603 in 2013), totaling R$ 43,855 in a specific equity account. Total future expense to be recognized amounts to R$ 7,699.

The model and assumptions adopted to measure fair value were:

	Original plan modified	**New plan**
Model used	Black-Scholes-Merton	Binomial
Annual volatility	Historical volatility based on periods with the same length of the option calculated up to the grant date	Period 11.5.2008 to 7.20.2012
Interest rate	8.15% p.a.	9.01% p.a.
Spot value	Value of the Company's share at grant date	Value of the Company's share at grant date
Strike price	R$ 10.00 restated by the IGP-M	R$ 6.30 restated by the IPCA
Term	Average term of options	Average term of options
Dividend	1.2% on market value of shares	1.2% on market value of shares

27 Expenses by nature

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Depreciation and amortization	**146,655**	126,146	**65,000**	54,498
Employee benefits	**705,270**	601,981	**358,986**	317,943
Raw materials and consumer material	**1,083,536**	1,022,034	**507,880**	447,045
Transportation expenses and commissions	**202,220**	143,545	**103,463**	81,007
Third-party services	**209,831**	206,122	**141,767**	154,168
Other expenses	**285,589**	287,595	**115,164**	113,880
	2,633,101	2,387,423	**1,292,260**	1,168,541
Classification				
Cost of sales	**1,989,489**	1,792,017	**970,563**	858,328
Selling expenses	**408,504**	359,928	**185,561**	164,479
General and administrative expenses	**228,968**	226,875	**129,996**	137,131
Stock options	**6,140**	8,603	**6,140**	8,603
	2,633,101	2,387,423	**1,292,260**	1,168,541

28 Expense with employee benefits

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Salaries and wages	**519,547**	417,081	**230,614**	195,391
Social charges	**139,919**	130,172	**98,052**	87,071
Stock options	**6,140**	8,603	**6,140**	8,603
Profit sharing	**26,574**	31,445	**17,146**	20,029
Pension Plan	**13,090**	14,680	**7,034**	6,849
	705,270	601,981	**358,986**	317,943

29 Other operating income (expenses), net

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Labor indemnifications	**(18,819)**	(12,656)	**(18,819)**	(12,656)
Reversal of tax provisions	**4,926**	28,462	**3,306**	22,868
Economic subventions	**-**	1,988	**-**	1,988
Bargain purchase of subsidiary	**-**	11,182	**-**	11,182
Assignment of payroll processing rights	**-**	1,067	**-**	1,067
Restructuring expenses	**(4,747)**	(6,164)	**-**	(6,164)
Net gains (losses) from real estate project	**(890)**	22,425	**(890)**	22,425
Employee benefits	**-**	1,428	**-**	1,428
Present value adjustment of land in Suzano	**(6,657)**	-	**(6,657)**	-
Provision for obsolescence	**(3,156)**	-	**(4,783)**	-
Non-recurring losses on assets (i)	**(34,630)**	(12,403)	**(25,798)**	(10,218)
Losses on investment divestiture (ii)	**(41,101)**	-	**(20,655)**	-
Other, net	**(4,451)**	8,214	**(6,699)**	(65)
	(109,525)	43,543	**(80,995)**	31,855

(i) Refers to non-recurring losses on assets, including the reversal or judicial deposits, write-off of PPE and reversal of long-standing receivables.

(ii) Refers to the derecognition of the investment and goodwill on Metal Data S/A and derecognition of goodwill on Magnesita Finance Ltd.

30 Financial income (expenses)

Financial income (expenses) are as follows:

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Financial income				
- Monetary and foreign exchange variations	**131,147**	87,825	**78,791**	84,892
- Short-term investment yield	**20,711**	9,805	**17,753**	9,458
- Other income	**31,554**	20,800	**18,474**	1,744
	183,412	118,430	**115,018**	96,094
Financial expenses				
- Monetary and foreign exchange variations	**(221,343)**	(132,749)	**(86,891)**	(98,586)
- Interest on loans	**(213,709)**	(160,487)	**(135,810)**	(84,118)
- Other expenses	**(12,994)**	(22,480)	**(2,216)**	(2,050)
	(448,046)	(315,716)	**(224,917)**	(184,754)
	(264,634)	(197,286)	**(109,899)**	(88,660)

31 Earnings (loss) per share

(a) Basic

	Consolidated	
	2014	**2013**
Basic		
Basic numerator		
Net income (loss) attributable to controlling interests	**(95,809)**	55,439
Basic denominator		
Weighted average number of outstanding shares	**285,338**	290,690
Basic earnings (loss) per share (in R$)	**(0.34)**	0.19

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential dilutive common shares. The Company has only one category of potentially dilutive common shares: stock options.

Accordingly, a calculation to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) is conducted, based on the monetary value of the subscription rights attached to outstanding stock options.

31 Earning (loss) per share (Continued)

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the stock options.

	Consolidated	
	2014	**2013**
Diluted		
Numerator – diluted		
Net income (loss) attributable to controlling interests	**(95,809)**	55,439
Denominator – basic		
Weighted average number of outstanding shares	**285,338**	290,690
Stock option adjustments (i)	**-**	14,334
Weighted average number of shares for diluted earnings	**285,338**	305,024
Diluted earnings per share (in R$)	**(0.34)**	0.18

(i) In 2014, the Company had 17,120 options not diluted given the loss recorded for the year.

32 Net sales revenue

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Gross revenue from sales				
In reais	**1,360,996**	1,285,124	**1,293,184**	1,235,058
In other currencies	**1,963,404**	1,714,016	**432,094**	391,871
	3,324,400	2,999,140	**1,725,278**	1,626,929
Sales deductions	**(452,358)**	(343,178)	**(341,732)**	(327,517)
Net sales revenue	**2,872,042**	2,655,962	**1,383,546**	1,299,412

33 Commitments assumed

33.1 Input supply agreements

The Company has a commitment resulting from energy supply contracts for its industrial activities, effective until 2021. At December 31, 2014, the Company was compliant with this contract.

The amounts are based on energy consumption estimates over the contract term, whose prices are based on estimated volumes resulting from the Company's continuing operations.

Total minimum payments related to input supply, measured at nominal value, according to the contract are as under:

	Company and Consolidated – 2014
Within 1 year	**24,240**
From 1 to 4 years	**58,067**
Above 4 years	**52,127**
	134,434

33 Commitments assumed (Continued)

33.2 Operating lease liabilities

The Company has commitments arising from lease of the properties in which it carries out product storage and shipment activities, as well as from lease of machinery and equipment. Lease agreement terms vary from one to six years and do not have purchase option at the end of the lease term, but allow timely renewal under market conditions prevailing at the time they are executed. At December 31, 2014, the commitment assumed with future consideration for these operating leases had the following payment terms:

	Company and Consolidated – 2014
Within 1 year	**12,674**
From 1 year to 5 years	**29,919**
	42,593

In 2014, the Company disbursed R$ 17,202 (R$22,633 in 2013) as a result of these operating lease agreements.

34 Insurance coverage

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

	Consolidated	Company
	12/31/2014	12/31/2014
Assets amounts insured	**3,387,644**	**1,757,525**
Loss of profits	**973,033**	**92,937**
Civil liability	**325,887**	**25,000**

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

35 Key management personnel compensation

In 2014, key management personnel compensation (Boar of Directors' and Executive Board members) accounted for R$ 7,092 (R$ 8,517 in 2013) referring to management fees, R$ 7,126 (R$ 3,516 in 2013) referring to profit sharing, and R$ 6,140 (R$ 8,603 in 2013) referring to stock options.

Pronouncement of the Board of Directors

In compliance with item V of article 142 of the Brazilian Corporation Law, Law No. 6404, of December 15, 1976, the Board of Directors of Magnesita Refratários S.A., in meeting held on March 13, received the Management Report and the financial statements for the year ended December 31, 2014 and approved the Executive Board accounts.

Contagem, March 13, 2015

Fersen Lamas Lambranho - Chairperson
Thiago Emanuel Rodrigues – Vice-Chairperson
Eduardo Alcalay
Nelson Rozental
Robert Frank Agostinelli
Eduardo Fontana D’Avilla
Bernardo Guimarães Rodarte
Rodrigo Boscolo

Supervisory Board Opinion

The Supervisory Board of Magnesita Refratários S.A. ("Company"), in the exercise of its legal and statutory functions, examined the Management Report, the Executive Board accounts, the audited financial statements of the Company for the year ended December 31, 2014, for which an unqualified opinion was issued by independent auditor Ernst & Young Auditores Independentes S/S as of March 13, 2015, and management's proposal concerning the allocation of the net income for the year ended December 31, 2014, with absorption of losses by the income reserve for investments. The Supervisory Board, in compliance with article 163, items II, III and VII of Law No. 6404/76, and articles 2, item II, and article 4, both in CVM Rule No. 371/02, hereby fully approves the referred to documents.

Contagem, March 13, 2015

Pedro Wagner Pereira Coelho
Alexei Ribeiro Nunes
Sergio Antonio Cordeiro de Oliveira
Ricardo Scalzo
Marina de Queiroz Ferreira Fernandes

REPRESENTATION

In the capacity of Statutory Officers of Magnesita Refratários S.A., pursuant to CVM Rule No. 480, of December 7, 2009, article 25, paragraph1, items V and VI, we represent that:

- we analyzed, discussed and agreed with the Financial Statements (Company and Consolidated) for the year ended December 31, 2014;

- we analyzed, discussed and agreed with the terms of the independent auditor's report on the Financial Statements (Company and Consolidated) for the year ended December 31, 2014.

Contagem, March 13, 2015

Octávio Cortes Pereira Lopes
Chief Executive Officer

Eduardo Guardiano Leme Gotilla
Chief Financial (acting officer) and Investor Relations Officer

Officers with no specific title:

Otto Alexandre Levy Reis	Gilmar Fava Carrara
Luís Rodolfo Mariani Bittencourt	José André de Castro Alves
Luiz Gustavo Perrotti Rossato	Otávio Augusto Castro Lustosa Nogueira

In-charge Accountant
Welder Ferreira Santos
Accountant - CRC-MG 51.003/O-6