

The Machine Tools Industry in Brazil

CECIMO General Assembly in Porto, Portugal

Global Competitiveness of the Machine Tools Industry

June 6, 2011

Country

Manufacturing
Sector

Machine Tools
Sector

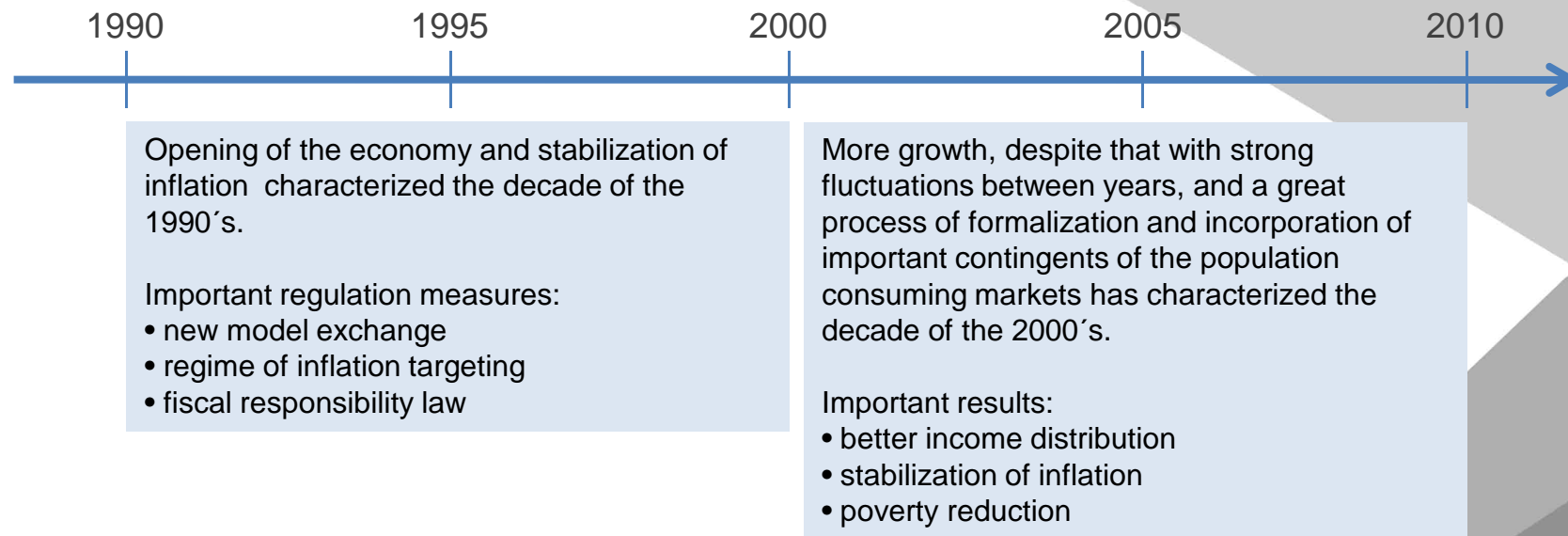
Final
Considerations

Country

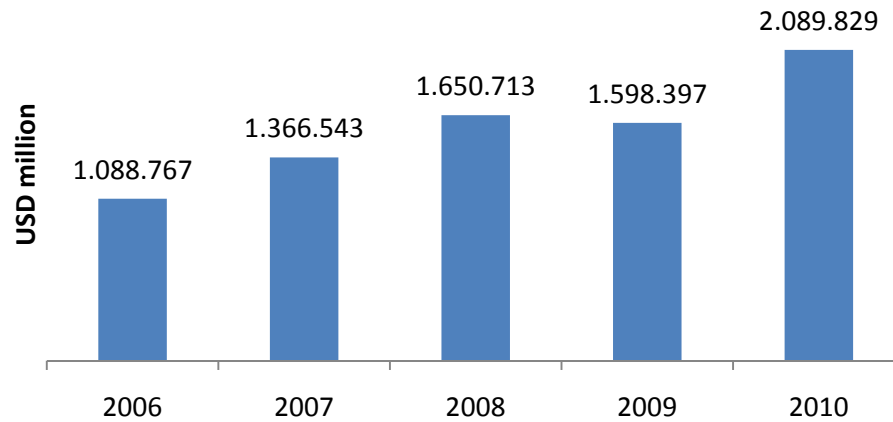
Manufacturing
Sector

Machine Tools
Sector

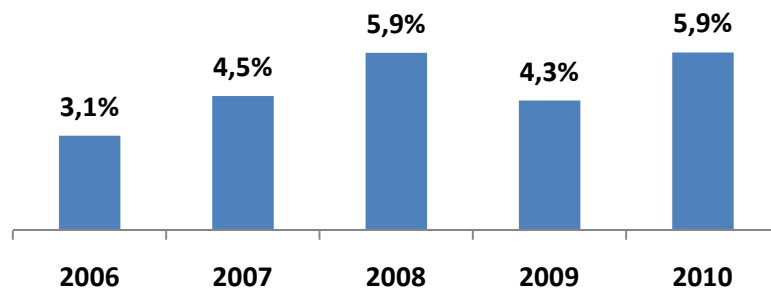
Final
Considerations



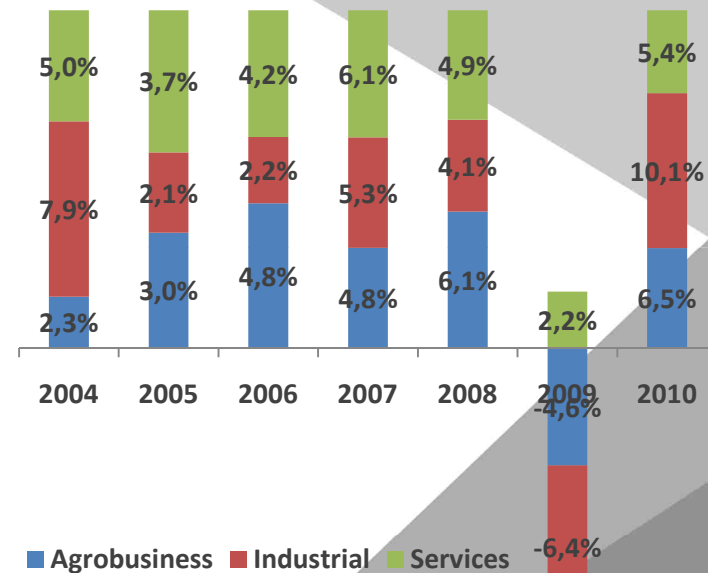
GNP - Gross National Product



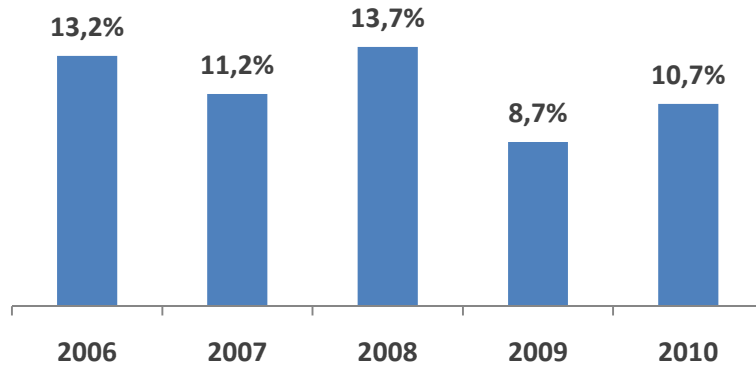
Inflation - Index Price (IPCA)



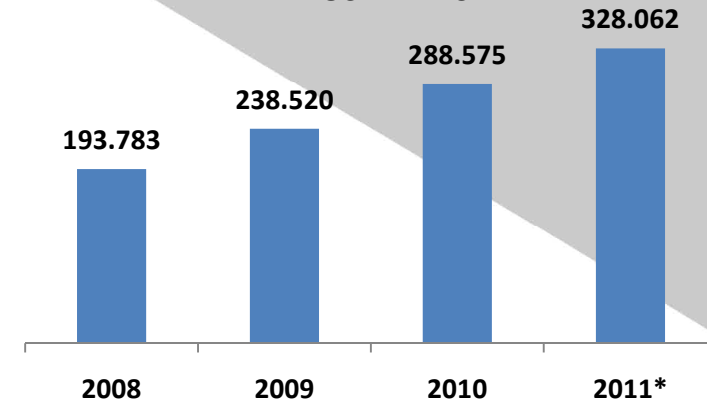
GDP by Economy Sector



Prime Interest Rate (Selic)

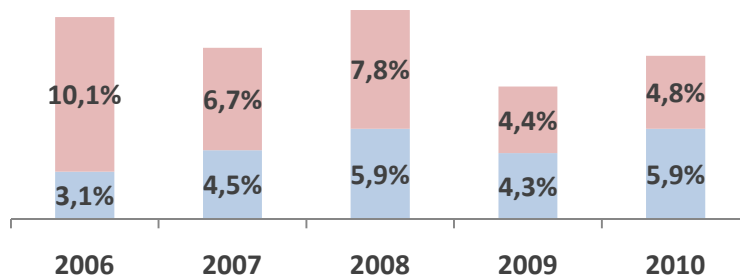


Country Foreign Reserves
USD million



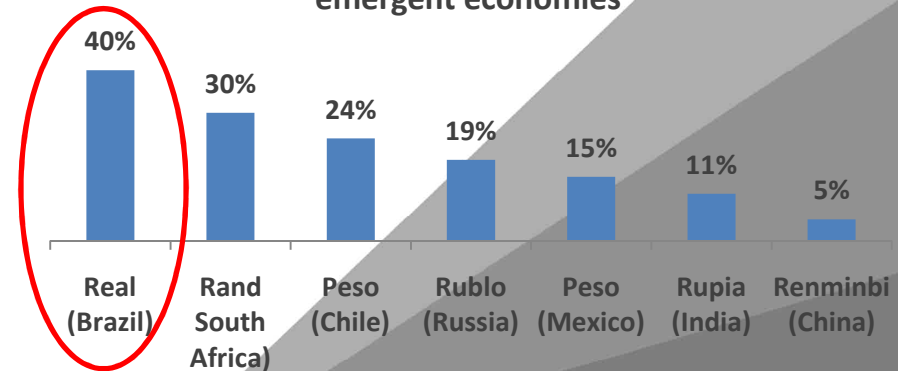
(*) April 2011

Prime Net Interest Rate and Inflation

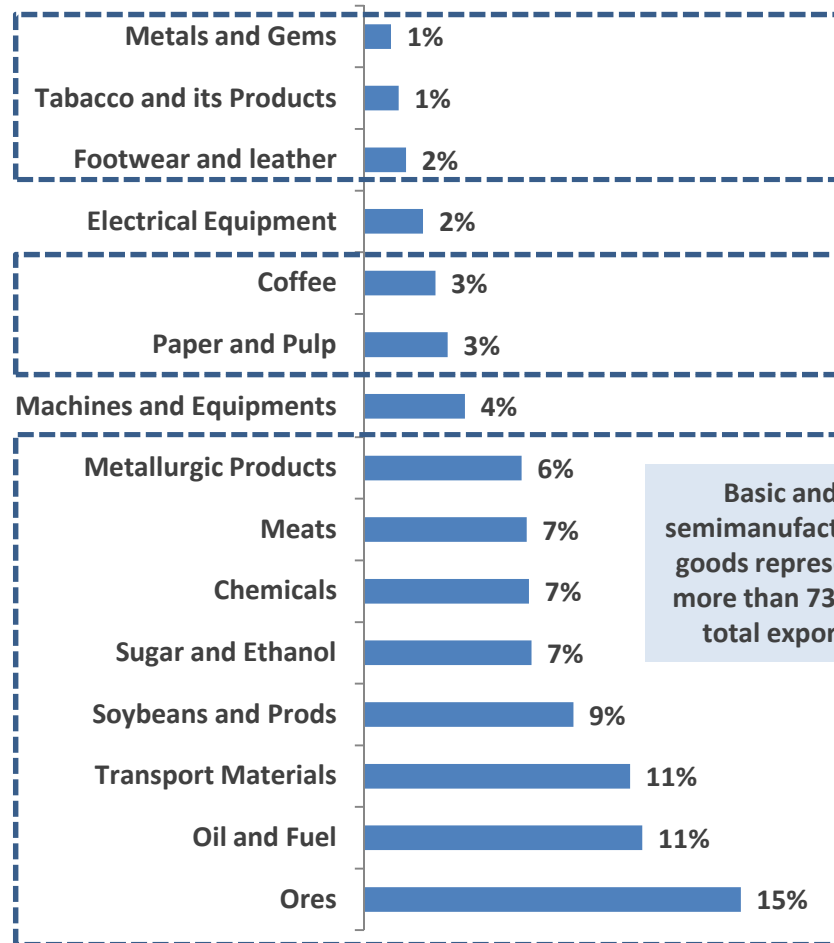


■ Inflation ■ Net Interest Rate

Currency valuation within last two years among emergent economies

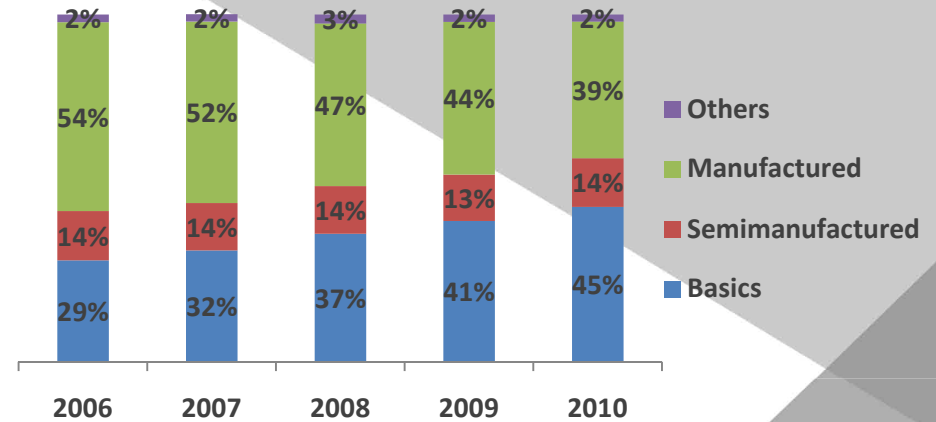


Exports 2010

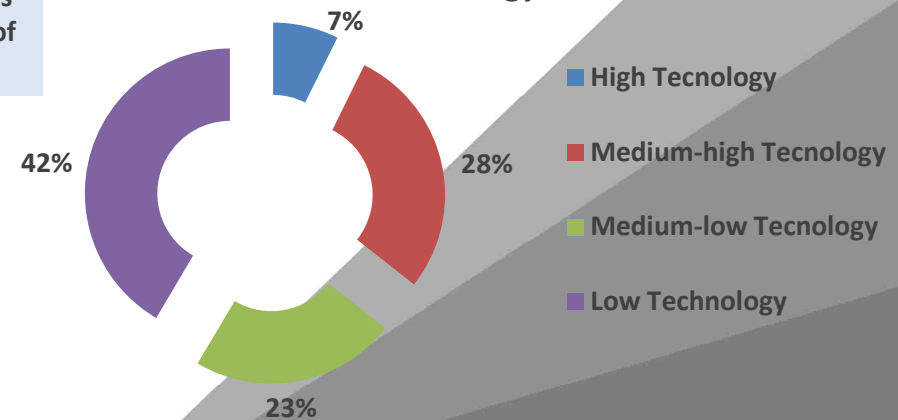


Basic and semimanufactured goods represents more than 73% of total exports

Exports by Product Categories

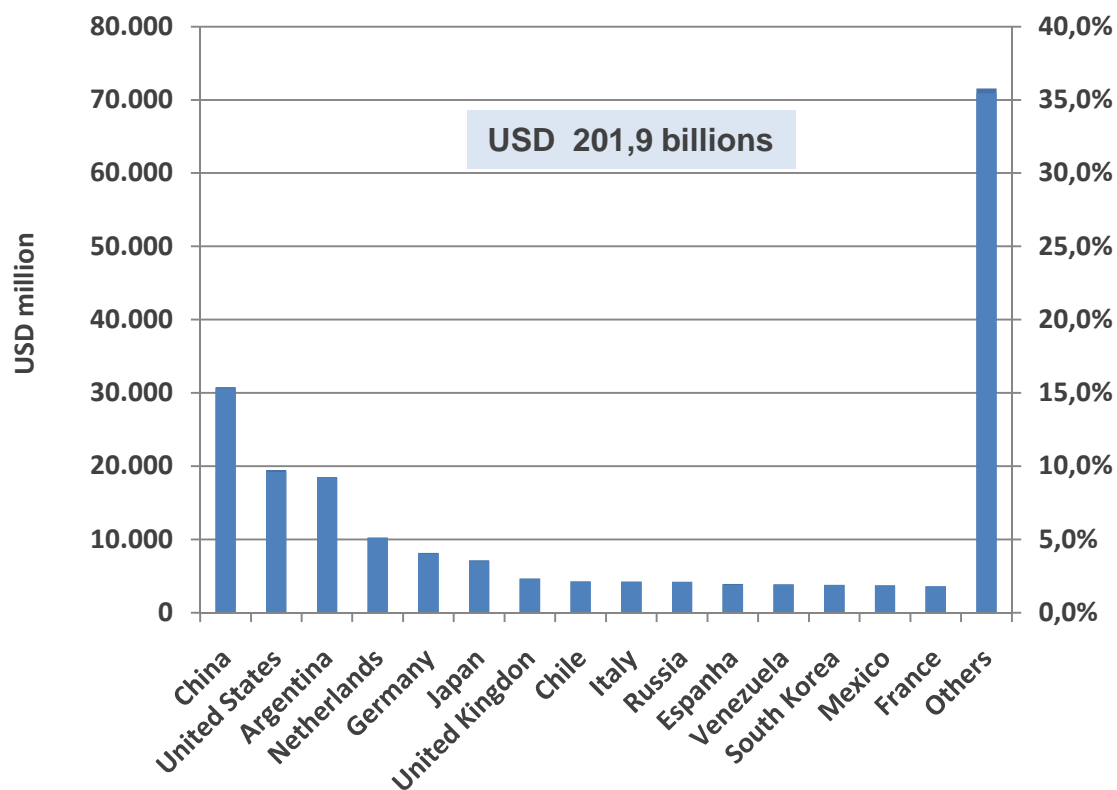


Exports of Manufacturing Industries Based on Technology



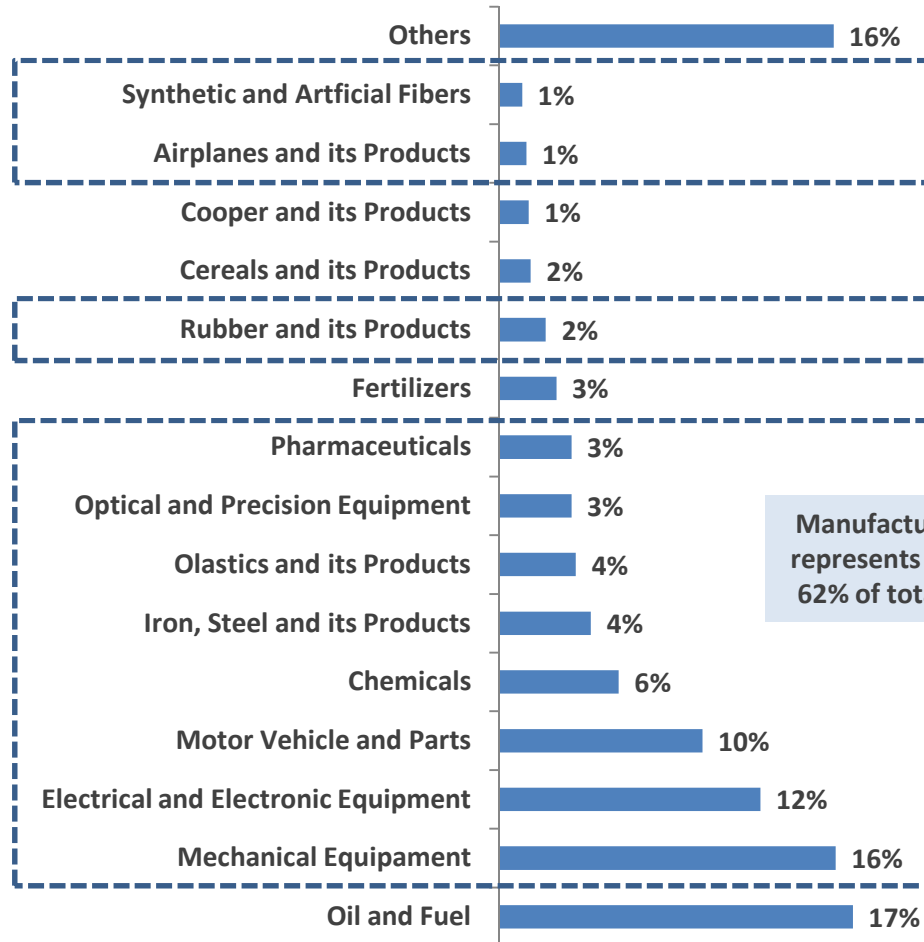
The first 10 destinations represents more than 55,3%

Exports 2010 - by destination



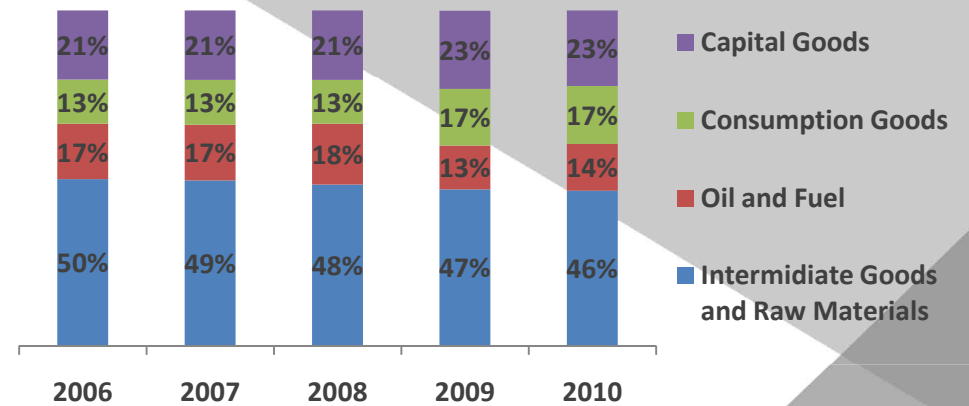
	2010	USD million	2010/2009	Share
China		30.786	46,6%	15,3%
United States		19.462	23,7%	9,6%
Argentina		18.523	44,9%	9,2%
Netherlands		10.228	25,5%	5,1%
Germany		8.138	31,8%	4,0%
Japan		7.141	67,2%	3,5%
United Kingdom		4.635	24,4%	2,3%
Chile		4.258	60,3%	2,1%
Italy		4.235	40,4%	2,1%
Russia		4.152	44,7%	2,1%
Espanha		3.894	46,2%	1,9%
Venezuela		3.854	6,8%	1,9%
South Korea		3.760	41,5%	1,9%
Mexico		3.715	38,9%	1,8%
France		3.576	23,1%	1,8%
Others		71.558		35,4%
Total		201.915		100,0%

Imports 2010

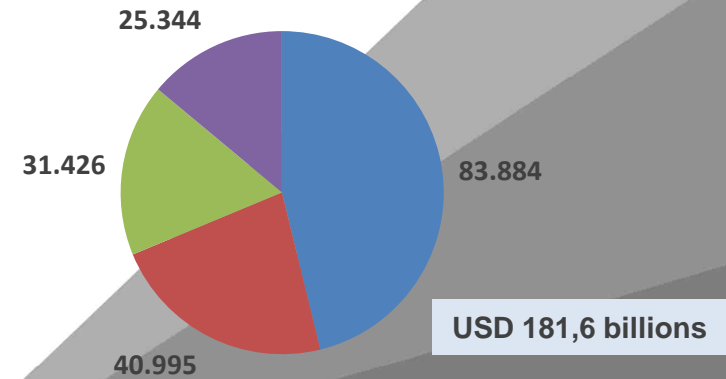


Manufactured goods represents more than 62% of total imports

Imports by Product Categories



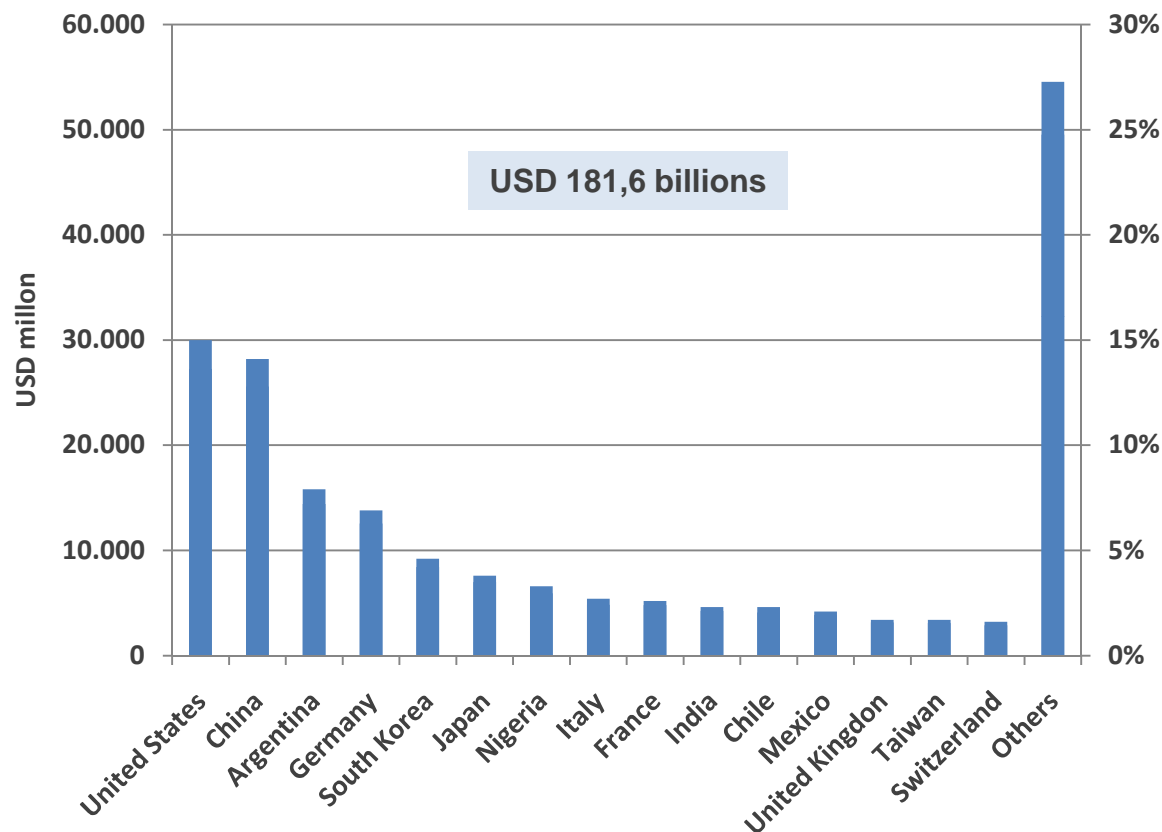
Imports 2010
USD million



About Brazil

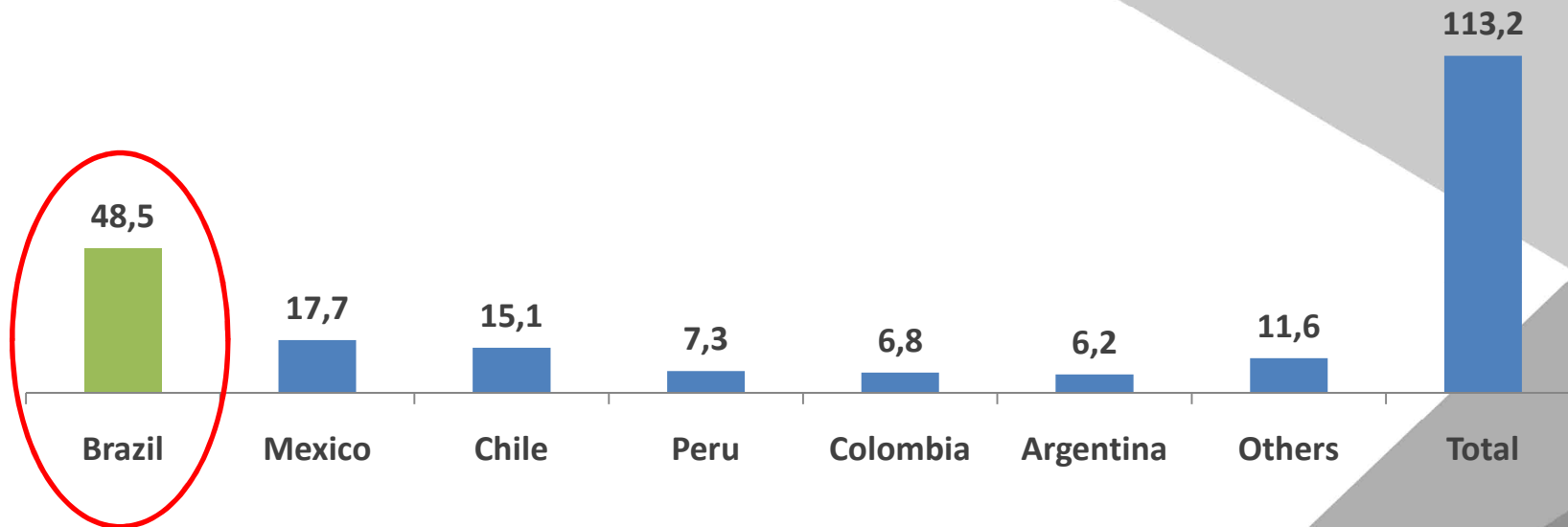
Economic Indicators

Imports 2010 - by origin



2010	USD million	2010/2009	Share
United States	27.249	35	15%
China	25.593	60,9	14%
Argentina	14.426	27,9	8%
Germany	12.552	27,2	7%
South Korea	8.422	74,8	5%
Japan	6.982	30,1	4%
Nigeria	5.920	24,4	3%
Italy	4.838	32	3%
France	4.800	32,7	3%
India	4.242	93,6	2%
Chile	4.091	53	2%
Mexico	3.858	38,6	2%
United Kingdom	3.155	31	2%
Taiwan	3.104	28,7	2%
Switzerland	2.876	39,4	2%
Others	49.541		27%
Total	181.649		100%

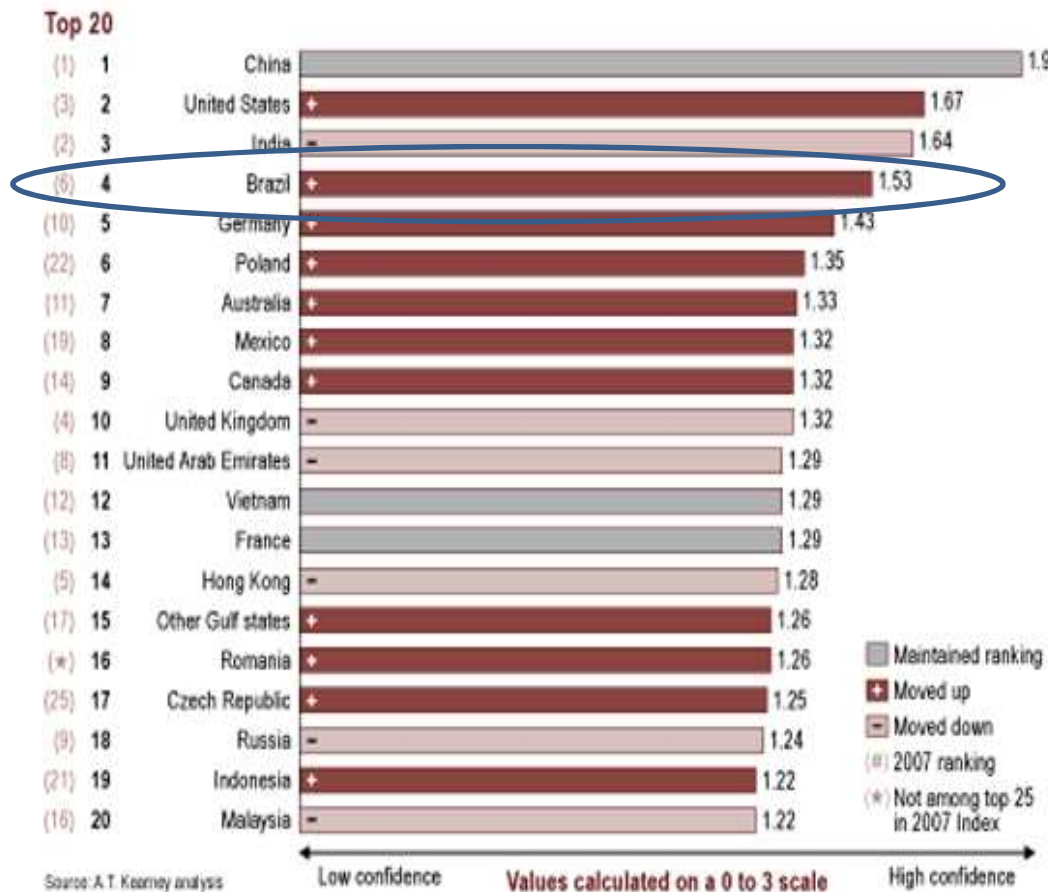
Foreign Direct Investment in 2010 – Latin America
(USD billion)



- More than **42%** of the foreign direct investments in Latin America was received by Brazil in 2010, totaling USD 48,5 billions out of USD 113,2 billions

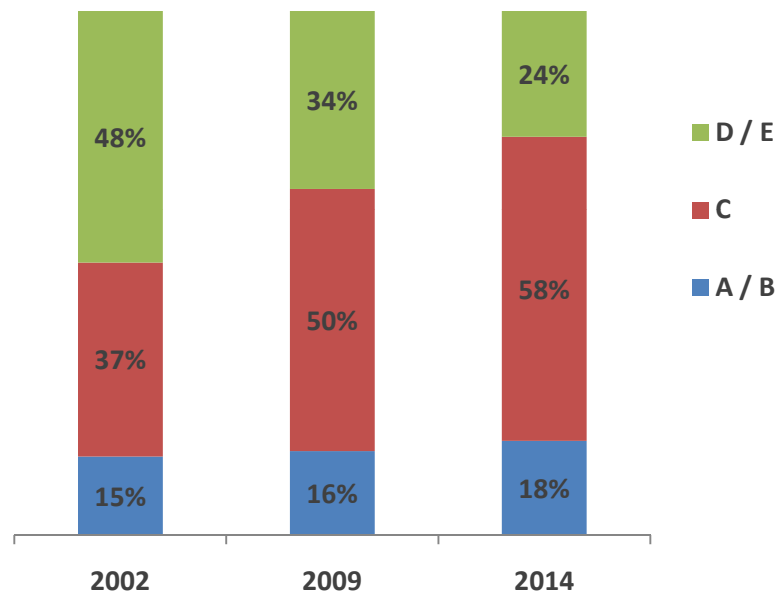
Investing in a Rebound – The 2010 A.T. Kearney FDI Confidence Index®

2010 FDI Confidence Index®



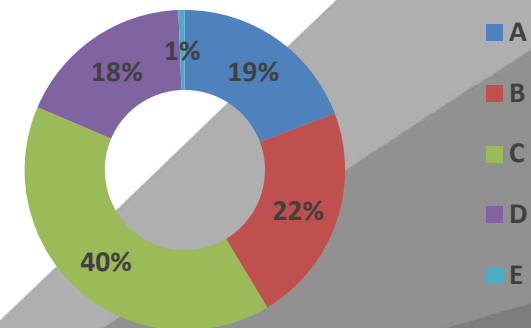
- China remains the top-ranked destination by foreign investors, a title it has held since 2002;
- The United States retakes second place from India, which had surpassed it in 2005;
- India, Brazil and Germany complete the top five favored investment destinations;
- At the same time, the placement of China, India and Brazil in the top five shows a strong vote of confidence for the strength of these economies;
- Investors also expressed the most optimism about the future outlook for China, India and Brazil.

Percentage of Economic classes in the Brazilian population

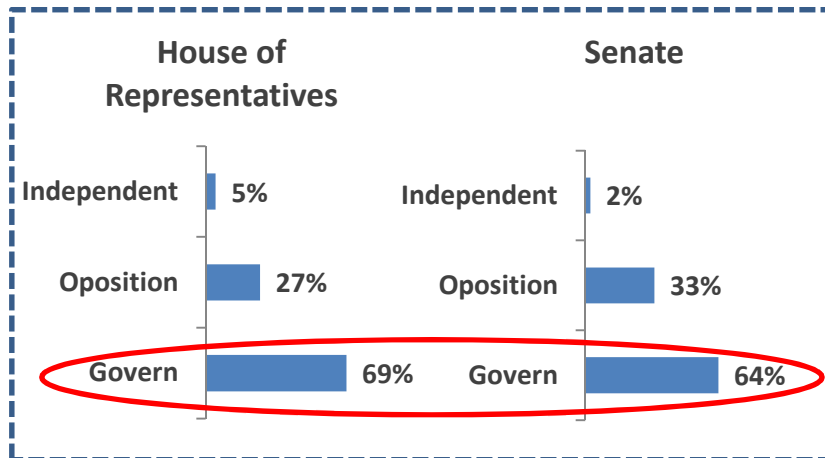
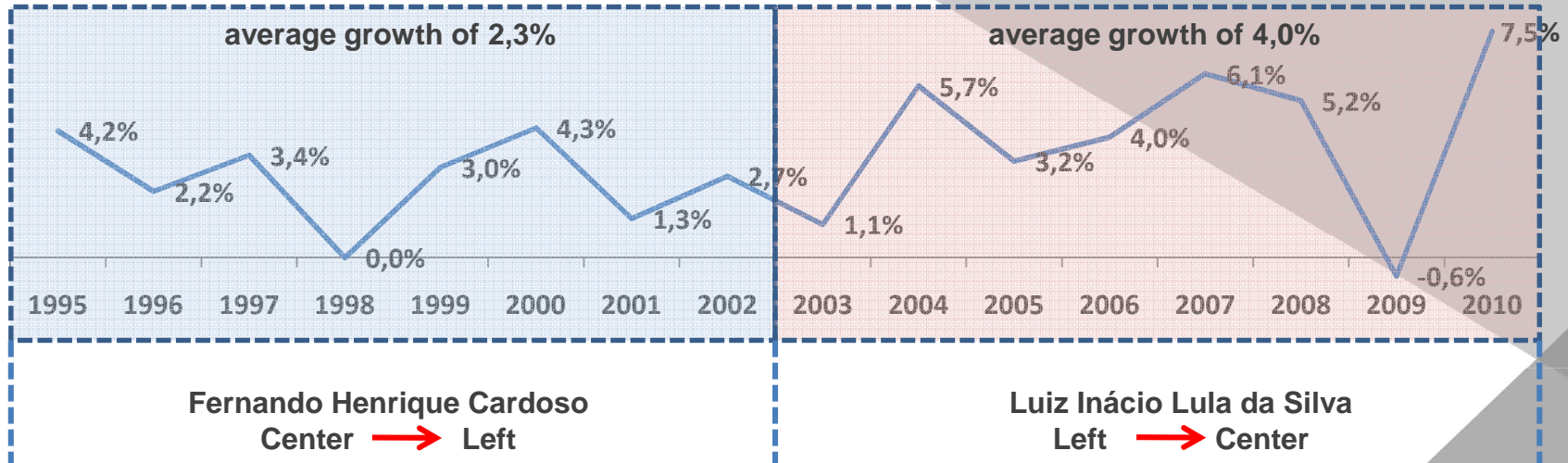


- Solid growth of middle class in the last 10 years
- High and middle class among 76% of total population
- High and Middle spending in consumption totaling 81%
 - Income concentration has declined

Absolute spending on consumption by social class in 2010

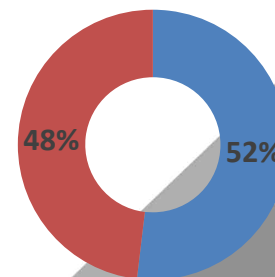


GNP and the last two administration



Voters (2010)

■ Female ■ Male

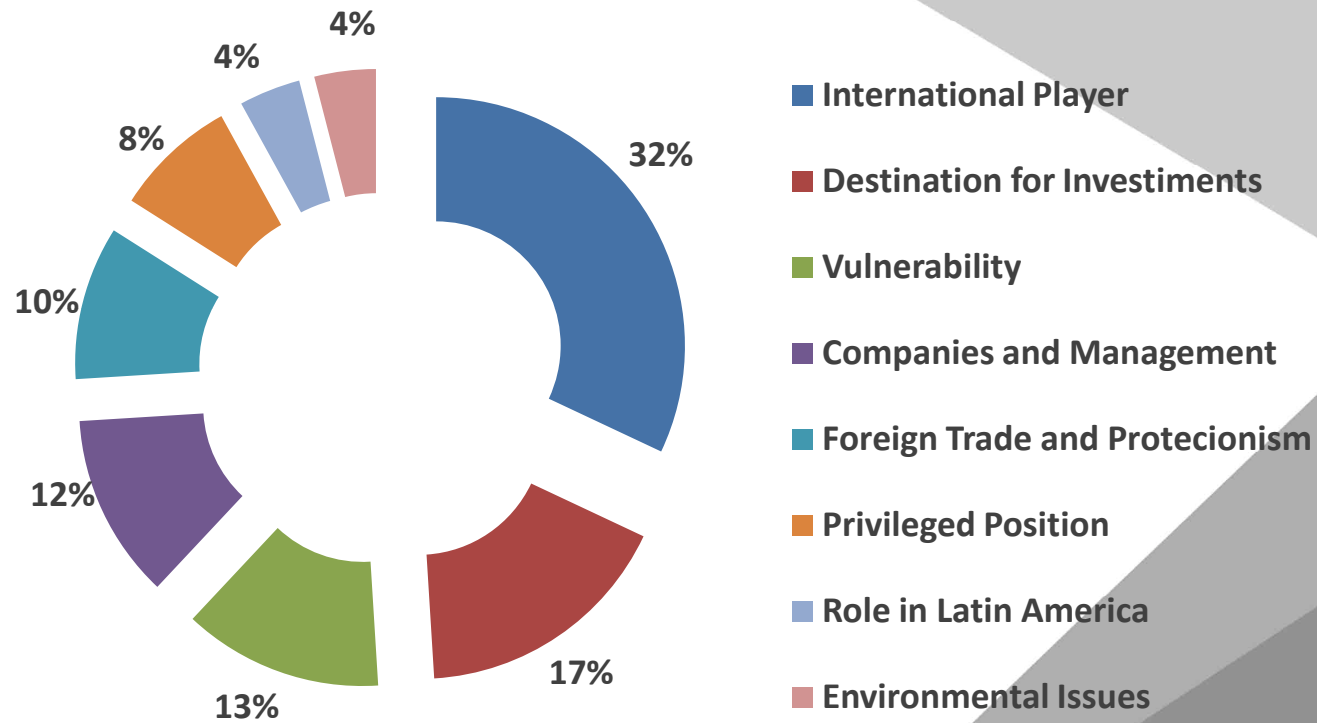


Female 70.373.971

Male 65.282.009

Total 135.655.980

The issues most discussed



THE GOVERNMENT - BUSINESS EFFICIENCY GAP IN 2011

(Countries with at least a 6-rank difference: full list on the website)



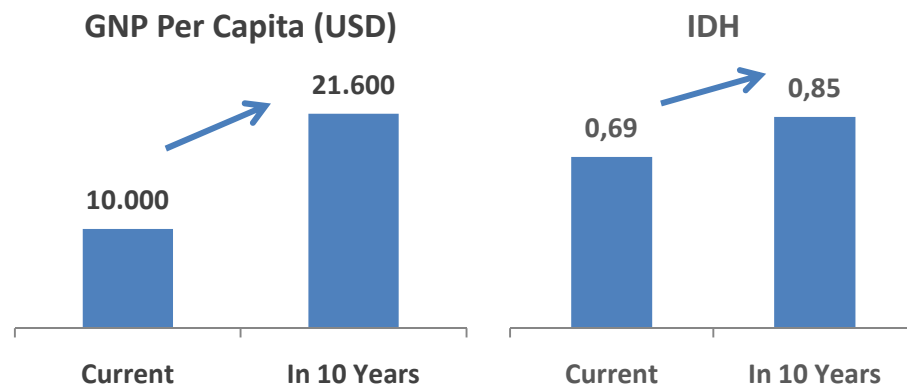
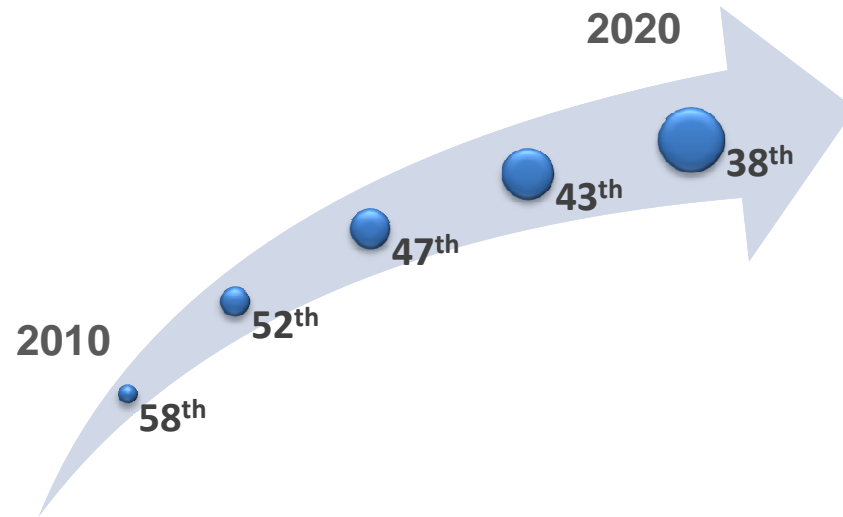
Country	Government Efficiency	Business Efficiency	Difference
Brazil	55	29	-26
Japan	50	27	-23
Belgium	39	23	-16
Ireland	30	18	-12
USA	19	10	-9
China	33	25	-8
Colombia	45	37	-8
Germany	24	16	-8
Austria	27	20	-7
Denmark	13	6	-7
India	29	22	-7
Taiwan	10	3	-7
Argentina	57	51	-6
Iceland	40	34	-6
Luxembourg	15	9	-6
Philippines	37	31	-6

The table above shows countries' rankings for Government Efficiency and Business Efficiency (two competitiveness factors drawn from the WCY 2011) and the gap between the two. All rankings are across 59 economies, in descending order from best (1st) to worst (59th).

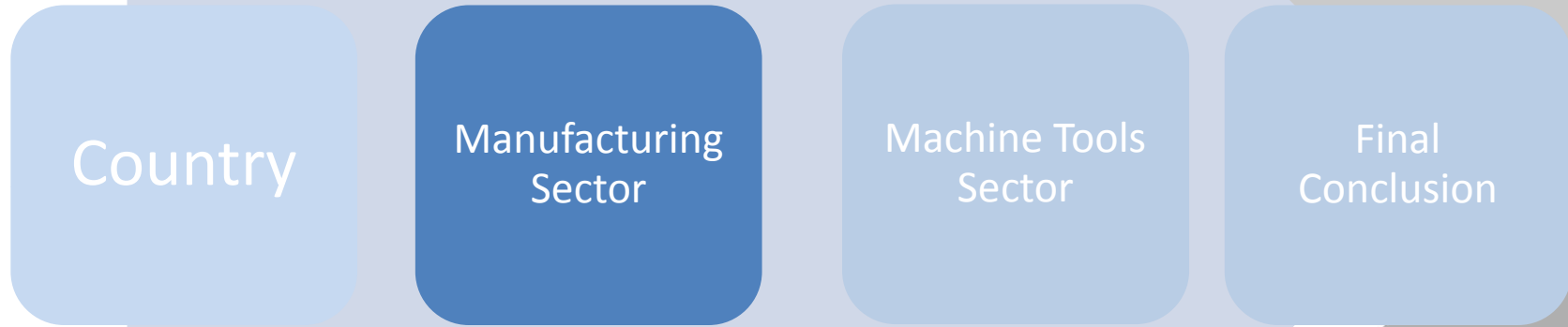
- Global Competitiveness Index 2011 (World Competitiveness Yearbook), developed by the International Institute for Management Development (IMD)
 - Brazil drops six places in global competitiveness rankings
 - Fall in productivity and business efficiency and increase the cost of living have made up six positions and Brazil stays on the 44th among 59 countries assessed by the study

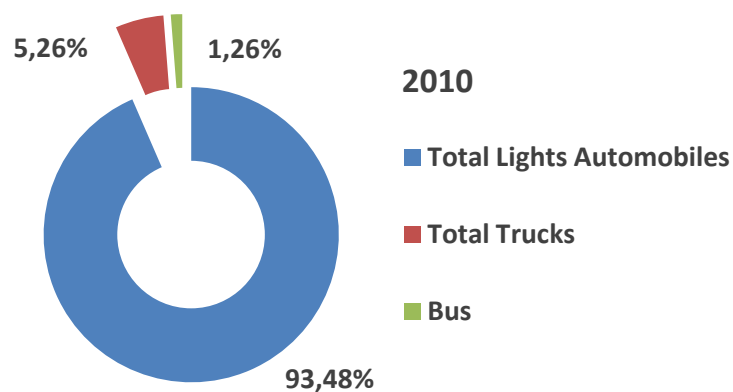
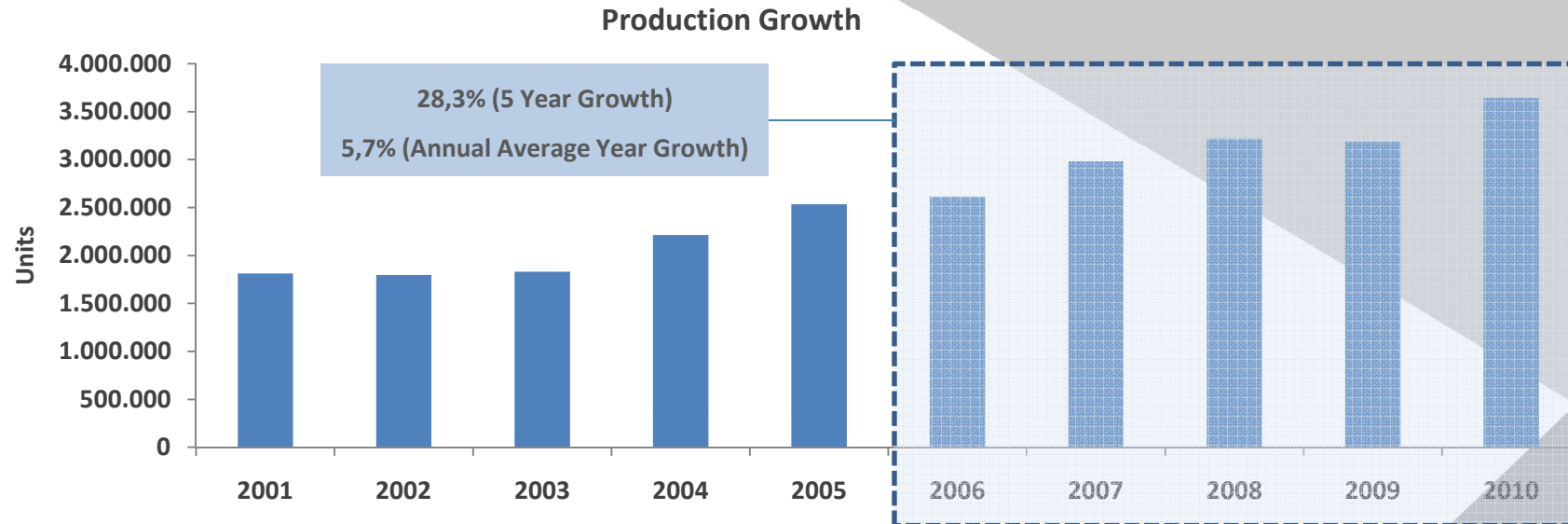
About Brazil

Competitiveness - How to increase it ?



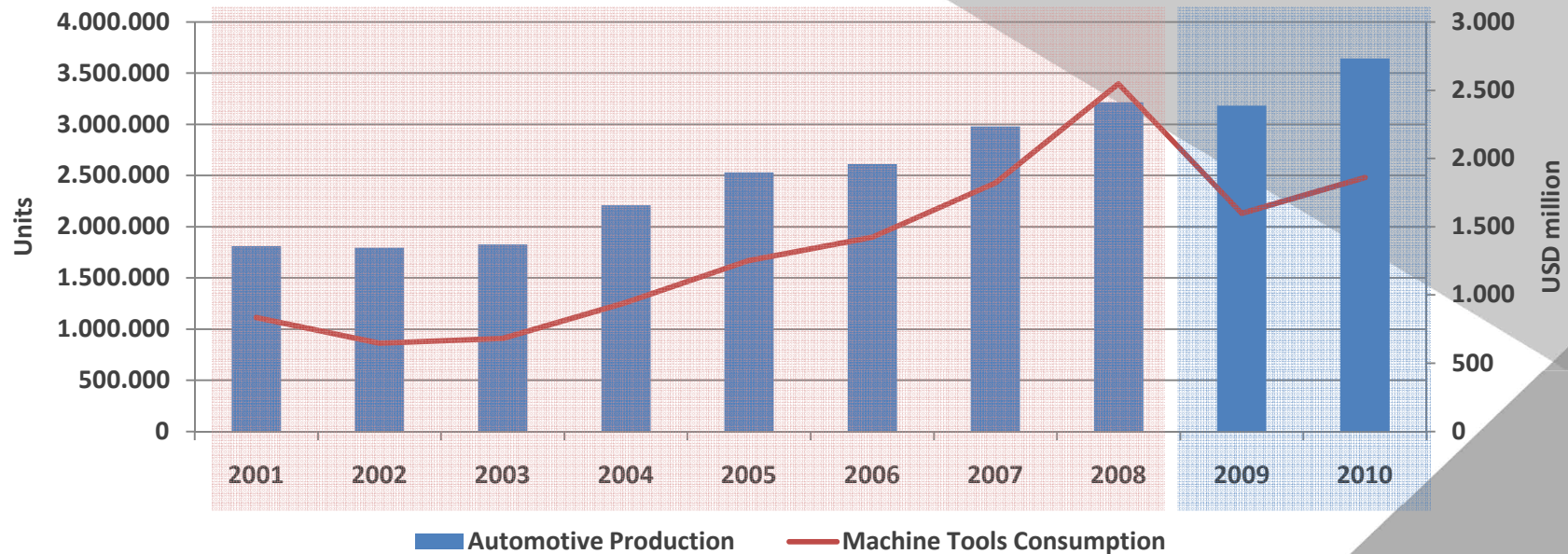
- Brazil needs a shock to accelerate competitiveness
 - increase of 6 positions with the elimination of infrastructure bottlenecks
 - increase of 5 positions with the rules clearer and more efficient government
 - increase of 4 positions at simplifying taxes and reducing the tax burden
 - increase of 4 positions with lower costs of hiring and firing
 - advance of one position with the lower cost of capital
- In ten years, Brazil could achieve current income of Korea and the welfare near to Italy.





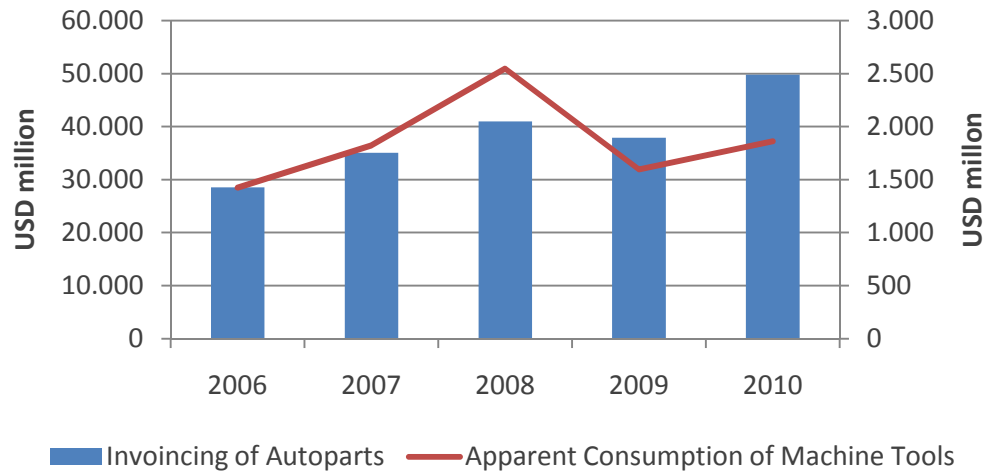
- 2010 Production
 - Totaling 3,6 million units
 - 93,48% automobiles
 - 5,26% trucks
 - 1,26% Bus
- Fleet of vehicles in the country reached 64.8 million in 2010, representing 119% growth in last ten years
- How much it will keep growing to the next years ?

Automotive Production x Machine Tools Consumption

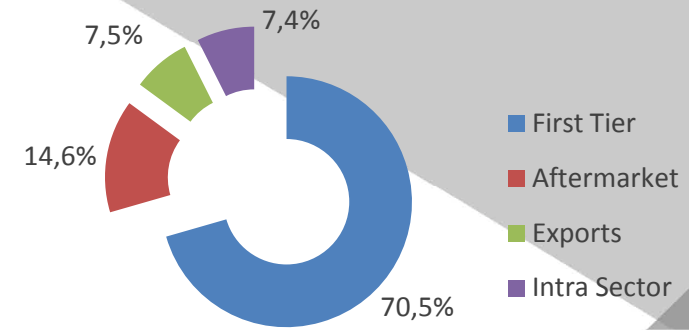


- Consumption of Machine Tools follows increase of automotive production until 2008
- Automotive production in 2009 and 2010 used production capacity already installed in the previous years
- 13,3% automotive production increase 2010 / 2008
- -26,9% machine tools consumption decrease 2010 / 2008
- Possible conclusion: substitution of local contents by imports following a high installed production capacity and the currency strength of R\$ real

Autoparts x Machine Tools



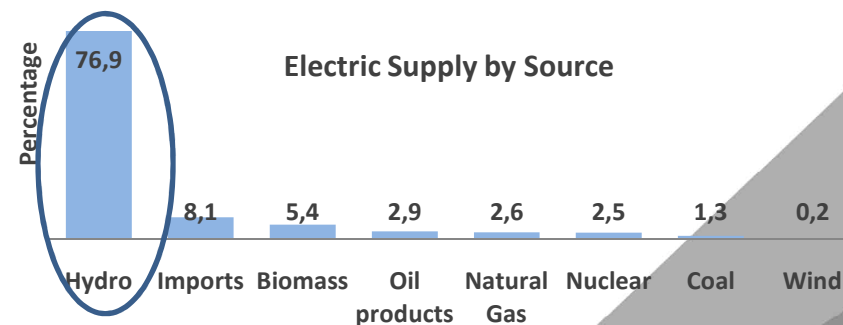
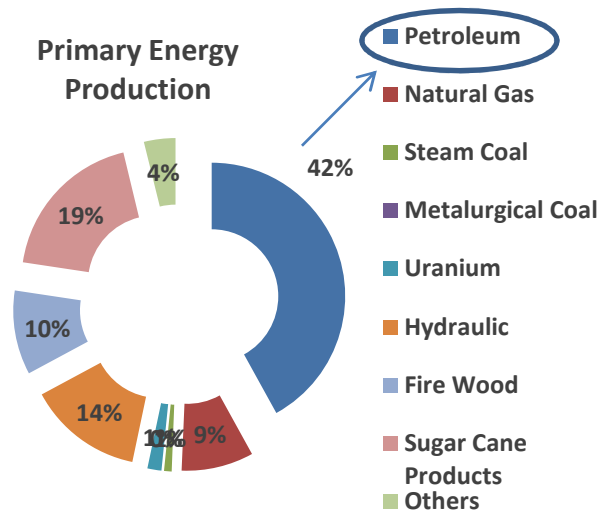
Autoparts By Sector (2010)



- 2010 Invoicing by sector totaling 49,76 USD billion
- Five year growth of autoparts invoicing was 42,6% against 23,5% for machine tools consumption;
- Average five year growth of autoparts invoicing was 8,5% against 4,7% for machine tools consumption
- Possible conclusion: substitution of local contents by imports following a high installed production capacity and the currency strength of R\$ real

USD millions	Autoparts Invoicing	Machine Tools Consumption
2006	28.548	1.423
2007	35.064	1.822
2008	40.992	2.547
2009	37.895	1.597
2010	49.767	1.861

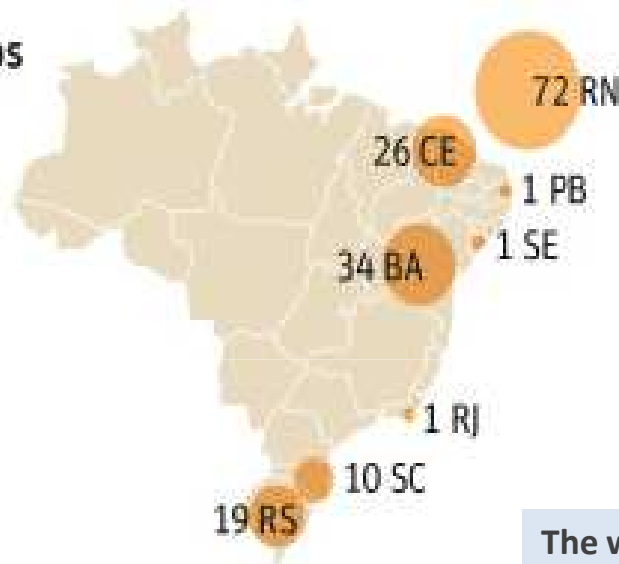
Investments of Petrobras	2011 - 2014	After 2014	Total
Exploration and Production	153,6	401	554,6
Refining, Transportation and Marketing and Petrochemicals	79	58	137
Natural Gas and Fertilizer	17	3	20
Biofuels	0,126	0	0,126
R\$ billions	249,726	462	711,726



Brazil should have at least 30 power plants by 2020 that will generate about 19,000 megawatts (MG) of power. Of these, six have already been authorized and shall come into operation from 2018. 24 others still depend on approval and are expected to start operating from 2016. The forecast is in the Ten Year Expansion Plan for Energy 2020 (PDE) announced by the Ministry of Mines and Energy on 2011.

Parques eólicos previstos

164 projetos entram em operação até 2013**



The wind energy projects in the country, with startup scheduled until 2013, is about R\$ 25 billion in investments, according to Abeeólica (Brazilian Association of Wind Energy). The projection considers developments auction (bids) winners in 2009 and 2010, the completion of Proinfa (program of alternative sources of government) and selling energy projects planned in the free market, which includes leading consumers.

Manufacturing Sectors

Capital Goods

Gross Fixed Capital Formation / GDP	2010	2011(e)	2012(e)
Credit Suisse	18,40%	19,60%	20,50%
Abimaq	18,40%	19,70%	-
Ministry of Finance	18,40%	20,40%	21,60%

Brazilian Industry Machinery and Equipment	2010	2011(e)	2011 / 2010
Apparent Consumption (R\$ billion)	99,5	110,2	10,8%
Invoicing (R\$ billion)	71,9	77	7,0%
Exports (USD billion)	9,3	10,7	15,0%
Imports (USD billion)	25	31,5	26,0%

Abimaq represents 25 different industry sectors of capital goods, with over 1,400 members.

The investments in the capital goods sector should reach R\$ 4.8 billion in 2011 according to a forecast of the Brazilian Association of Machinery and Equipment (Abimaq). The number represents growth of 18.6% over the amount invested in 2010. According this forecast, investments in 2011 should not promote a large increase in capacity or even a large sector modernization and should represent about 5% of revenues of the sector and serve to maintain capacity and replace older machines.

Manufacturing Sectors

Other Relevant Sectors

Airspace (1)

- Revenue of USD 7.1 billion (2009)
- 88,1% aircrafts, 8,3% defense, 0.4% airspace and 3,0% others
- 79.3% of production to exports
- Main products are commercial airplanes , engines and maintenance
- Airspace: satellites of small sizes, survey missiles and launching equipment

Naval and Offshore (2)

- About 25 shipyards and five more under construction
- 45,470 employees in 2010
- 230 new vessels on behalf of Petrobras' investments is expected in the period 2008 to 2017
- By 2014, 146 ships for the exploration and offshore production of oil, with investments of USD 5 billion
- By 2017, 40 new drilling rigs will be installed

Infrastructure (3)

- Investments of R\$ 6.8 billion are expected to modernize the airports to meet the demands of World Cup Soccer (2014) and the Olympic Games (2016)
- 265 port projects may require an estimate of \$ 42.8 billion in the coming years

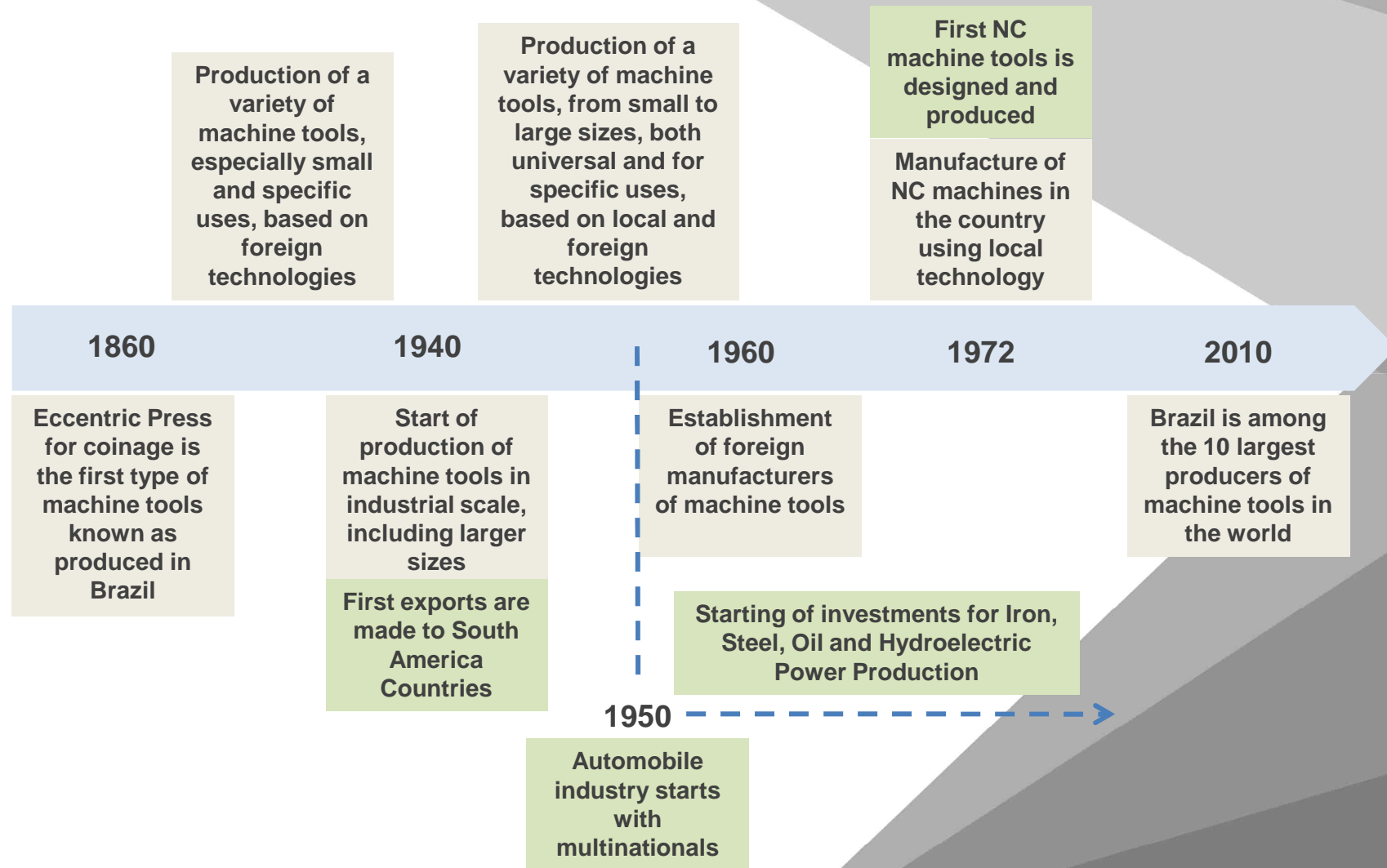
Country

Manufacturing
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Machine Tools
Sector

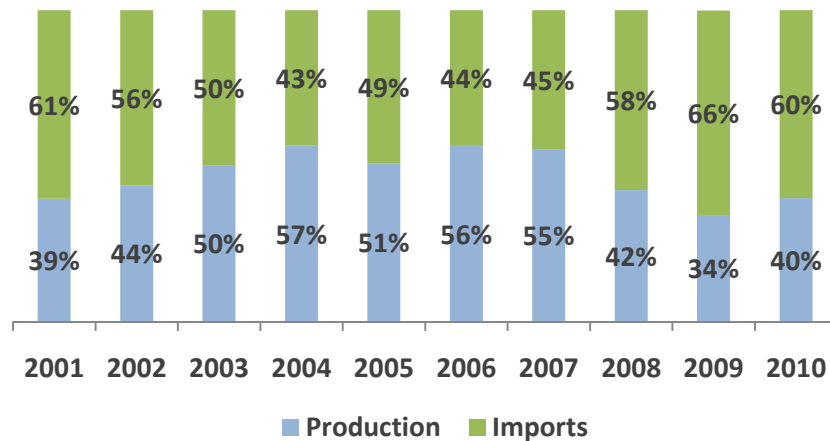
Trends and
Conclusion

Machine Tools Footprint

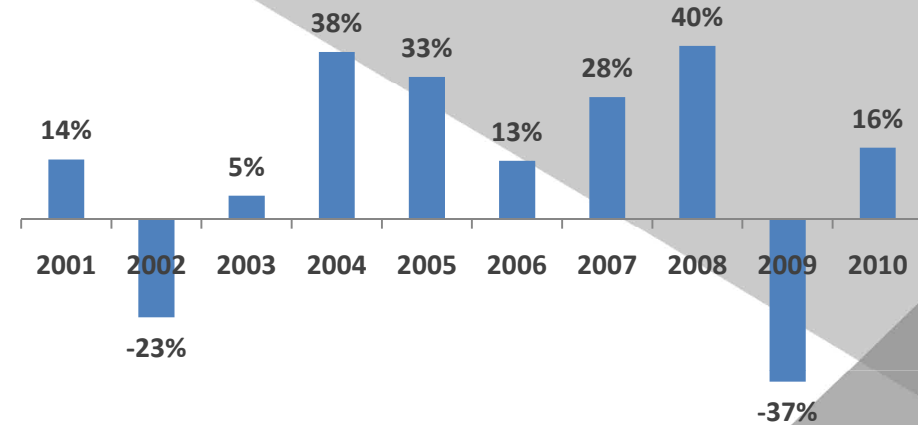


Machine Tools Apparent Consumption

Apparent Consumption



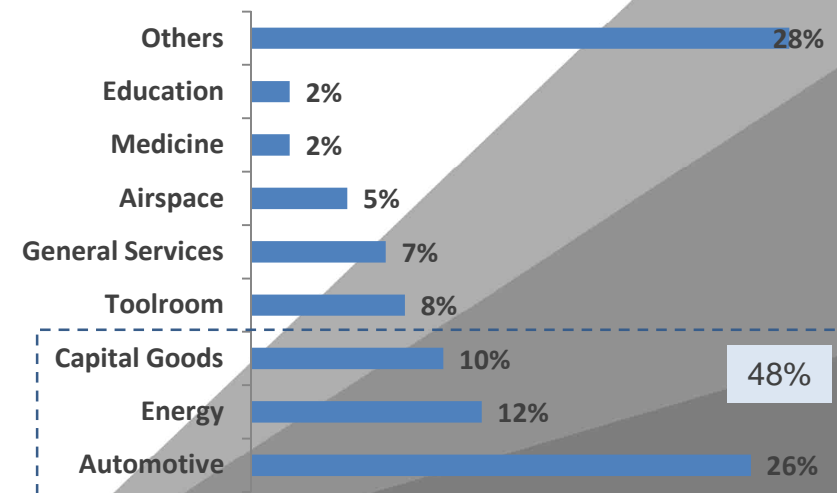
Change



(USD million)

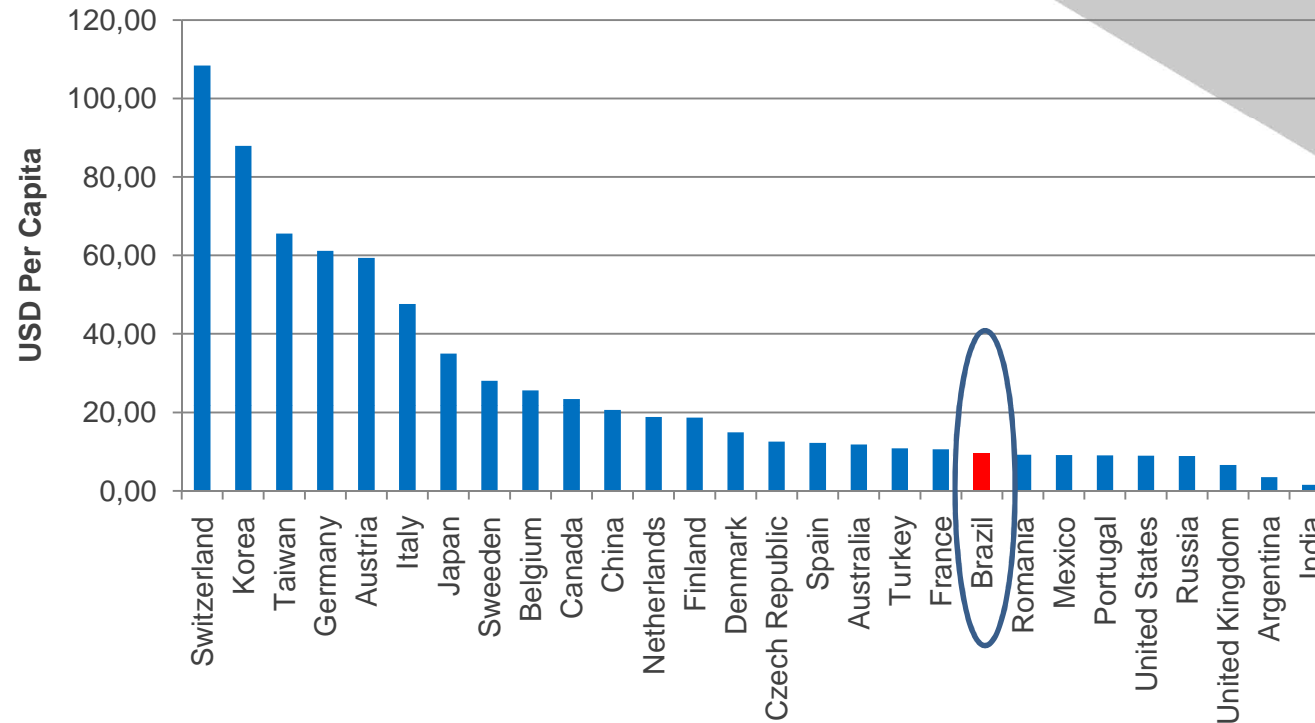
Year	Production	Exports	Imports	Apparent Consumption	Change
2001	447	118	506	835	14%
2002	382	99	364	647	-23%
2003	472	129	339	682	5%
2004	713	178	409	944	38%
2005	860	220	613	1.253	33%
2006	956	153	619	1.422	13%
2007	1.157	149	813	1.821	28%
2008	1.288	196	1.454	2.546	40%
2009	714	145	1.029	1.598	-37%
2010	837	100	1.124	1.861	16%

Consumption by Sector



Machine Tools Consumption Per Capita

World Per Capita Consumption fo Machine Tools (2010)

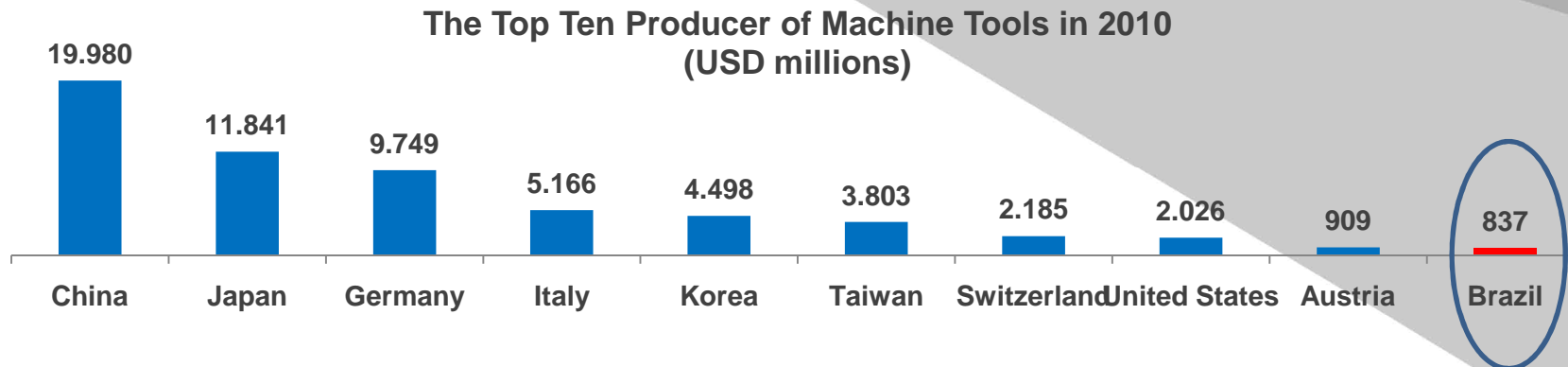


Country	USD
1 Switzerland	108,40
2 Korea	87,90
3 Taiwan	65,53
4 Germany	61,14
5 Austria	59,39
6 Italy	47,63
7 Japan	34,98
8 Sweeden	28,05
9 Belgium	25,57
10 Canada	23,39
11 China	20,61
12 Netherlands	18,78
13 Finland	18,67
14 Denmark	14,93
Czech Republic	12,54
15 Republic	12,54
16 Spain	12,19
17 Australia	11,80
18 Turkey	10,86
19 France	10,57
20 Brazil	9,63
21 Romania	9,19
22 Mexico	9,11
23 Portugal	9,03
24 United States	8,96
25 Russia	8,88
United Kingdom	6,57
26 Kingdom	6,57
27 Argentina	3,45
28 India	1,50

USD / Year	2010	2013(*)	2016(*)
Per Capita	9,63	11,8	14,93
Position	20	17	14
Increase		0,23	0,27
Consumption	1.861.309.000	2.280.731.693	2.885.705.438

(*) assumption

Source: Abimaq, Gardner Publications (preliminary)



Highlights of the world's machine tools in 2010

The machine tool manufacturers in countries around the world have increased their output by about 21% over 2009;

The world production of machine tools totaled USD 66.5 billion, compared to USD 54.7 billion in 2009;

Sales of machine tools in China rose 31% to nearly USD 20 billion in 2010, consolidating the country as the world's largest manufacturer since 2009;

In 2010, the machine tool industry in Japan has recovered after suffering a decline in 2009 69% (in U.S. dollars), recovering the position of vice world leader;

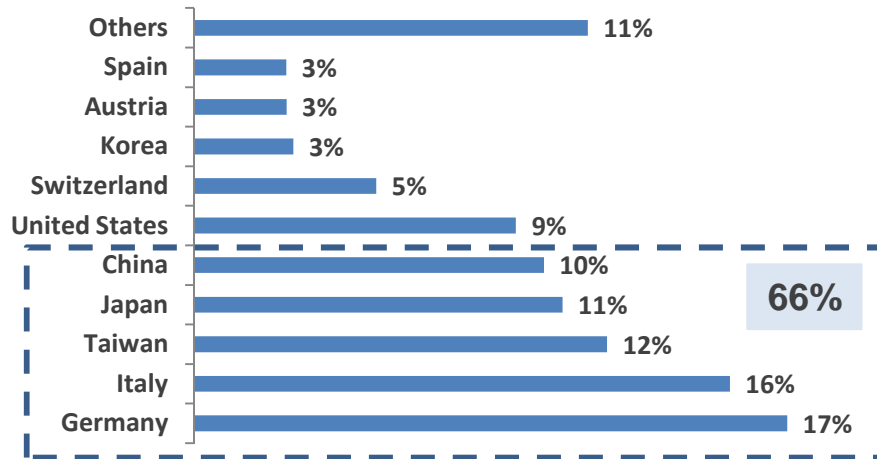
Germany, remains in third place, even with a drop of 5%, with USD 9.7 billion compared to USD 10.8 billion in 2009;

The U.S. (USD 2.0 billion) reduces 9% and drops to eighth place after Italy (USD 5.1 billion), Korea (USD 4.4 billion), Taiwan (USD 3.8 billion) and Switzerland (USD 2.1 billion).

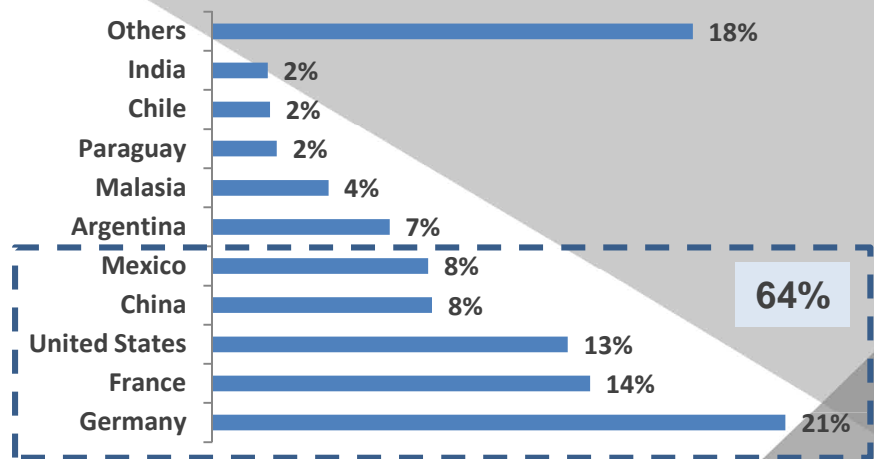
Machine Tools

Imports, Exports and Trade Balance

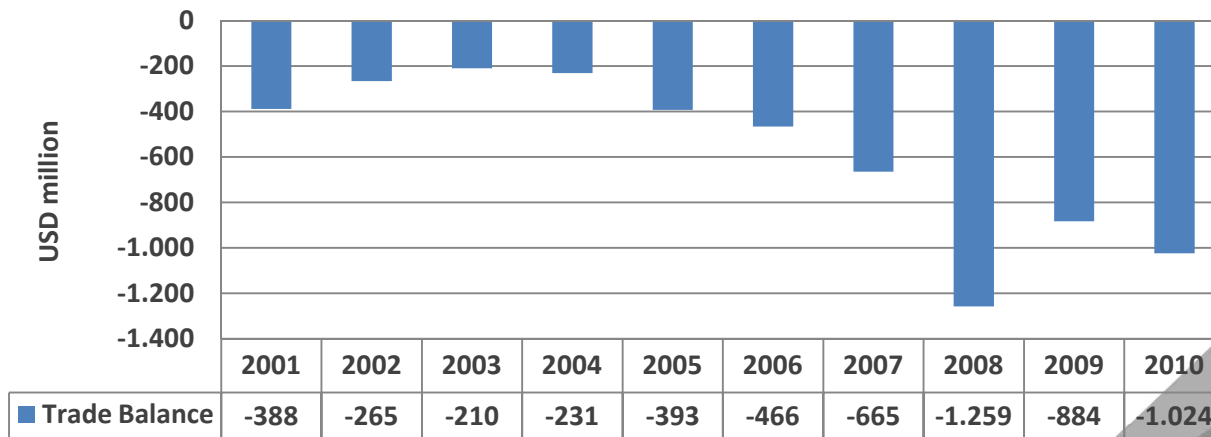
Imports



Exports



Trade Balance

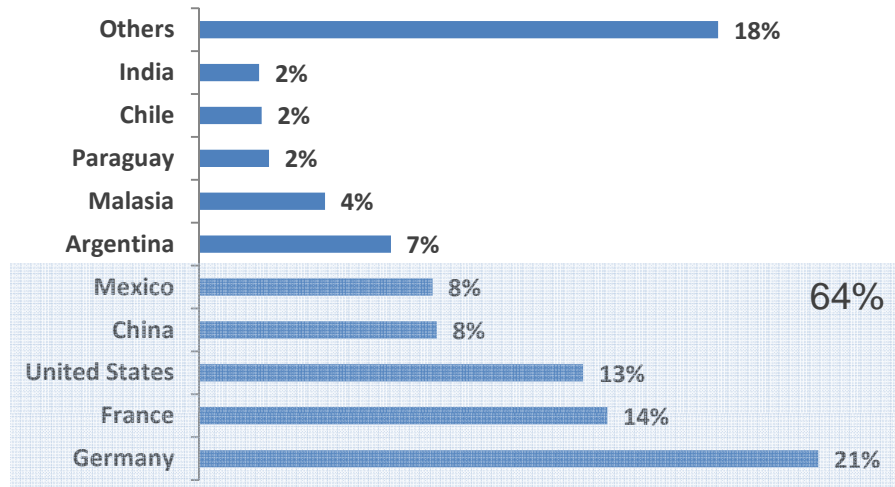


Exports	Imports	Trade Balance
118	506	-388
100	365	-265
129	339	-210
179	410	-231
221	614	-393
153	619	-466
149	814	-665
196	1.455	-1.259
145	1.029	-884
100	1.124	-1.024

Machine Tools

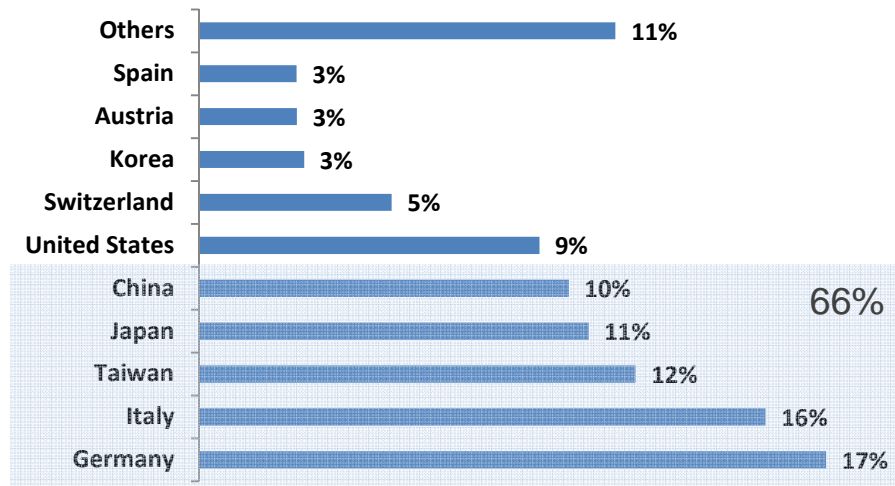
Imports, Exports and Trade Balance

Exports



Exports	USD Thousands
Germany	21.361
France	14.078
United States	13.247
China	8.191
Mexico	8.046
Argentina	6.612
Malasia	4.335
Paraguay	2.405
Chile	2.149
India	2.065
Others	17.905
Total	100.394

Imports

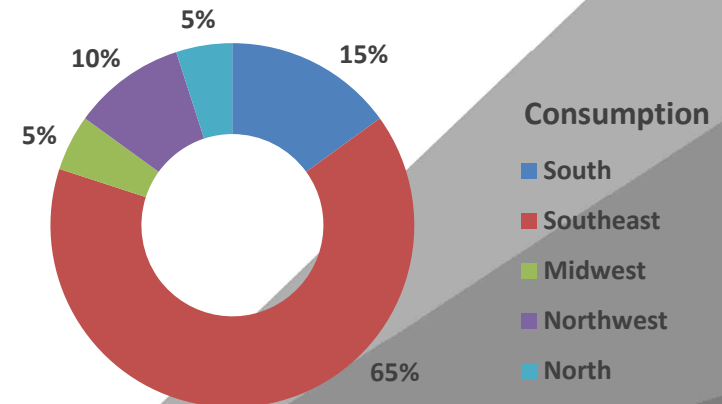
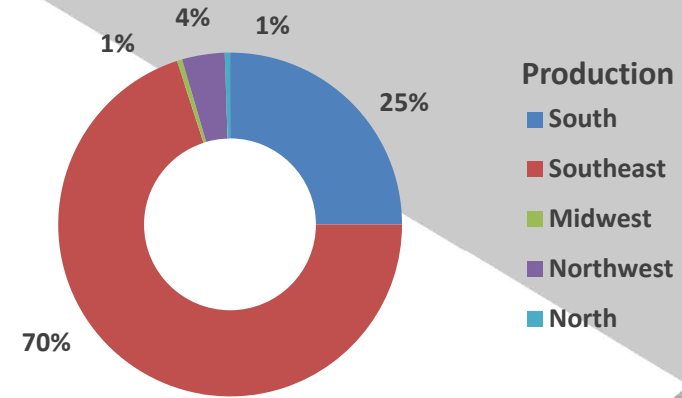
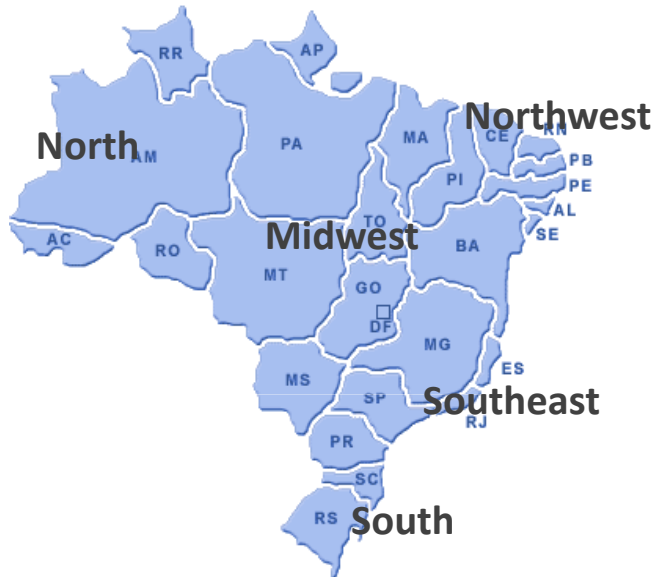


Imports	USD Thousands
Germany	193.756
Italy	175.046
Taiwan	134.889
Japan	120.395
China	114.243
United States	105.144
Switzerland	59.488
Korea	32.427
Austria	30.189
Spain	30.100
Others	128.644
Total	1.124.321

Source: Abimaq

Machine Tools

By geographic region



	South	Southeast	Midwest	Northwest	North
Production	25%	70%	1%	4%	1%
Consumption	15%	65%	5%	10%	5%



Machine Tools

New Branding

- [1] 
- [2] **Brazil**
- [3] Machinery Solutions
The inventive global partner

- **New branding for Brazilian machinery**

- [1] Part of the country's flag is to transmit the idea of two people getting and interacting together
- [2] Name of the country
- [3] Message to reinforce core values



Case Study: Indústrias Romi S.A.



Company Highlights

- Our competence: Machine Tools, Plastic Processing Machines and Iron Castings
- Manufacturing Plants in Brazil and Italy, with more than 170,000 *m*² of floor space and technical Centers in the USA and Europe
- 3,000 employees, around 260 (8.6%) assigned to product engineering and design
- Net Operating Revenue of R\$ 673 million (FY2010)
- Consistent investment in R&D of 4.0% / yearly
- 65% of the Net Operating Revenue from products developed within the last 3 years (FY2010)
- 80 years of existence (1930 – 2010)
- Public listed company on the BOVESPA (São Paulo, Brazil) stock exchange

Business Strategy

- High level of business integration from the design, production, sales and distribution to service
- High level of production integration from casting, machining, software and hardware for electric and electronic panels and assembling
- High scale production
- High level of commitment and responsibility to all stakeholders
- To be close to the market worldwide
- Geographic expansion in and out Brazil, both organic and acquisition

Branding Utility

- Reliable products designed and manufactured with leading edge technology and continuously supported

Footprint

1930



The company is founded under the innovating spirit of Américo Romi

1942



Production of lathe #1000 and inauguration of a new plant with 15,000 m² of built area

1972



Initial Public Offering – IPO and the start up of Plastic Injection Molding Machines production

2007



Follow on and entering at Novo Mercado - high Corporate Governance standards

2010



Romi Celebrated 80 years of existence and reached the 150,000th machine produced

Industrial Pioneering and Innovation in Brazil

1934

First to make plows in mass production scale



1941

First mechanical lathe



1948

First tractor



1956

First automobile made in production scale


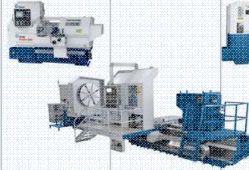


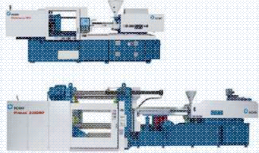
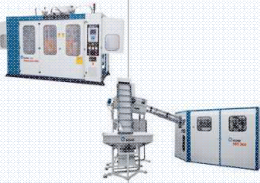











1972

First NC lathe



Business Units

METAL CHIPPING					PLASTIC PROCESSING MACHINES			FOUNDRY					
ENGINE LATHES	CNC LATHES		TURNING CENTERS	MILLING	INJECTION MOLDING		BLOW MOLDING		ROUGH CASTINGS	MACHINED CASTINGS			
	LIGHTWEIGHT	HEAVYWEIGHT			INJECTION MOLDING MACHINES	PLASTIC BLOW MOLDING MACHINES	PET BLOW MOLDING MACHINES	PARTS PRODUCED OF GRAY, NODULAR AND VERMICULAR IRON CAST	CNC MACHINING CASTS				
													
													
<small>OUR CLIENTS BUSINESS SECTORS MACHINING AND TOOLING SHOPS, PARTS MAKER FOR THE AUTOMOTIVE, AVIATION, OIL/ENERGY/SUGAR AND ALCOHOL INDUSTRIES, CAPITAL GOODS AND OTHER</small>					<small>OUR CLIENTS BUSINESS SECTORS SERVICE PROVIDERS, PACKAGING MANUFACTURERS FOR THE FOOD, CLEANING AND CHEMICAL SECTORS, AMONG HOUSEWARES, FURNITURE, HI TECH PARTS FOR THE AUTOMOTIVE AND CAPITAL GOODS, CONSTRUCTION SECTORS AND OTHERS</small>			<small>OUR CLIENTS BUSINESS SECTORS PARTS FOR AUTOMOTIVE INDUSTRIES (CARS AND COMMERCIAL), ENERGY, AGRICULTURE AND CAPITAL GOODS, AMONG OTHERS</small>					
<p>Machine Tools Turning and Milling</p>					<p>Plastic Processing Machines Injection and Blow Molding</p>			<p>Iron Castings Rough and Machined</p>					
<p>Machines</p>					<p>Castings</p>								

Extensive line of Horizontal and Vertical CNC Lathes, Turning Centers, Vertical and Horizontal Machining Centers and Boring Machines

2010 Figures

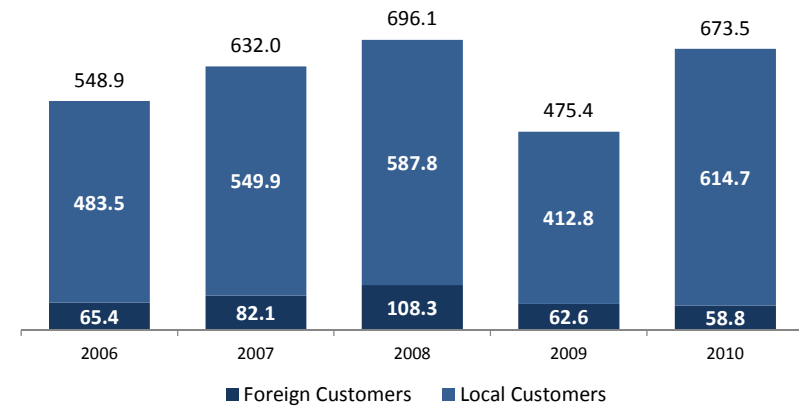
MACHINE TOOLS
R\$ 427.1 million



CASTING
R\$ 67.0 million

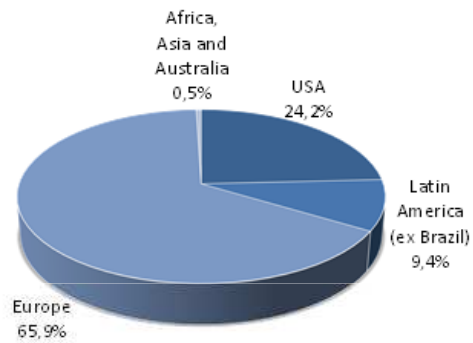
PLASTIC PROCESSING
MACHINES
R\$ 179.4 million

Net Operating Sales (R\$ million)

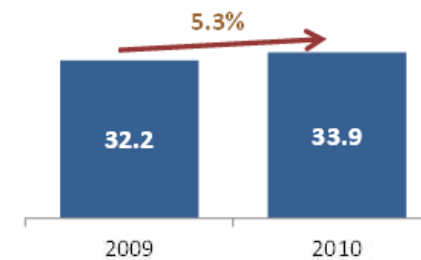


2010 Figures

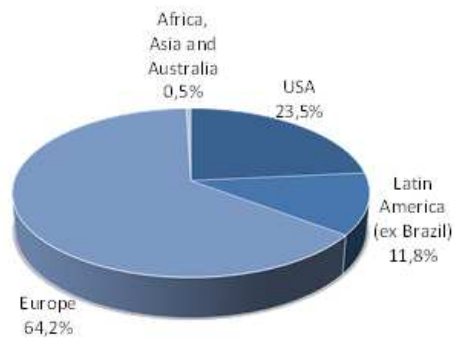
2010 Foreign Sales Destination



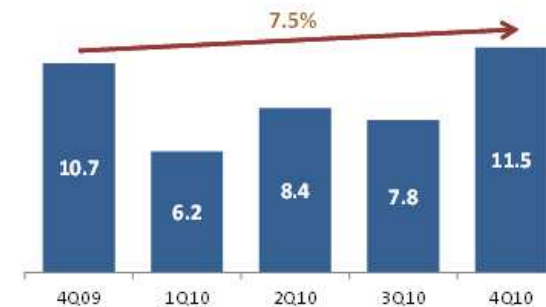
Year Foreign Sales – US\$ million



4T10 Foreign Sales Destination

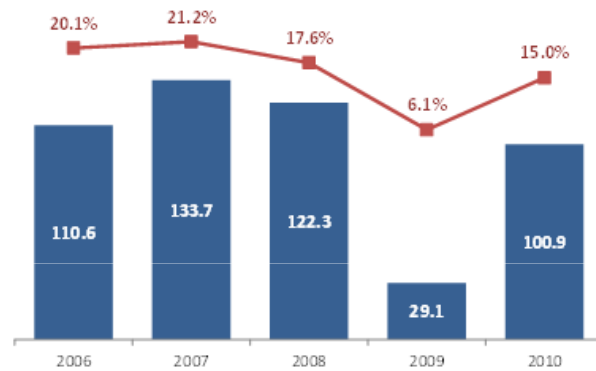


Quarter Foreign Sales – US\$ million

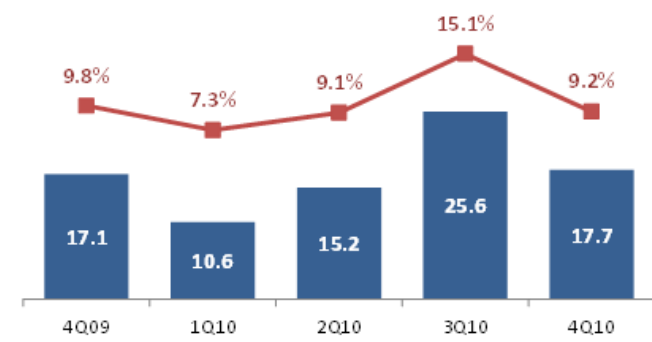
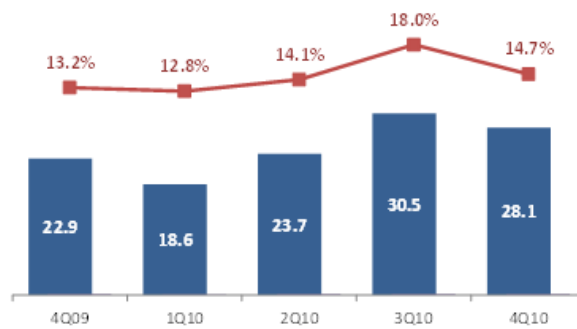
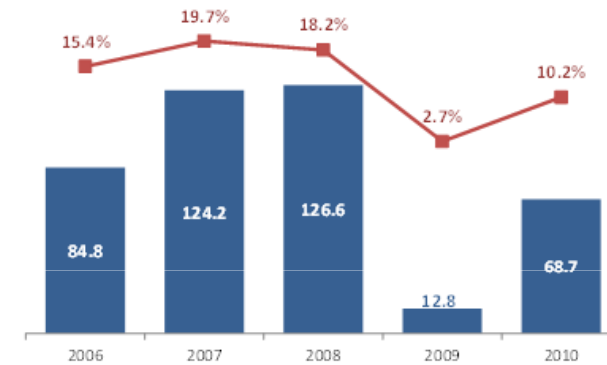


2010 Figures

EBITDA (R\$ million) and EBITDA Margin



Net Profit (R\$ million) and Net Margin



Source: Indústrias Romi S.A.

Lean Six Sigma strategy

Since 2008, Romi has adopted the Lean Six Sigma methodology, seeking permanent quality and process improvements, cost efficiency and reduction of non-conformity and waste. The methodology is used both in the administrative as well as in the production processes of the company.

Current figures

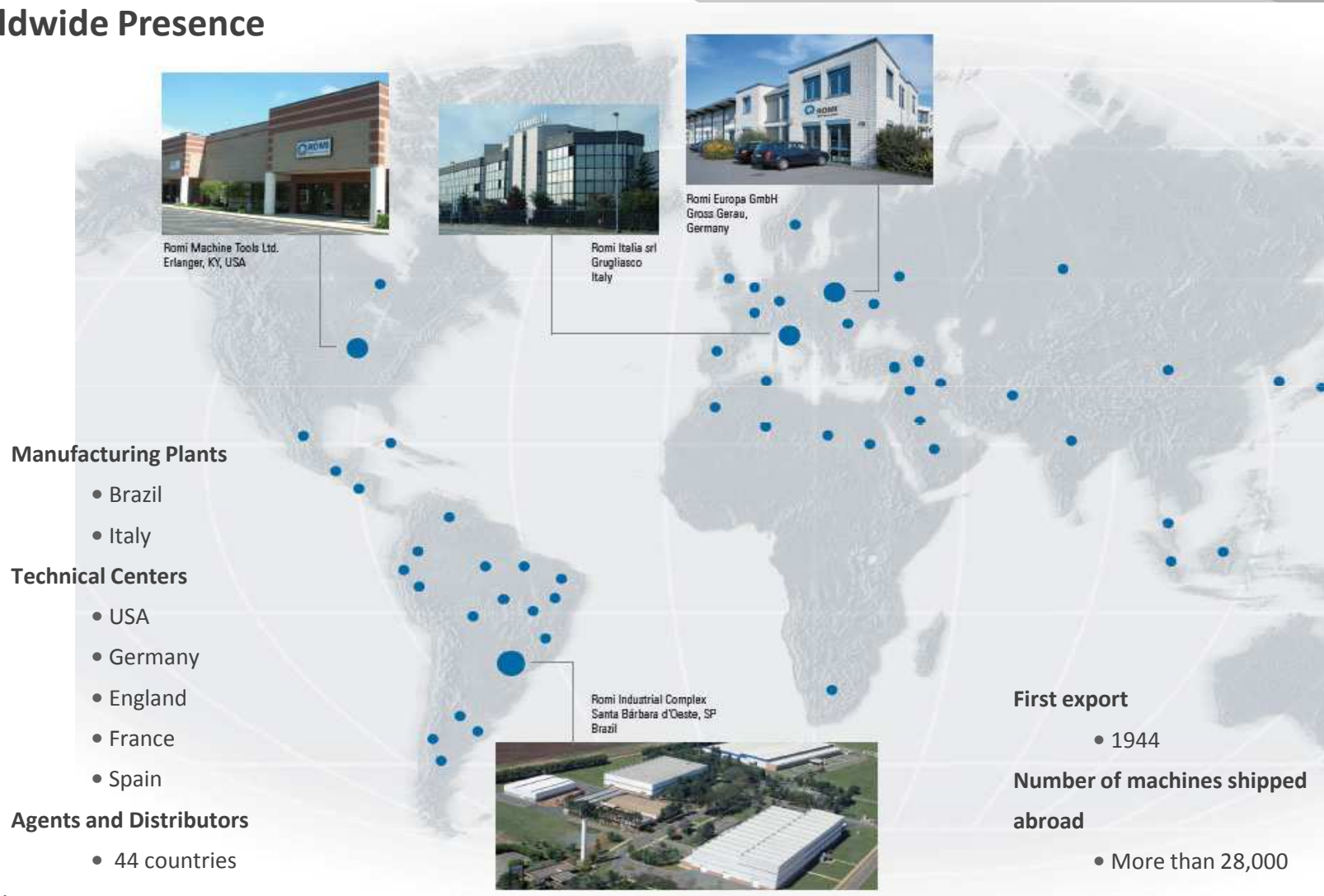
Projects:

- **308 ongoing Lean Six Sigma projects**
- **489 implemented Lean Six Sigma projects**

Personnel:

- **1 full time certified Master Black Belt**
- **6 full time certified Black Belts**
- **55 employees trained as Black Belts**
- **305 employees trained as Green Belts**
- **Approximately 1,000 trained Yellow Belt**

Worldwide Presence



Source: Indústrias Romi S.A.

Corporate Governance



Listed on the BOVESPA “Novo Mercado”



Accounting following IFRS - International Financial Reporting Standards



Sustainability Index GRI - Global Reporting Initiative



Social Responsibility



To sponsor educational programs free to community for more than 50 years



To sponsor technical apprenticeship programs for young students on mechanical, electrical, electronic, hydraulic and pneumatic

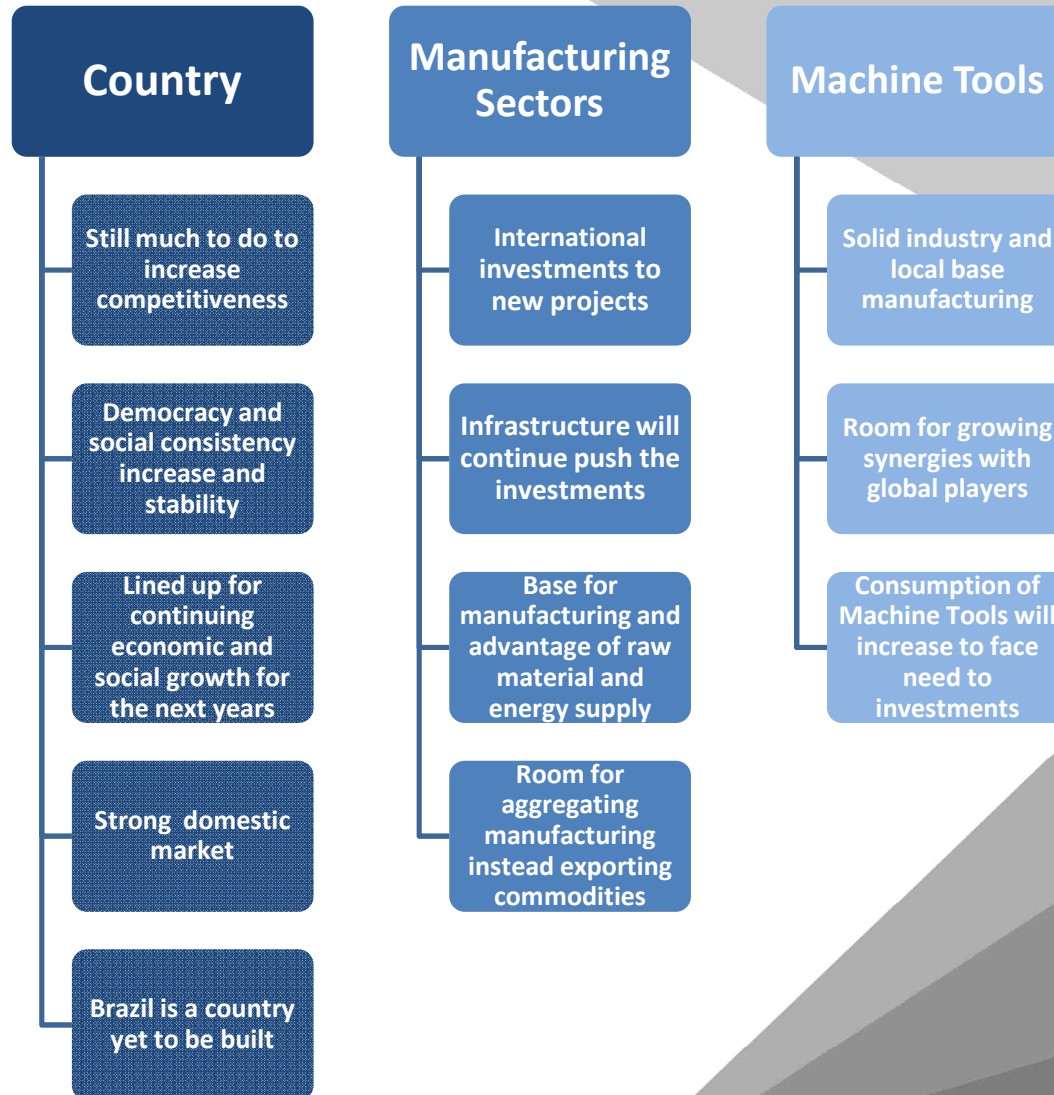
Country

Manufacturing
Sector

Machine Tools
Sector

Final
Considerations

Final Considerations



André Luís Romi

Abimaq
Chairman of the Machine Tools Chamber

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Institutional Relation Manager

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