Financial statements

Copobras S.A. Indústria e Comércio de Embalagens

December 31, 2016
with Independent auditor’s report on individual and consolidated financial statements

Copobras S.A. Indústria e Comércio de Embalagens

Financial statements

December 31, 2016

Contents

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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 International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Independent auditor's report on individual and consolidated financial statements

The Shareholders, Board of Directors and Officers
Copobras S.A. Indústria e Comércio de Embalagens
São Ludgero - SC

Opinion

We have audited the individual and consolidated financial statements of Copobras S.A. Indústria e Comércio de Embalagens ("Company"), identified as Company and consolidated, respectively, which comprise the statement of financial position as at December 31, 2016 and the statements of income, of comprehensive income, of changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting practices.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Copobras S.A. Indústria e Comércio de Embalagens as at December 31, 2016, its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities, under those standards, are further described in the "Auditor's responsibilities for the audit of individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to support our opinion.

Emphasis

We draw attention to Note 1, which states that the Company has a balance receivable from its shareholders amounting to R$225,875 thousand as at December 31, 2016 (R$165,139 thousand at December 31, 2015), having also provided sureties to these shareholders amounting to R$47,001 thousand as at December 31, 2016 (R$39,708 thousand as at December 31, 2015). The outcome of these transactions may significantly affect the results of operations and financial position of the Company, since realization of the balances receivable from Company shareholders depends on the outcome of the measures presented in referred to note. Our opinion is not qualified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period These matters were selected in the context of our audit of the individual and consolidated financial statement as a whole, and in forming our opinion thereon and, accordingly, we do not express a separate opinion on these matters.

a. *Transactions with related parties - shareholders*

As at December 31, 2016, the Company recorded a balance receivable deriving from loans granted to its shareholders amounting to R$225,875 thousand, as well as collaterals provided to these shareholders amounting to R$47,001 thousand as at such date. Since the outcome of these transactions may have a significant impact on the performance of operations and financial position of the Company due to the relevance of the amounts involved and the risk inherent in these transactions, we considered transactions with Company shareholders one of the key audit matters. Significant transactions, balances and contractual conditions are disclosed in Note 13.

Our audit procedures included, among others (i) reviewing the supporting documentation for a sample of the transactions, including examination of agreements and calculations prepared by Company management; (ii) checking transactions' approval in accordance with the policy established by Company management; (iii) sending confirmation letters to the operations' counterparties referring to balances and agreements in force for the year ended December 31, 2016; and (iv) analyzing projected results, based on expert support and other documents that demonstrate the counterparties' capacity to settle respective balances. Our audit procedures also included analysis of the information disclosed by the Company in referred to note to the individual and consolidated financial statements.

b. *Monitoring the indices set out in covenants*

The Company has debt agreements containing covenants, entered into with certain financial institutions, amounting to R$296,181 thousand as at December 31, 2016. In case the Company is unable to comply with these covenants, early maturity may be announced, reason why these liabilities could be reclassified from noncurrent to current. Monitoring the financial situation of the Company is also part of management's assessment of the Company's ability to continue as a going concern. This matter is disclosed in Note 18 to the individual and consolidated financial statements.

Monitoring this matter was considered significant for our audit since, although the Company is in compliance with all contractual clauses as at December 31, 2016, the financial scenario of the past few years has had impacts on the profit levels of the Company and, as such, approximated the indices effectively obtained and those established in the agreements, which required our attention as to calculation of these indices and the need to confirm compliance with contractual clauses, and their impacts on assessment of the Company's ability to continue as a going concern.

Our audit procedures included discussions with management about the method for calculating the financial covenants and assessment of compliance of such method with the requirements of respective debt agreements; analysis of the calculations prepared by management; and assessment of compliance with qualitative covenants. Our audit procedures also included analysis of the information disclosed in Note 18 to the individual and consolidated financial statements.

Other matters

Prior year audit

The individual and consolidated financial statements of Copobras S.A. Indústria e Comércio de Embalagens for the year ended December 31, 2015 were examined by other independent auditors, who issued their unmodified opinion as at March 31, 2017 including an emphasis paragraph on Company transactions with related parties.

Statements of value added

The individual and consolidated statements of value added (SVA) for the year ended December 31, 2016, prepared under Company management responsibility, whose presentation is required as supplementary information under IFRS, have been subject to audit procedures in conjunction with the audit of the Company's financial statements. In order to form our opinion, we analyzed whether these statements are reconciled to the financial statements and accounting records, as applicable, and whether their form and content meet the criteria defined in Accounting Pronouncement CPC 09 – Statements of Value Added. In our opinion, these statements of value added were fairly prepared, in all material respects, in accordance with the criteria defined in referred to Accounting Pronouncement and are consistent with the overall individual and consolidated financial statements.

Other information accompanying the individual and consolidated financial statements and independent auditor's report

Company management is responsible for this other information included in the Management Letter.

Our opinion on the individual and consolidated financial statements does not encompass the Management Letter; accordingly, we do not express any form of audit conclusion thereon.

In connection with the individual and consolidated financial statements, we are responsible for reading the Management Letter and, in so doing, considering whether such report presents significant inconsistency with the financial statements or with our knowledge obtained in the audit or otherwise seems to present material misstatements. If, based on the work performed, we conclude that the Management Letter presents material misstatements, we are required to communicate such fact. We have nothing to report in this regard.

Responsibilities of management and of those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of these individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and international financial reporting standards 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.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no other realistic alternative but to do so.

Those charged with governance of Company and subsidiaries are responsible for overseeing the financial reporting process.

Auditor’s responsibilities for the audit of individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International standards on auditing will always detect material misstatements when they exist. Misstatements can arise from fraud or error and are considered material if they could, individually or as a whole, reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of the audit conducted in accordance with Brazilian and International standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

· Identify and assess risks of material misstatements of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.

· Obtain an understanding of internal control relevant to the audit 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 and its subsidiaries' internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the Companies' and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements, including those regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we are required to determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We are required to describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Blumenau, March 31, 2017.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2-SP 015.199/F-6

Guilherme Ghidini Neto
Accountant CRC-RS067795/O-5

Copobras S.A. Indústria e Comércio de Embalagens

Balance sheets
December 31, 2016 and 2015
(In thousands of reais)

		Company		Consolidated	
	Note	2016	2015	2016	2015
Assets					
Current assets					
Cash and cash equivalents	7	**50,195**	89,967	**62,932**	109,335
Trade accounts receivable	8	**70,913**	82,418	**85,191**	92,895
Inventories	9	**48,129**	58,698	**59,658**	66,122
Taxes recoverable	10	**10,942**	14,312	**12,044**	16,215
Other accounts receivable	12	**3,263**	12,546	**1,693**	12,713
		183,442	257,941	**221,518**	297,280
Noncurrent assets					
Noncurrent assets held for sale		**1,251**	1,213	**1,251**	1,213
Judicial deposits	21	**22,019**	18,786	**23,162**	20,097
Taxes recoverable	10	**2,716**	1,795	**4,288**	2,145
Deferred income and social contribution taxes	11	**-**	-	**1,567**	2,463
Transactions with related parties	13	**225,875**	165,139	**225,875**	165,139
Other accounts receivable	12	**8,266**	2,906	**8,266**	2,906
		260,127	189,839	**264,409**	193,963
Investments					
Subsidiaries	14	**59,442**	58,855	**-**	-
Other		**448**	448	**448**	448
Intangible assets	15	**29,698**	29,338	**29,699**	29,338
Property, plant and equipment	16	**239,457**	253,137	**268,778**	282,477
		589,172	531,617	**563,334**	506,226
Total assets		**772,614**	789,558	**784,852**	803,506

	Note	Company 2016	Company 2015	Consolidated 2016	Consolidated 2015
Liabilities and equity					
Current liabilities					
Trade accounts payable	17	**122,315**	177,737	**174,192**	206,725
Trade accounts payable – reverse factoring	17	**18,471**	5,238	**18,471**	7,357
Loans and financing	18	**144,742**	68,503	**144,881**	68,594
Payroll and related charges	19	**16,772**	13,605	**19,642**	16,464
Tax liabilities	20	**19,305**	13,462	**21,025**	15,064
Mandatory minimum dividend	22	**2,294**	-	**4,111**	-
Derivative financial instruments		**3,381**	6,471	**3,381**	6,471
Other payables		**5,466**	2,505	**6,020**	3,374
		332,746	287,521	**391,723**	324,049
Noncurrent liabilities					
Trade accounts payable	17	**11,839**	20,330	**13,618**	23,628
Loans and financing	18	**151,439**	238,582	**152,279**	239,559
Provisions for contingencies	21	**33,554**	26,152	**35,709**	28,152
Tax liabilities	20	**28,298**	31,264	**28,343**	31,327
Deferred income and social contribution taxes	11	**34,263**	32,968	**34,659**	32,968
Transactions with related parties	13	**57,633**	36,064	**111**	1,529
Other payables		**708**	-	**708**	-
		317,734	385,360	**265,427**	357,163
Equity	22				
Capital		**40,000**	40,000	**40,000**	40,000
Capital reserves		**-**	-	**-**	-
Equity adjustments		**65,745**	68,374	**65,745**	68,374
Income reserves		**9,507**	8,303	**9,507**	2,945
Proposed dividend		**6,882**	-	**6,882**	5,358
		122,134	116,677	**122,134**	116,677
Noncontrolling interests		**-**	-	**5,568**	5,617
Total equity		**122,134**	116,677	**127,702**	122,294
Total liabilities and equity		**772,614**	789,558	**784,852**	803,506

See accompanying notes.

Copobras S.A. Indústria e Comércio de Embalagens

Income statements
Years ended December 31, 2016 and 2015
(In thousands of reais, except earnings per share, stated in reais)

		Company		Consolidated	
	Note	**2016**	**2015**	**2016**	**2015**
Net revenue	23	**627,890**	631,039	**756,352**	767,260
Cost of sales		**(457,727)**	(479,837)	**(556,744)**	(577,223)
Gross profit		**170,163**	151,202	**199,608**	190,037
Selling expenses		(72,004)	(77,952)	(86,998)	(95,962)
Administrative expenses		(28,310)	(26,616)	(34,990)	(33,141)
Equity pickup	14	**2,402**	9,510	**-**	-
Other operating expenses, net	31	**(9,639)**	(2,752)	**(11,790)**	(9,484)
Income before financial income (expenses)		**62,612**	53,392	**65,830**	51,450
Financial income	25	**24,794**	41,196	**33,393**	51,016
Financial expenses	25	**(113,296)**	(103,743)	**(122,926)**	(109,502)
Monetary and exchange variations, net	25	**39,335**	5,629	**40,831**	5,146
Income before income taxes		**13,445**	(3,526)	**17,128**	(1,890)
Income and social contribution taxes	11				
Current		**(4,399)**	-	**(5,172)**	(2,181)
Deferred		**(1,295)**	7,175	**(2,588)**	9,136
Net income for the year		**7,751**	3,649	**9,368**	5,065
Attributable to:					
Controlling shareholders				**7,751**	3,649
Noncontrolling interests				**1,617**	1,416
				9,368	5,065
Earnings per share:	27				
Basic and diluted earnings per share (in R$ per share)		0.50	0.24	0.50	0.24

See accompanying notes.

Copobras S.A. Indústria e Comércio de Embalagens

Statements of comprehensive income
Years ended December 31, 2016 and 2015
(In thousands of reais)

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Net income for the year	**7,751**	3,649	**9,368**	5,065
Other comprehensive income	**-**	-	**-**	-
Total comprehensive income	**7,751**	3,649	**9,368**	5,065
Attributed to controlling shareholders			**7,751**	3,649
Attributed to noncontrolling interests			**1,617**	1,416

See accompanying notes.

Copobras S.A. Indústria e Comércio de Embalagens

Statements of changes in equity
Years ended December 31, 2016 and 2015
(In thousands of reais)

	Attributed to Company shareholders										
				Income reserves							
	Capital	Capital reserves	Equity adjustments	Tax incentives	Legal reserve	Retained profits	Proposed additional dividend	Retained earnings/(accumulated losses)	Total	Noncontrolling interests	Total
Balances at December 31, 2014	**15,502**	**3,107**	**71,843**	**21,857**	**1,185**	**4,138**	**-**	**-**	**117,632**	**7,120**	**124,752**
Capital increase	24,498	(3,107)	-	(20,703)	-	(688)	-		-	-	-
							-				
Net income for the year	-	-	-	-	-	-	-	3,649	3,649	1,416	5,065
Realization of deemed cost	-	-	(5,106)	-	-	-	-	5,106	-	-	-
Income and social contribution taxes on							-				
realization of deemed cost	-	-	1,637	-	-	-		(1,637)	-	-	-
Allocated to:							-				
Payment of dividend	-	-	-	-	-	(1,533)	-	(3,071)	(4,604)	(2,919)	(7,523)
Adjustment to tax incentive reserve	-	-	-	(1,155)		-	-	1,155	-	-	-
Legal reserve	-	-	-	-	182	-	-	(182)	-	-	-
Set-up of tax incentive reserve	-	-	-	2,815	-	-	-	(2,815)	-	-	-
Retained profits	-	-	-	-	-	2,205	-	(2,205)	-	-	-
							-				
Balances at December 31, 2015	**40,000**	**--**	**68,374**	**2,814**	**1,367**	**4,122**	**-**	**-**	**116,677**	**5,617**	**122,294**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,751**	**7,751**	**1,617**	**9,368**
Realization of deemed cost	**-**	**-**	**(3,946)**	**-**	**-**	**-**	**-**	**3,946**	**-**	**-**	**-**
Income and social contribution taxes on							**-**				
realization of deemed cost	**-**	**-**	**1,317**	**-**	**-**	**-**		**(1,317)**	**-**	**-**	**-**
Allocated to:							**-**				
Legal reserve	**-**	**-**	**-**	**-**	**388**	**-**	**-**	**(388)**	**-**	**-**	**-**
Minimum dividend	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,294)**	**(2,294)**	**(1,666)**	**(3,960)**
Proposed additional dividend to be paid	**-**	**-**	**-**	**-**	**-**	**-**	**6,882**	**(6,882)**			
Set-up of tax incentive reserve	**-**	**-**	**-**	**634**	**-**	**-**	**-**	**(634)**	**-**	**-**	**-**
Retained profits	**-**	**-**	**-**	**-**	**-**	**182**	**-**	**(182)**	**-**	**-**	**-**
							-				
Balances at December 31, 2016	**40,000**	**-**	**65,745**	**3,448**	**1,755**	**4,304**	**6,882**	**-**	**122,134**	**5,568**	**127,702**

See accompanying notes.

Copobras S.A. Indústria e Comércio de Embalagens

Cash flow statements
Years ended December 31, 2016 and 2015
(In thousands of reais)

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Income before income and social contribution taxes	**13,445**	(3,526)	**17,128**	(1,890)
Adjustments due to:				
Depreciation	**19,398**	20,440	**23,347**	24,059
Amortization of intangible assets	**295**	138	**295**	139
Allowance for doubtful accounts	**2,647**	141	**3,106**	348
Interest recognized and monetary variations	**54,252**	51,710	**54,303**	52,034
Interest recognized – related parties – legal entities	**5,165**	5,159	**-**	-
Interest recognized – related parties – individuals	**(59,173)**	(27,727)	**(59,173)**	(27,727)
Set-up (realization) of provision for inventory losses	**338**	42	**447**	81
Set-up and restatement of provision for contingencies	**8,572**	1,273	**9,067**	1,834
Income from property, plant and equipment items disposed of	**674**	1,314	**729**	1,377
Equity pickup	**(2,402)**	(9,510)	**-**	
Adjustment to present value	**2,320**	(7,731)	**207**	(10,095)
Changes in:				
(Increase) / decrease in accounts receivable	**9,852**	18,564	**5,472**	31,772
(Increase) / decrease in inventories	**(2,065)**	10,642	**6,357**	17,618
(Increase) / decrease in taxes recoverable	**2,449**	650	**2,028**	1,435
(Increase) / decrease in other accounts receivable	**13,818**	3,521	**2,595**	3,862
(Increase) / decrease in assets intended for sale	**(38)**	50	**(38)**	50
Net changes in transactions with related parties	**-**	-	**(1,418)**	-
Increase / (decrease) in trade accounts payable	**(54,675)**	9,532	**(32,699)**	7,069
Increase / (decrease) in tax liabilities	**2,877**	11,700	**2,976**	(1,509)
Increase / (decrease) in other payables and provisions	**579**	4,345	**264**	4,430
Increase / (decrease) in transactions with related parties	**16,404**	19,098	**-**	-
Payment of / (decrease in) contingencies	**(1,170)**	341	**(1,510)**	(370)
Income and social contribution taxes paid	**(4,399)**	(72)	**(5,172)**	(2,181)
Increase / (decrease) in payroll and related charges	**3,167**	(1,888)	**3,178**	(1,900)
Net cash from operating activities	**32,330**	108,206	**31,489**	100,436
Cash flows from investing activities				
Acquisition of subsidiary and other investments	**-**	(3)	**-**	(3)
Merger of subsidiary	**-**	324	**-**	**-**
Dividend received	**1,664**	-	**-**	-
Acquisitions of property, plant and equipment	**(9,321)**	(25,262)	**(13,490)**	(17,452)
Acquisitions of intangible assets	**(655)**	(964)	**(656)**	(932)
Proceeds from property, plant and equipment items disposed of	**2,929**	3,341	**3,113**	3,412
Net cash used in investing activities	**(5,383)**	(22,564)	**(11,033)**	(14,975)
Cash flow from financing activities				
Changes in loans granted to related parties	**(1,563)**	(60,483)	**(1,563)**	(60,483)
Dividend and interest on equity paid	**-**	(4,604)	**-**	(7,520)
Loans and financing raised	**102,636**	168,198	**102,636**	168,384
Payment of loans (principal)	**(115,822)**	(134,046)	**(115,907)**	(134,082)
Payment of loans (interest)	**(51,970)**	(48,570)	**(52,025)**	(50,531)
Net cash used in financing activities	**(66,719)**	(79,505)	**(66,859)**	(84,232)
Net increase / (decrease) in cash and cash equivalents	**(39,772)**	6,137	**(46,403)**	1,229
Cash and cash equivalents at beginning of year	**89,967**	83,830	**109,335**	108,106
Cash and cash equivalents at end of year	**50,195**	89,967	**62,932**	109,335

See accompanying notes.

Copobras S.A. Indústria e Comércio de Embalagens

Statements of value added
Years ended December 31, 2016 and 2015
(In thousands of reais)

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Revenues	**858,542**	860,826	**1,032,290**	1,043,570
Sales revenue	**861,188**	860,967	**1,035,396**	1,043,918
Provision on reversal of allowance for doubtful accounts	**(2,646)**	(141)	**(3,106)**	(348)
Inputs acquired from third parties	**(510,041)**	(546,235)	**(641,743)**	(681,532)
Selling expenses	**(398,379)**	(415,365)	**(502,164)**	(510,527)
Materials, electricity, third-party services and other	**(91,038)**	(92,635)	**(110,194)**	(117,056)
Loss/recovery of asset values	**(674)**	(1,314)	**(729)**	(1,377)
Other	**(19,950)**	(36,921)	**(28,656)**	(52,572)
Gross value added	**348,501**	314,591	**390,547**	362,038
Retentions	**(19,693)**	(20,629)	**(23,642)**	(24,248)
Depreciation, amortization and depletion	**(19,693)**	(20,629)	**(23,642)**	(24,248)
Net value added produced	**328,808**	293,962	**366,905**	337,790
Value added received in transfer	**27,196**	50,706	**33,393**	51,016
Equity pickup	**2,402**	9,510	**-**	-
Financial income	**24,794**	41,196	**33,393**	51,016
Total value added to be distributed	**356,004**	344,668	**400,298**	388,806
Distribution of value added	**356,004**	344,668	**400,298**	388,806
Personnel	**119,138**	114,576	**140,837**	135,103
Salaries	**105,005**	97,090	**123,983**	114,288
Benefits	**7,563**	11,066	**9,102**	13,352
Unemployment Compensation Fund (FGTS)	**6,570**	6,420	**7,752**	7,463
Taxes, charges and contributions	**144,222**	119,071	**156,866**	133,521
Federal	**120,385**	103,676	**130,683**	116,043
State	**23,698**	15,272	**26,044**	17,355
Municipal	**139**	123	**139**	123
Debt remuneration	**73,961**	98,114	**82,095**	104,356
Financial expenses	**113,296**	103,743	**122,926**	109,502
Monetary and exchange variations, net	**(39,335)**	(5,629)	**(40,831)**	(5,146)
Equity remuneration	**18,683**	12,907	**20,500**	15,826
Dividend	**2,294**	4,604	**4,111**	7,523
Retained profits	**16,389**	8,303	**16,389**	8,303

See accompanying notes.

(In thousands of reais, unless otherwise stated)

1. Operations

The Company, with main offices at Rua Padre Auling, 595, Bairro Industrial, in São Ludgero, state of Santa Catarina, is primarily engaged in manufacture of flexible packaging, disposable thermoformed packaging products such as: printed or not printed disposable cups, dishes, pots, expanded trays, plastic laminates, among others and solid waste recovery. In 2016, due to the slowdown in Brazilian economy, especially in the first half of the year, the Company focused its administrative management on cost reduction. Investments were reduced to the lowest possible level and the acquisition-driven growth plan remained suspended.

Effective Cash Generation (GCE) remained the target index established by the shareholders and consists in Ebitda, plus or less changes in inventories and default account, less CAPEX.

Capital invested in working accounts of the business, a significant item included in the target index, remained negative, therefore a source of funding for the Company, however in an amount lower than the amount obtained in 2015.

In the last quarter of 2016, the Company concluded negotiations with a financial institution, which will coordinate the issue of a new debenture program, with disbursement forecast for the second quarter of 2017, after this program is duly registered and authorized.

Company subsidiaries, included in the consolidated financial statements, are as follows:

			Interest held - %	
Name	**Core activity**	**Main office**	**2015**	**2016**
Incoplast Embalagens do Nordeste Ltda	Manufacture and sale of packaging materials	João Pessoa -PA	97.6	97.6
Copobras da Amazônia Industrial de Embalagens Ltda	Manufacture and sale of thermoformed packaging and storing products	Manaus - AM	26.7	26.7

These financial statements were authorized for issue by the Executive Board on March 31, 2017.

2. Summary of significant accounting practices

Significant accounting practices adopted in the preparation of these financial statements are described as follows. These practices have been consistently applied in all the periods presented, unless otherwise stated.

2.1. Basis of preparation

The individual and consolidated financial statements are prepared and presented in accordance with accounting practices adopted in Brazil, which comprise the rules set forth by the Brazilian SEC (CVM) and the accounting pronouncements issued by the Brazilian FASB (CPC), which are in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and evidence all significant information that is consistent with the information used by Company management in the management process. Certain balances of the period presented for comparison purposes were reclassified so as to be presented consistently with the current period.

These financial statements were prepared under the historical cost convention, except for certain financial assets and liabilities, which are adjusted to reflect measurement at fair value.

Preparation of the financial statements requires the use of certain significant accounting estimates as well as professional judgment by Company management in the process of choosing and applying its accounting policies. The areas that require a higher level of judgment and are more complex, as well as the areas in which assumptions and estimates are significant for the financial statements are disclosed in Note 3.

Statements of value added

Presentation of individual and consolidated statements of value added (SVA) is required by Brazilian corporation law and accounting practices adopted in Brazil for publicly-held companies. Statements of value added are presented as supplementary information under IFRS, which do not require SVA presentation.

2.2. Functional and reporting currency

The items included in the financial statements are measured using the currency of the main economic environment in which the Company operates ("functional currency"). These financial statements are presented in Brazilian reais (R$), which is the functional currency of the Company and its subsidiaries.

2. Summary of significant accounting practices (Continued)

2.3. Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2016. Control is obtained when the Company is exposed or entitled to variable return based on its involvement with the investee and can affect these returns through the power used in the investee.

Specifically, the Company controls an investee if, and only if, the Company has:

• Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

• Exposure, or rights, to variable returns from its involvement with the investee; and

• The ability to use its power over the investee to affect its returns.

It is usually assumed that a majority of voting rights results in control. To support this assumption and when the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

• The contractual arrangements with the other vote holders of the investee;

• Rights arising from other contractual arrangements; and

• The Company’s voting rights and potential voting rights.

The Company assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses such control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements as from the date when the Company gains control until the date when the Company ceases to control the subsidiary.

2. Summary of significant accounting practices (Continued)

2.3. Consolidation (Continued)

Income and expenses and each item of comprehensive income (expenses) are attributed to Company shareholders rather than to noncontrolling interests, even if this results in loss to noncontrolling interests. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intercompany assets and liabilities, net income (expenses), revenues, expenses and cash flows are fully eliminated in the consolidated financial statements.

Changes in interest held in the subsidiary, without loss of control, are accounted for as equity transactions.

If the Company loses control over a subsidiary, the corresponding assets (including goodwill), liabilities, noncontrolling interests and other equity components are written off whereas any gains or losses are recorded in net income (expenses). Any investment retained is recorded at fair value.

2.4. Foreign currency translation

The consolidated financial statements are presented in reais (R$), which is the functional currency of the Company and its subsidiaries. Each entity of the Company determines its own functional currency.

(a) Transactions and balances

Foreign currency transactions are initially recorded at the exchange rate of the functional currency in effect at the date of transaction.

Monetary assets and liabilities stated in foreign currency are then retranslated at the functional currency exchange rate in force as of balance sheet date.

All currency translation differences are recognized in net income for the year.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date in which the fair value was determined.

2. Summary of significant accounting practices (Continued)

2.5. Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and highly-liquidity short-term investments with maturities of three months or less, and subject to a low risk of change in market value. This balance is presented net of bank overdraft facilities in the cash flow statement.

2.6. Financial instruments – initial recognition and subsequent measurement

(a) Financial assets

2.6.1. Initial recognition and measurement

Upon initial recognition, financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, investments held to maturity, financial assets available for sale, or derivatives classified as effective hedging instruments, as applicable. All financial assets are recognized at fair value plus, in the case of investments not designated at fair value through profit or loss, transaction costs directly attributable to their acquisition.

Company financial assets include cash and cash equivalents, trade accounts receivable and other accounts receivable, loans and other accounts receivable, and transactions with related parties.

2.6.2. Subsequent measurement

For subsequent measurement purposes, Company financial assets were classified under the following categories:

• Financial assets at fair value through profit or loss; and

• Loans and accounts receivable.

2. Summary of significant accounting practices (Continued)

2.6. Financial instruments – initial recognition and subsequent measurement (Continued)

2.6.2. Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if acquired to be sold in the short term. This category includes derivative financial instruments taken out by the Company that do not meet the hedge accounting criteria as defined by CPC 38 – Derivatives, including embedded derivatives that are not closely related to the host contract and should be separated are also classified as held for trading unless designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with corresponding gains or losses recognized in the income statement.

Loans and receivables

This category is the most significant for the Company. Loans and receivables are nonderivative financial assets with fixed or determinable payments, however not traded in an active market. After initial measurement, these financial assets are carried at amortized cost using the effective interest rate method (effective interest rate), less impairment. Amortized cost is calculated by taking into consideration any discount or premium on acquisition and fees or costs incurred. Amortization of the effective interest rate method is included in financial income in the income statement. Losses arising from impairment are recognized in the income statement as financial expenses.

2.6.3. Derecognition (write-off)

A financial asset (or, where appropriate, a portion of a financial asset or a portion of a group of similar financial assets) is written off when:

• The rights to receive cash flows from the asset have expired;

2. Summary of significant accounting practices (Continued)

2.6. Financial instruments – Initial recognition and subsequent measurement (Continued)

2.6.3. Derecognition (write-off) (Continued)

• The Company has transferred its rights to receive cash flows of the asset or has assumed an obligation to fully pay the cash flows received, without significant delay, to a third party under an onlending agreement; and (a) the Company has transferred substantially all risks and rewards of the asset, or (b) the Company has not transferred nor retained substantially all risks and rewards related to the asset, but has transferred control over the asset.

When the Company has transferred its rights to receive cash flows from an asset or has executed an agreement to transfer, and has not transferred or retained substantially all risks and rewards related to the asset, an asset is recognized to the extent of the Company's continued involvement with the asset.

Continuous involvement in the form of guarantee relating to the transferred asset is measured based on the lower of the asset's original book value or the maximum consideration that the Company could be required to amortize.

2.6.4. Impairment of financial assets

The Company evaluates at balance sheet date whether there is any objective evidence to determine whether the financial asset or group of financial assets is not recoverable. A financial asset or group of financial assets is considered not recoverable if and only if there is objective evidence of impairment as a result of one or more events that have happened after the initial recognition of assets (a "loss event" incurred) and this loss event has an impact on estimated future cash flows of the financial asset or group of financial assets that can be reasonably estimated. Evidence of an impairment loss may include indicators that the borrower is going through a time of a relevant financial difficulty. The likelihood that borrowers will go bankrupt or undergo any other type of financial restructuring, be in default or make late principal or interest payments may be indicated by a measurable decrease in future estimated cash flows, such as changes in maturity or economic conditions related to the defaults.

2. Summary of significant accounting practices (Continued)

2.6. Financial instruments – initial recognition and subsequent measurement (Continued)

2.6.4. Impairment of financial assets (Continued)

Financial assets at amortized cost

In relation to financial assets at amortized cost, the Company initially assesses whether clear evidence of impairment exists either individually for financial assets that are individually significant, or collectively, for financial assets that are not individually significant. If the Company concludes that there is no evidence of impairment loss for an individually assessed financial asset, whether significant or not, it includes that asset in a group of financial assets with similar credit risk characteristics and collectively assesses it for impairment.

Assets that are assessed on an individual basis for impairment and for which a loss for impairment is or continues to be recognized are not included in an overall assessment of impairment.

When there is clear evidence of impairment, the amount of the loss is measured as the difference between book value of the asset and the present value of estimated future cash flows (less expected future credit losses not yet incurred). The present value of estimated future cash flows is discounted by the original effective interest rate for the financial asset.

An asset's book value is decreased through a provision, and the impairment value is recognized in the statements of operations. Loans, and the corresponding provision, are written off when there is no realistic perspective that they will be recovered in the future and all guarantees have been realized or transferred to the Company. If, in a subsequent year, estimated impairment increases or decreases due to an event after impairment recognition, the impairment loss previously recognized will be adjusted accordingly. In the event of the future recovery of any written-off amount, that recovery is recognized in the income statement.

2. Summary of significant accounting practices (Continued)

2.6. Financial instruments – initial recognition and subsequent measurement (Continued)

(b) Financial liabilities

2.6.5. Initial recognition and measurement

Upon initial recognition, financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and financing, accounts payable or derivatives classified as hedging instruments, as the case may be.

Financial liabilities are initially recognized at fair value and, in the case of loans and financing agreements, and accounts payable plus the cost directly related to the transaction.

Company financial liabilities include trade accounts payable and other accounts payable, trade accounts payable – reverse factoring, loans and financing, finance guarantee contracts and derivative financial instruments.

2.6.6. Subsequent measurement

Subsequent measurement of financial liabilities depends on their classification, which may be as follows:

Financial liabilities measured at fair value through profit or loss

These include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading when acquired to be repurchased in the short term. This category includes derivative financial instruments taken out by the Company that do not meet the hedge accounting criteria as defined by CPC 38 – Derivatives, including embedded derivatives that are not closely related to the host contract and should be separated are also classified as held for trading unless designated as effective hedging instruments.

Gains and losses from liabilities held for trading are recognized in the income statement. The Company recorded no financial liabilities at fair value through profit or loss.

2. Summary of significant accounting practices (Continued)

2.6. Financial instruments – initial recognition and subsequent measurement (Continued)

2.6.6. Subsequent measurement (Continued)

Loans and financing

After initial recognition, loans and financing subject to interest are subsequently measured at amortized cost by the effective interest rate method. Gains and losses are recognized in the income statement upon derecognition of the liabilities, as well as through the amortization process by the effective interest rate method.

Finance guarantee contracts

These are contracts issued by the Company, which require payment for purposes of reimbursement to the holder for losses incurred when the specified debtor ceases to make the due payments under the terms of the corresponding debt instrument. Finance guarantee contracts are initially recognized as liabilities at fair value, less transaction costs directly related to issue of the guarantee. Subsequently, the liability is measured based on the lower of best estimate of the expense required to settle the present obligation at balance sheet date or the amount recognized less amortization.

2.6.7. Derecognition (write-off)

A financial liability is written off when the obligation is revoked, canceled or expires.

When an existing financial liability is replaced by another from the same lender with substantially different terms, or terms of an existing liability are substantially modified, such replacement or modification is treated as write-off of original liability and recognition of a new liability, and the difference in corresponding carrying amounts is recognized in the income statement.

2. Summary of significant accounting practices (Continued)

2.6. Financial instruments – initial recognition and subsequent measurement (Continued)

(c) Financial instruments – net disclosure

Financial assets and liabilities are presented net in the balance sheet when, and only when, the entity currently has a legally enforceable right to offset the amounts recognized and intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.7. Trade accounts receivable

These refer to amounts derived from products sold in the normal course of business. If maturity thereof is equal to one year or less, accounts receivable are classified in current assets. They are otherwise recorded under noncurrent assets.

Trade accounts receivable are initially recorded at fair value and subsequently measured at amortized cost under the effective interest rate method less allowance for doubtful accounts ("ADA" or impairment) and adjustment to present value.

2.8. Inventories

Raw materials, packaging materials, and materials and supplies were evaluated at average acquisition cost, not exceeding realizable value net of sales taxes and expenses. Products in process and finished products were evaluated at average cost under the full absorption costing method.

2.9. Assets intended for sale

Noncurrent assets are classified as held for sale when their book value is recoverable, especially by means of a sale transaction and when this sale is virtually certain. These assets are measured at the lower of book value and fair value, less costs to sell. These assets are expected to be sold within 12 months as from closing date of these financial statements.

2. Summary of significant accounting practices (Continued)

2.10. Intangible assets

Upon initial recognition, intangible assets acquired separately are measured at cost. The cost of intangible assets acquired in a business combination corresponds to fair value at acquisition date. After initial recognition, intangible assets are presented at cost, less accumulated amortization and accumulated impairment losses. Intangible assets generated internally, except capitalized development costs, are not capitalized and the expense is reflected in net income for the year when these are incurred. Intangible assets are assessed as having either a finite or an indefinite useful life.

Finite-lived intangible assets are amortized over their useful lives and are tested for impairment whenever there is any indication of impairment loss. The amortization period and method used for these intangible assets are reviewed at least at year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in these assets are recorded by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization charges on finite-lived intangible assets are recognized in the income statement in the expense category consistent with the use of the intangible asset.

Indefinite-lived intangible assets are not amortized, but are submitted to annual impairment tests, either individually or based on the relevant cash generating unit. The useful life of an intangible asset having an indefinite life is reviewed annually to determine whether indefinite life assessment remains supportable. Otherwise, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains and losses arising from derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and classified in the income statement upon disposal.

The Company recognizes the following intangible assets:

2. Summary of significant accounting practices (Continued)

2.10. Intangible assets (Continued)

(a) Goodwill

Goodwill arises from acquisition of subsidiaries and is measured as the difference between the aggregate of (i) the consideration transferred, (ii) the amount of noncontrolling interests in the acquiree and (iii) the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree in relation to the fair value of identifiable net assets acquired. If the total of the consideration transferred, the amount of noncontrolling interests recognized and previously-held interests measured at fair value is lower than the fair value of the net assets of the acquired subsidiary, in the case of a bargain purchase, the difference is recognized directly in the income statement.

(b) Software

Software licenses are capitalized based on the costs incurred to acquire or develop the software and bring them to use. These costs are amortized over their estimated useful life, not exceeding five years.

(c) Trademarks and patents

Registered trademarks and licenses acquired separately are initially stated at historical cost. Registered trademarks and licenses acquired in a business combination are recognized at fair value at acquisition date. Subsequently, trademarks and licenses, assessed as having a finite useful life, are recorded at cost less accumulated amortization. Amortization is calculated under the straight-line method to allocate the cost of registered trademarks and licenses over their 10-year estimated useful life.

Policies applied to Company intangible assets are summarized as follows:

	Goodwill	Software	Trademarks and patents
Useful life	Indefinite	Finite (5 years)	Finite (10 years)
Amortization method used	No amortization	Straight-line amortization based on useful life	Straight-line amortization over patent period
Generated internally or acquired	Acquired	Acquired and generated internally	Acquired

2. Summary of significant accounting practices (Continued)

2.11. Property, plant and equipment

Recognition and Measurement

PPE items are measured at historical acquisition or build-up cost and deemed cost, less accumulated depreciation and accumulated impairment losses, if any.

When parts of a PPE item have different useful lives, these parts are recorded as individual (main component) PPE items.

Gains from and losses on disposal of a PPE item are computed by comparing the disposal amount with the book value of PPE, and are recognized net under other income or expenses in the income statement.

Subsequent costs

Replacement costs of a PPE item are recognized at book value of the item in case economic benefits embodied in the item are likely to flow to the Company and their cost can be reliably measured. The book value of the replaced item is written off. Daily maintenance costs of property, plant and equipment are recognized in net income as incurred

Depreciation

Depreciation is calculated on cost of an asset, less net book value.

Depreciation is recognized in net income on a straight-line basis with respect to estimated useful life of each component of a PPE item, as this is the method that more closely reflects the pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful life. The Company reassesses depreciation rates on an annual basis.

Land is not depreciated. Estimated useful life of PPE items is as follows:

Buildings	50 years
Machinery and equipment	15 years
Furniture and fixtures	8 years
Vehicles	6 years
Data processing equipment	4 years

2. Summary of significant accounting practices (Continued)

2.12. Impairment of nonfinancial assets

Management annually reviews the net book value of assets for the purpose of assessing events or changes in economic, operating or technological circumstances that could indicate impairment or loss of their recoverable amount. When such evidence is identified and net book value exceeds the recoverable amount, a provision for impairment is set up by adjusting net book value to the recoverable amount.

Recoverable amount of an asset item or of a cash-generating unit is defined as the higher of value in use and net sales.

In assessing the value in use of an asset, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects the weighted average cost of capital (WACC) for the industry in which the cash-generating unit operates. The net sale price is determined, whenever possible, considering firm sale contracts on an arm's length basis, between knowledgeable, willing parties, adjusted by costs to sell the asset, or, in the absence of firm sale contracts, based on the observable market price in an active market, or on the most recent transaction price involving similar assets.

The following criterion is also applied in assessing impairment of specific assets:

Goodwill based on expected future profitability

Goodwill is annually tested for impairment (at December 31) or whenever the circumstances indicate impairment loss.

Intangible assets

Indefinite-lived intangible assets are annually tested for impairment at December 31, on an item-by-item basis or at cash generating unit level.

2.13. Trade accounts payable

Trade accounts payable are obligations to pay for goods or services acquired in the ordinary course of business, and are classified as current liabilities if payment is due within one year or less. Accounts payable are otherwise stated as noncurrent liabilities.

2. Summary of significant accounting practices (Continued)

2.14. Provisions

General considerations

Provisions are recognized when the Company has a present obligation (legal or constructive) arising from past events, the settlement of which is expected to result in an outflow of funds and a reliable estimate of the amount is possible. When the Company expects that a provision will be reimbursed, in whole or in part, under an insurance agreement for instance, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is stated in the income statement, net of any reimbursement.

If the effect of the time value of money is significant, provisions are discounted at a current pre-tax rate that reflects, where appropriate, the specific risks of the obligation. When a discount is adopted, increase in provisions due to passage of time is recognized as financial expenses.

Provisions for tax, civil and labor contingencies

The Company is party to various legal and administrative proceedings. Provisions are set up for all contingencies referring to legal proceedings the settlement of which is likely to result in an outflow of economic benefits, and a reliable estimate can be made. Assessment of the likelihood of loss includes an evaluation of available evidence, the hierarchy of laws, available case law, recent court decisions and their relevance in the legal system, as well as the opinion of external legal advisors. The provisions are reviewed and adjusted to take into account changes in circumstances, such as the applicable statute of limitations, outcomes of tax audits or additional exposures that may be identified based on new issues or court decisions.

2.15. Taxes

(a) Income and social contribution taxes – current and deferred

Current and deferred income taxes comprise both income and social contribution taxes. Income tax is calculated at a rate of 15%, plus 10% surtax on taxable profit exceeding R$240, whereas social contribution tax is computed at a rate of 9% on net profit.

2. Summary of significant accounting practices (Continued)

2.15. Taxes

(a) Income and social contribution taxes – current and deferred

Income and social contribution tax expenses comprise current and deferred portions of such taxes. Current and deferred taxes are recognized in the income statement, unless they refer to business combinations, or items directly recognized in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on taxable profit for the fiscal year, at tax rates enacted or substantively enacted at the financial statements presentation date and any adjustment to taxes payable in relation to previous fiscal years.

Deferred tax is recognized with respect to temporary differences between the book value of assets and liabilities for accounting purposes and the corresponding value used for taxation purposes, and also with respect to tax losses. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on laws enacted or substantively enacted as of the financial statement presentation date.

Deferred income and social contribution tax assets are reviewed at each reporting date and reduced to the extent that their realization is no longer probable.

(b) Sales taxes

Revenue, expenses and assets are recognized net of sales taxes, except when: (i) sales taxes incurred on the purchase of goods or services are not recoverable from the tax authorities, in which case sales taxes are recognized as part of the asset acquisition cost or of the expense item, as applicable; (ii) amounts receivable and payable are presented together with sales taxes; and (iii) net sales taxes, recoverable or payable, are included as component of the amounts receivable or payable in the balance sheet. Service revenues are subject to the following taxes and contributions, at the following rates:

2. Summary of significant accounting practices (Continued)

2.15. Taxes

(b) Sales taxes

Taxes	Rate
State VAT (ICMS)	0% to 18%
Federal VAT (IPI)	5% to 15%
Contribution Tax on Gross Revenue for Social Integration Program (PIS)	1.65%
Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	7.6%

Revenue is stated in the income statement net of the corresponding taxes.

2.16. Short-term employee benefits

Obligations arising from short-term employee benefits are measured on an undiscounted basis and expensed as the respective service is provided. Main benefits recorded comprise salaries and social security contributions (INSS), vacation pay, 13th monthly salary, transportation voucher and food voucher.

The liability is recognized at the value expected to be paid under the short-term cash bonus or profit sharing plans if the Company has a legal or constructive obligation to pay this amount because of past services provided by the employee, and the obligation may be reliably estimated.

2.17. Revenue recognition

Revenue from sales of products in the ordinary course of business is measured at the fair value of the consideration received or receivable. Operating revenue is recognized when there is sufficient evidence that most significant risks and rewards inherent in ownership of the assets were transferred to buyer, economic benefits are likely to flow to the entity, costs and any return of goods can be reliably estimated, there is no continuous involvement with the products sold, and the operating revenue amount can be reliably measured.

In case discounts are likely to be granted and their amount may be reliably measured, such discounts are recognized as a reduction of operating revenue to the extent that respective sales are recognized.

2. Summary of significant accounting practices (Continued)

2.18. Adjustment to present value

The Company records adjustment to present value of assets and liabilities.

Installment purchase transactions, basically with suppliers of goods and services, were adjusted to present value, taking into consideration the average term of referred to transactions. Adjustment to present value of purchases is recorded under “Trade accounts payable”, “Inventories” and “Cost of sales” and its reversal is matched against “Financial expenses”, over the related transaction term in the case of trade accounts payable, and based on inventories realization in relation to the amounts recorded therein.

Installment sale transactions were adjusted to present value, taking into consideration the average term of referred to transactions. Adjustment to present value of installment sales is recorded under "Sales revenue” and “Trade accounts receivable” and its realization is recorded under “Financial income”, over the related transaction term.

2.19. Government grants

Government grants are recognized when there is reasonable certainty that the benefit will be received and that all related conditions will be met. When the benefit refers to an expense item, it is recognized systematically as revenue over the benefit period in relation to costs whose benefit it is intended to offset. When the benefit refers to an asset, it is recognized as deferred revenue and posted to the income statement in equal amounts over the expected useful life of the corresponding asset.

In case the Company receives nonmonetary benefits, the item and the benefit are recorded at the nominal values and reflected in the income statement over the expected useful life of the item, in annual equal installments. The loan or subsidy is initially recognized or measured at fair value. Government grants are measured as the difference between the initial book value of the loan and the results received. Loans are subsequently measured in accordance with the accounting policy adopted.

2.20. Derivative financial instruments

The Company and its subsidiaries use derivative financial instruments to hedge against its exposure to currency risk. Derivative are initially recognized at fair value and attributable transactions costs are recognized in the income statements when incurred. After initial recognition, derivatives are measured at fair value and changes in fair value are recorded in the income statement as financial income or expenses.

2. Summary of significant accounting practices (Continued)

2.21. Leases

Lease agreements are characterized based on the substance of the agreement at inception date. The Company is party to a lease agreement, in which it acts as a lessee. This agreement was assessed by the Company and classified as an operating lease. Operating lease payments are recognized as expense in the income statement on a straight line basis over the lease term.

2.22. New or revised standards applied for the first time in 2016

The Company and its subsidiaries are of the understanding that the amended and reviewed standards issued by the IASB in effect as from January 1, 2016 had no significant impacts on their financial statements.

Standards issued, but not yet effective as at December 31, 2016

The standards and interpretations issued but not yet adopted until the date of issue of Company financial statements are presented below. The Company intends to adopt these standards, if applicable, when they come into effect.

IFRS 16 – “Leases” – under this new standard, lessees are required to recognize liabilities for future payments and the use rights relating to the leased asset for virtually all lease agreements, including operating leases, except for certain short-term agreements or those whose amount is immaterial, which may be out of the scope. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and replaces IAS 17 – “Leases” and corresponding interpretations. Management is assessing the impacts from adoption of this standard.

IFRS 15 - " Revenue from Contracts with Customers" – This new standard establishes principles to be applied for recognizing revenue and for recognition timing. This standard is effective as from January 1, 2018 and replaces IAS 11 - "Construction Contracts", IAS 18 - "Revenues" and corresponding interpretations. Management is assessing the impacts from adoption of this standard.

2. Summary of significant accounting practices (Continued)

2.22. New or revised standards applied for the first time in 2016 (Continued)

Standards issued, but not yet effective as at December 31, 2016 (Continued)

IFRS 9 - "Financial Instruments" refers to classification, measurement and recognition of financial assets and liabilities. The full version of IFRS 9 was published in July 2014 and is effective as from January 1, 2018. This standard replaces the guidelines set out in IAS 39, concerning classification and measurement of financial instruments. IFRS 9 maintains, and simplifies, the combined measurement model and establishes three main categories for measurement of financial assets: amortized cost, fair value through other comprehensive income (loss) and fair value through profit or loss. Also, this standard introduces a new model for expected losses on receivables, as a replacement for the incurred losses model currently used. IFRS 9 reduces the requirements for hedge effectiveness, and requires an economic relationship between the hedged item and the hedging instrument, and that the hedge rate be the same rate used by management for risk management purposes. Management is assessing the full impact from adoption of this standard.

There are no other International Financial Reporting Standards (IFRS) or International Financial Reporting Interpretations (IFRIC) not yet in effect that could have a significant impact on Company financial statements.

3. Significant accounting judgments and estimates

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

3.1. Significant accounting estimates and assumptions

Based on assumptions, the Company makes future estimates. By definition, accounting estimates are rarely identical to actual results. Estimates and assumptions subject to significant risk and likely to cause a significant adjustment to the book values of assets and liabilities for the next year are presented as follows.

3. Significant accounting judgments and estimates (Continued)

3.1. Significant accounting estimates and assumptions (Continued)

3.1.1. Income, social contribution and other taxes

Provision for current taxes comprises expected amounts payable or receivable on taxable profit or loss for the year, at tax rates in force or substantially in force at the date of the financial statements and any adjustment to taxes payable referring to prior years.

Provision for deferred taxes is recognized on temporary differences between the book value of assets and liabilities for accounting purposes and corresponding amounts used for tax purposes, in addition to income and social contribution tax losses. Deferred taxes are measured at the rates expected to be applied on temporary differences upon reversal, based on laws in force or substantially in force at the date of the financial statements.

Determining provision for income and social contribution taxes or deferred income tax assets and liabilities, and any provision for losses on tax credits requires that management prepare estimates. For each future credit, the Company assesses the likelihood for the tax asset not to be partly or fully recovered. Valuation allowance depends on assessment by the Company of the likelihood of generation of future taxable profit based on projections prepared and approved by Company Board of Directors.

3.1.2. Contingencies

The Company is party to various legal and administrative proceedings. Provisions are recorded for all legal proceedings whose likelihood of loss is rated as probable (present obligation as a result of past events; an outflow of funds is likely to be required to settle the obligation; and the amount has been reliably estimated). Likelihood of loss is assessed based on available evidence, including the opinion of internal and external legal advisors. The Company is of the belief that these contingencies are appropriately recorded in the financial statements.

3. Significant accounting judgments and estimates (Continued)

3.1. Significant accounting estimates and assumptions (Continued)

3.1.3. Impairment of nonfinancial assets

An impairment loss exists when the book value of an asset or cash-generating unit ("CGU") exceeds its recoverable amount, which is the higher of fair value less cost to sell and value in use. Fair value less cost to sell is calculated based on information available about similar assets sold or market prices less additional costs to dispose of the asset item. The calculation of value in use is based on the discounted cash flow model. Cash flows derive from budget for the following five years and include no restructuring activities to which the Company is not yet committed or significant investments that may improve the asset base of the CGU subject to tests. The recoverable amount is sensitive to the discount rate used in the discounted cash flow method, as well as expected future cash receipts and growth rate used for extrapolation purposes. Significant assumptions used for determining the recoverable amounts of the various CGUs, including sensitivity analysis, are detailed in Note 15.

3.1.4. Transactions with related parties

As described in Note 13, the Company and its shareholders entered into loan agreements and the Company also granted sureties to these shareholders amounting to R$ 225,875 and R$ 47,001 as at December 31, 2016, respectively. Recognition of shareholders' loans is conditional on the Company's ability to generate profits sufficient for payment of dividend that enables these shareholders to honor respective payment. The projections prepared by the Company are summarized in Note 13 and present generation of profits for payment of dividend sufficient for balance realization until 2024.

Amounts receivable from shareholders are expected to be settled mainly through i) sale of Company shares by the shareholder to third parties, whose amounts will be firstly used for settling the amounts receivable by the partners, or ii) while shares are not sold to third parties, all dividend declared by the Company, limited to minimum cash flow established by contract (Note 13), will be used for settling the receivable amounts. In case minimum payments are not settled, the unsettled difference will be accumulated and paid with the next dividend.

The Company recorded no liabilities on expected payment of future dividend described above, including on the obligation to pay future minimum dividend.

(In thousands of reais, unless otherwise stated)

4. Financial risk management

Company activities are exposed 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 risk management policy adopted by the Company provides guidance on transactions and requires diversification of transactions and trade-offs. Under the terms of this policy, the nature and general position of the risks is regularly monitored and managed in order to evaluate results and impacts therefrom.

4.1. Financial risk factors

(a) Market risk

(i) Currency risk

The Company evaluates its currency exposure by subtracting its liabilities from its assets in US dollars ("USD") and Euros ("EURO"), thus obtaining its net currency exposure, which is actually affected by changes in foreign currency. As at December 31, exposure to currency risk is as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Assets				
Accounts receivable				
In USD	**2,115**	3,304	**2,115**	3,304
	2,115	3,304	**2,115**	3,304
Liabilities				
Trade accounts payable				
In USD	**(30,113)**	(69,628)	**(34,258)**	(69,628)
In Euro	**(16,625)**	(26,307)	**(19,325)**	(30,757)
In Swiss Francs (CHF)	**-**	-	**-**	(3)
Loans				
In USD	**(7,831)**	(966)	**(7,831)**	(966)
	(54,569)	(96,901)	**(61,414)**	(101,354)
Net exposure	**(52,454)**	(93,597)	**(59,299)**	(98,050)

In order to ensure balance of its currency exposure, the Company took out derivatives in USD in the financial market.

(In thousands of reais, unless otherwise stated)

4. Financial risk management (Continued)

4.1. Financial risk management (Continued)

(a) Market risk (Continued)

(i) Currency risk (Continued)

By virtue of financial obligations of various natures assumed by the Company in foreign currency, an "Exchange Rate Hedging Policy" was implemented establishing exposure limits linked to this risk. This policy considers foreign currency-denominated amounts from accounts receivable and payable related to commitments already made and recorded in the financial statements arising from Company operations relating to:

(i) Purchases of inputs for production;
(ii) Import of machinery and equipment;
(iii) Debt in foreign currency; and
(iv) Sales to foreign customers.

Transactions involving derivatives are exclusively aimed at mitigating currency risks associated with balance sheet positions. For currency exposure, the Company engages in transactions involving derivatives named currency purchase contracts – NDF. Gains or losses upon agreement term are recorded as gains or losses in financial income (expenses). As at December 31, 2016, the matching liability is as follows:

Contractual amounts of these derivatives are as follows:

	Consolidated			
	Restated contractual amount		Assets/(Liabilities) balance	
	2016	2015	2016	2015
Type of operation				
Financial forwards	105,927	238,193	(3,381)	(6,471)

4. Financial risk management (Continued)

4.1. Financial risk management (Continued)

(a) Market risk (Continued)

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

This risk arises from the possibility that the Company will record gains or losses due to fluctuations in the interest rates on Company financial assets and liabilities. To mitigate this risk, the short-term investments contracted are valued based on Interbank Deposit Certificates (CDI) variation and the existing long-term financing agreements are taken out from top-tier financial institutions, subject to charges calculated under usual market conditions.

As mentioned in Note 13, the Company has amounts receivable from related parties maturing as from 2015 at significant amounts, which will be settled with shareholders' own funds or funds originated from dividends. Management estimates that profits will be sufficient for payment of dividend that enables Company partners to honor these outstanding obligations.

(b) Credit risk

Although the Company has a dispersed trade accounts receivable balance, the receivables and collection department seeks consummation of these receivables in order to mitigate any risk of losses thereon. The Company also appropriately records allowance for doubtful accounts.

The Company only performs transactions with top-tier financial institutions.

(c) Liquidity risk

This is the risk that the Company will face difficulties in satisfying the obligations associated with its financial liabilities that are settled by cash payments or other financial assets. The liquidity management approach adopted by the Company is to ensure, to the highest possible level, that the Company always has sufficient liquidity to honor its obligations upon maturity, under normal and stress conditions, without causing unacceptable losses or damaging the Company's reputation.

Aging list of the main financial liabilities, in accordance with the balance sheet, is as follows:

(In thousands of reais, unless otherwise stated)

4. Financial risk management (Continued)

4.1. Financial risk management (Continued)

(c) Liquidity risk

(i) Company

							2016
							Maturities
Nonderivative financial liabilities	Book value	Contractual cash flow	2017	2018	2019	2020	2021 to 2024
Suppliers	152,625	152,625	140,786	4,608	4,608	2,623	-
Transactions with related parties	57,633	57,633	36,536	-	21,097	-	-
Loans and financing	296,181	397,793	172,039	159,295	58,054	7,133	1,272
	506,439	608,051	349,361	163,903	83,759	9,756	1,272

Company							2015
							Maturities
Nonderivative financial liabilities	Book value	Contractual cash flow	2016	2017	2018	2019	2020 to 2024
Suppliers	203,305	203,305	182,975	5,696	5,696	5,696	3,242
Transactions with related parties	36,064	36,064	-	36,064	-	-	-
Loans and financing	307,085	459,928	81,422	174,205	143,945	51,644	8,711
	546,454	699,297	264,397	215,965	149,641	57,340	11,953

(In thousands of reais, unless otherwise stated)

4. Financial risk management (Continued)

4.1. Financial risk factors (Continued)

(c) Liquidity risk (Continued)

(ii) Consolidated

			2016				
			Maturities				
Nonderivative financial liabilities	Book value	Contractual cash flow	2017	2018	2019	2020	2021 to 2024
Suppliers	206,281	206,281	192,664	5,497	5,497	2,623	-
Loans and financing	297,160	399,673	172,204	159,489	58,284	7,407	2,289
	503,441	605,954	364,868	164,986	63,781	10,030	2,289

Consolidated			2015				
			Maturities				
Nonderivative financial liabilities	Book value	Contractual cash flow	2016	2017	2018	2019	2020 to 2024
Suppliers	237,710	237,710	214,082	6,795	6,795	6,795	3,243
Loans and financing	308,153	462,076	81,530	174,399	144,175	51,918	10,054
	545,863	699,786	295,612	181,194	150,970	58,713	13,297

As at December 31, 2016, the Company presents excess of liabilities over assets in the amount of R$ 149,304 – Company and R$ 170,205 – Consolidated.

4. Financial risk management (Continued)

4.1. Financial risk factors (Continued)

(c) Liquidity risk (Continued)

(ii) Consolidated (Continued)

As disclosed in the Operations section, capital invested in working accounts, a significant component of the target indicator, remained negative, therefore a source of financing for the Company, however in an amount lower than the amount obtained in 2015.

In the last quarter of 2016, the Company concluded negotiations with a financial institution, which is coordinating the issue of a new debenture program, with disbursement forecast for the second quarter of 2017, after this program is duly registered and authorized.

4.2. Capital management

The primary objective of the Company's capital management is to ensure its ability to continue as a going concern, in order to generate returns to shareholders and benefits to other stakeholders, and to maintain an ideal capital structure to reduce such cost.

In order to maintain or adjust its capital structure, the Company may revise, or propose in cases in which shareholders' approval is required, the policy for payment of dividends, return capital to shareholders, issue new shares, or sell assets to reduce its indebtedness level, for example.

The Company monitors capital based on the financial leverage index, similarly to other companies in this same industry. Such index corresponds to the net debt expressed as percentage of total capital. Net debt, in turn, corresponds to total loans (including short-term and long-term loans, as shown in the balance sheet), less cash and cash equivalents. Total capital is determined by adding equity, as presented in the consolidated balance sheet, and net debt.

Financial leverage indices at December 31, 2016 are summarized below:

(In thousands of reais, unless otherwise stated)

4. Financial risk management (Continued)

4.2. Capital management (Continued)

	Consolidated	
	2016	**2015**
Total loans (Note 17)	**297,160**	308,153
Less: Cash and cash equivalents (Note 7)	**(62,932)**	(109,335)
Net debt	**234,228**	198,818
Total equity	**127,702**	122,294
Total capital	**361,930**	321,112
Financial leverage index - %	**65%**	62%

4.3. Fair value estimate

The book value of trade accounts receivable and trade accounts payable are deemed to approximate fair value, less impairment in the case of accounts receivable.

Financial instruments recorded at fair value are classified under the valuation method presented below. The different levels were defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1);
- Information, in addition to quoted prices, included in Level 1, used by the market for assets or liabilities, either directly (that is, based on prices) or indirectly (that is, deriving from prices) (Level 2);
- Information on assets and liabilities not based on market observable data (that is, nonobservable assumptions) (Level 3).

As at December 31, 2016, assets and liabilities measured at fair value are as follows:

				Consolidated
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities	-	3,381	-	3,381
Financial liabilities at fair value through profit or loss	-	3,381	-	3,381

No amounts were transferred from Level 1 to Level 2 in the year.

(In thousands of reais, unless otherwise stated)

5. Financial instruments by category

	Company		
	Fair value through profit or loss	**Loans and receivables**	**Financial liabilities at amortized cost**
December 31, 2016			
Cash and cash equivalents	**-**	**50,195**	**-**
Trade accounts receivable	**-**	**70,913**	**-**
Transactions with related parties	**-**	**225,875**	**-**
Trade accounts payable	**-**	**-**	**152,625**
Loans and financing	**-**	**-**	**296,181**
Derivatives	**3,381**	**-**	**-**
Other accounts payable	**-**	**-**	**5,466**
	3,381	**346,983**	**454,272**
December 31, 2015			-
Cash and cash equivalents	-	89,967	-
Trade accounts receivable	-	82,418	-
Transactions with related parties	-	165,139	-
Trade accounts payable	-	-	203,305
Loans and financing	-	-	307,085
Derivatives	6,471	-	-
Other accounts payable	-	-	2,505
	6,471	337,524	512,895

(In thousands of reais, unless otherwise stated)

5. Financial instruments by category (Continued)

	Consolidated		
	Fair value through profit or loss	**Loans and receivables**	**Financial liabilities at amortized cost**
December 31, 2016			
Cash and cash equivalents	**-**	**62,932**	**-**
Trade accounts receivable	**-**	**85,191**	**-**
Transactions with related parties	**-**	**225,875**	**-**
Trade accounts payable	**-**	**-**	**206,281**
Loans and financing	**-**	**-**	**297,160**
Derivatives	**3,381**	**-**	**-**
Other accounts payable	**-**	**-**	**6,020**
	3,381	**373,998**	**509,461**
December 31, 2015			
Cash and cash equivalents	-	109,335	-
Trade accounts receivable	-	92,895	-
Transactions with related parties	-	165,139	-
Trade accounts payable	-	-	237,710
Loans and financing	-	-	308,153
Derivatives	6,471	-	-
Other accounts payable	-	-	3,374
	6,471	367,369	549,237

The market values reported do not reflect subsequent changes in the economy, such as interest rates, tax rates and other variables that could have an effect on their determination.

(In thousands of reais, unless otherwise stated)

6. Credit quality of financial assets

Credit quality of financial assets not overdue or impaired is periodically assessed. Intercompany balances represent a low credit risk and the financial institutions in which the Company performs transactions are top tier. None of the financial assets that are not in default was renegotiated in the prior year.

	Consolidated	
	2016	**2015**
Transactions with related parties		
Group 1 – falling due	**225,875**	165,139
Trade accounts receivable		
Group 2 – falling due	**77,317**	84,387
Group 3 – overdue within 180 days	**7,874**	8,508
	311,066	258,034

Bank accounts and short-term investments are held in banks that have received good ratings from risk assessment entities. None of the financial assets that are not in default was renegotiated in the prior year. None of the loans granted to related parties is overdue or impaired.

7. Cash and cash equivalents

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cash	**29**	11	**29**	11
Bank deposits	**6,787**	6,559	**13,987**	7,681
Highly liquid short-term investments	**43,379**	83,397	**48,916**	101,643
	50,195	89,967	**62,932**	109,335

Short-term investments refer to Bank Deposit Certificates (CDB) remunerated by reference to Interbank Deposit Certificates (CDI) variation (between 70% and 100%) and readily convertible into a known cash amount, considered cash equivalents in the individual and consolidated financial statements.

(In thousands of reais, unless otherwise stated)

8. Trade accounts receivable

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Domestic	**78,659**	87,333	**94,485**	98,780
Foreign	**2,115**	3,304	**2,115**	3,304
Checks for collection	**115**	103	**116**	104
	80,889	90,740	**96,716**	102,188
(-) Adjustment to present value	**(1,331)**	(2,324)	**(1,799)**	(2,673)
(-) Allowance for doubtful accounts	**(8,645)**	(5,998)	**(9,726)**	(6,620)
	70,913	82,418	**85,191**	92,895

Average receipt term practiced by the Company is 45 days.

(a) Accounts receivable by currency

Trade and other accounts receivable are denominated in the following currencies:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Reais	**78,774**	87,436	**94,601**	98,884
US dollars	**2,115**	3,304	**2,115**	3,304
	80,889	90,740	**96,716**	102,188

(b) Accounts receivable by maturity

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Falling due	**65,763**	77,877	**79,116**	87,060
Overdue up to 180 days	**6,481**	6,865	**7,874**	8,508
Over 180 days	**8,645**	5,998	**9,726**	6,620
	80,889	90,740	**96,716**	102,188

Changes in allowance for doubtful accounts are as follows:

(In thousands of reais, unless otherwise stated)

8. Trade accounts receivable

(b) Accounts receivable by maturity

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Opening balance	**(5,998)**	(5,805)	**(6,620)**	(6,220)
Allowance for doubtful accounts	**(2,647)**	(193)	**(3,106)**	(964)
Bad debt written off	**-**	-	**-**	576
Bad debt reversed in the year	**-**	-	**-**	(12)
	(8,645)	(5,998)	**(9,726)**	(6,620)

9. Inventories

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Finished goods	**19,388**	13,118	**22,391**	14,878
Work in process	**8,244**	8,649	**10,338**	9,610
Raw materials	**16,772**	25,156	**24,102**	30,315
Materials and supplies	**1,837**	2,136	**2,536**	2,834
Advances to suppliers	**4,072**	12,978	**4,074**	12,978
Other	**1,340**	529	**1,346**	529
Provision for obsolete inventories	**(632)**	(294)	**(933)**	(486)
Adjustment to present value	**(2,892)**	(3,574)	**(4,196)**	(4,536)
	48,129	58,698	**59,658**	66,122

Changes in the provision for obsolete inventories

	Company	Consolidated
Balance at December 31, 2014	**(252)**	**(405)**
Additions	**(42)**	**(81)**
Balance at December 31, 2015	**(294)**	**(486)**
Additions	**(338)**	**(447)**
Balance at December 31, 2016	**(632)**	**(933)**

As at December 31, 2016, the Company recorded no inventories given in guarantee.

(In thousands of reais, unless otherwise stated)

10. Taxes recoverable

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
ICMS - CIAP (ICMS credits on Capital Expenditures Control Register)	**1,438**	2,539	**1,918**	2,769
ICMS recoverable	**817**	849	**817**	849
ICMS guaranteed	**1,527**	-	**2,654**	-
Federal VAT (IPI)	**409**	546	**409**	770
PIS and COFINS	**3,138**	8,870	**3,655**	9,999
Corporate Income Tax (IRPJ)	**1,564**	2,588	**1,791**	3,135
Social Contribution on Net Profit (CSLL)	**404**	617	**404**	715
Social Security Tax (INSS)	**4,291**	6	**4,604**	2
Other	**70**	92	**80**	121
Total	**13,658**	16,107	**16,332**	18,360
Current	**10,942**	14,312	**12,044**	16,215
Noncurrent	**2,716**	1,795	**4,288**	2,145

Subsidiary Copobras da Amazônia recorded R$ 4,736 referring to PIS and COFINS credits on revenues from sales performed in the Manaus Free Trade Zone. Referred to credits are currently subject to an ordinary legal action filed requesting that these PIS and Cofins payments be declared unconstitutional, thus ensuring the right for these revenues not to be subject to levy of these contributions. Since the right to offset is not effectively ensured, as a final unappealable decision on the action has not been handed down, the Company recorded a provision for loss on referred to credits in the same amount. The provision is presented net of such amounts.

(In thousands of reais, unless otherwise stated)

11. Deferred income and social contribution taxes, net

Deferred tax assets and liabilities are as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Deferred income and social contribution tax assets				
Provisions	**6,636**	6,077	**9,235**	9,979
Tax losses	**14,660**	16,933	**19,806**	20,515
	21,296	23,010	**29,040**	30,494
Deferred income and social contribution tax liabilities				
Accelerated depreciation incentive	**6,818**	7,342	**6,818**	7,342
Deemed cost	**43,368**	43,593	**43,705**	43,968
Revaluation of property, plant and equipment	**2,489**	2,537	**2,489**	2,537
Other temporary differences	**1,167**	5,043	**5,303**	4,646
Adjustment to present value	**1,717**	2,506	**3,817**	2,506
	55,559	55,978	**62,132**	60,999
Deferred income and social contribution tax liabilities*	**34,263**	32,968	**34,659**	32,968
Deferred income and social contribution tax assets**			**1,567**	2,463

*Consolidated deferred income and social contribution tax liabilities, net are presented less respective deferred tax assets of the subsidiaries.
**Deferred income and social contribution tax assets, net of subsidiary Copobras da Amazônia is presented less respective deferred tax liabilities.

Deferred taxes in the income statement are as follows:

(In thousands of reais, unless otherwise stated)

11. Deferred income and social contribution taxes, net (Continued)

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Income before income and social contribution taxes	**13,445**	(3,526)	**17,128**	(1,890)
Combined tax rate	**34%**	34%	**34%**	34%
Income and social contribution taxes at combined tax rate	**(4,571)**	1,199	**(5,824)**	643
Permanent exclusions (additions)				
Equity pickup	**817**	3,233	**-**	-
Tax incentives	**267**	957	**378**	4,590
Deferred taxes recorded in the year	**(2,236)**	-	**(2,236)**	-
Provisions and adjustments to net income	**29**	1,786	**(78)**	1,722
Tax effect on net income for the year	**(5,694)**	7,175	**(7,760)**	6,955
Current	**(4,399)**	-	**(5,172)**	(2,181)
Deferred	**(1,295)**	7,175	**(2,588)**	9,136
Effective rate	**42%**	203%	**45%**	368%

Based on expected generation of future taxable profit, determined in a technical study, the Company recorded tax credits on income and social contribution tax losses of prior years, which may be carried indefinitely and whose offset is limited to 30% of annual taxable profit.

Management estimates that tax credits on accumulated losses will be recovered in the following years:

Year	**Company**	**Consolidated**
2017	**2,639**	**3,659**
2018	**3,518**	**4,745**
2019	**4,104**	**5,520**
2020	**4,399**	**5,882**
	14,660	**19,806**

The estimated recoverability of tax credits was based on taxable profit forecasts, taking into consideration several financial and business assumptions at period closing date. As such, these estimates may not be realized in the future due to the uncertainties inherent in such forecasts.

(In thousands of reais, unless otherwise stated)

12. Other accounts receivable

	Company		Consolidated	
	2016	2015	2016	2015
Court-ordered debt payments ("precatórios")	**3,551**	4,439	**3,551**	4,439
Prepaid expenses	**400**	5,738	**400**	5,738
Trade notes receivable	**5,304**	-	**5,304**	-
Other accounts receivable	**2,274**	5,275	**704**	5,442
	11,529	15,452	**9,959**	15,619
Current	**3,263**	12,546	**1,693**	12,713
Noncurrent	**8,266**	2,906	**8,266**	2,906

Trade notes receivable refer to a balance to be received from Interpolymers Comércio de Importação e Exportação Ltda. This balance will be received in 35 consecutive monthly installments, under an agreement entered into by the parties in November 2016. To date, no indication has been identified that this balance requires an allowance for losses, since the amounts have been paid within the deadlines established by contract.

13. Transactions with related parties

(a) Balances and transactions

	2016				
	Trade accounts receivable	Noncurrent loans receivable	Trade accounts payable	Noncurrent loans payable	Sales revenue
Shareholders	**-**	**225,875**	**-**	**-**	**-**
Incoplast Embalagens do Nordeste Ltda.	**3,151**	**-**	**12,601**	**49,508**	**11,208**
Copobras da Amazônia Ind. de Embalagens Ltda.	**89**	**-**	**-**	**8,014**	**1**
Stickplast Industrial de Plásticos Ltda.	**-**	**-**	**-**	**111**	**-**
	3,240	**225,875**	**12,601**	**57,633**	**11,209**

(In thousands of reais, unless otherwise stated)

13. Transactions with related parties (Continued)

(a) Balances and transactions (Continued)

	2015				
	Trade accounts receivable	Noncurrent loans receivable	Trade accounts payable	Noncurrent loans payable	Sales revenue
Shareholders	-	165,139	-	-	-
Incoplast Embalagens do Nordeste Ltda.	897	-	15,680	34,535	17,095
Copobras da Amazônia Ind. de Embalagens Ltda.	137	-	-	-	1
Stickplast Industrial de Plásticos Ltda.	-	-	-	1,529	1
	1,034	165,139	15,680	36,064	17,096

Accounts receivable comprises only amounts receivable from sale of products.

Trade accounts payable refers to amounts from purchase of materials between related parties.

Loans payable refers to amounts resulting from financial transactions between related parties.

Loans receivable refers to amounts receivable from shareholders (individuals).

(a.1) Noncurrent loans receivable

Loan agreements are restated at the General Market Price Index (IGP-M), plus interest of 1.5% p.m. As from March 31, 2016, these agreements use the compound interest system rather than application of simple interest as previously provided for. This change was applied retrospectively by the Company and respective impact on net income for the year amounted to R$13,069.

Loans are expected to be paid mostly through retention of dividend on future net income, or alternatively through sale of Company shares held by shareholders to third parties. Funds obtained will preferably be used for settling these receivables. In case minimum payments are not made on the planned dates, the underpaid amount will be accumulated to be preferably settled with dividends subsequently received. Additionally, Company shareholders have personal property that may partially cover the settlement of these loans, in case this additional source of funds is required.

(In thousands of reais, unless otherwise stated)

13. Transactions with related parties (Continued)

(a) Balances and transactions (Continued)

(a.1) Noncurrent loans receivable (Continued)

As at December 31, 2016, breakdown of loans is as follows:

	2016				
	Principal	Conventional interest*	IGP-M	Interest	Total
Mário Schlickmann	32,602	4,523	9,685	28,713	75,523
Milton Schlickmann	29,298	4,496	9,684	28,847	72,325
Marcelo Schlickmann	27,130	3,923	8,454	25,119	64,626
Jânio Dinarte Koch	5,637	816	1,754	5,194	13,401
	94,667	13,758	29,577	87,873	225,875

* Conventional interest refers to the amount of loans granted for payment of conventional interest and other accessory obligations paid on sureties relating to individuals.

The Company and its shareholders entered into an arrangement aimed at settlement of the loan agreements, whereby shareholders also agreed not to take out new loans/sureties from the Company, except:

- for full or partial replacement of (i) sureties granted by the Company in favor of the Parties; and/or (ii) loans taken out by the Parties from the Company, for other sureties and/or loan(s), as long as the principal amount, individually or in the aggregate, taking into consideration the sureties and loans referred to in items (i) and (ii) of this subitem, does not overall exceed R$ 142,000 or equivalent amount in other currencies;

- if the loan granted by the Company is exclusively used for payment of conventional interest and other accessory obligations, if applicable, deriving from the sureties referred in item (i) of subitem (a) above;

- As at December 31, 2016, financial income from loan agreements amounted to R$59,173 (R$28,886 at December 31, 2015).

(In thousands of reais, unless otherwise stated)

13. Transactions with related parties (Continued)

(a) Balances and transactions (Continued)

(a.2) Sureties provided

Additionally, the Company provided sureties to shareholders for raising funds from financial institutions, whose principal as at December 31, 2016 amounts to R$ 47,001 (R$ 39,708 at December 31, 2015). Principal amounts and maturities of sureties provided are as follows:

Shareholder	2017	2018	2019	Total
Mário Schlickmann	5,225	3,938	332	9,495
Milton Schlickmann	5,465	4,349	332	10,146
Marcelo Schlickmann	5,208	4,550	290	10,048
Jânio Dinarte Koch	6,692	10,560	60	17,312
	22,590	23,397	1,014	47,001

Estimated fair value of these financial guaranties granted was considered equal to zero by management and no provision was recorded as financial liabilities in the financial statements as at December 31, 2016 and 2015.

(a.3) Projected net income

With a view to the commitments mentioned in aforementioned items, the Company prepared a projection of net income in order to demonstrate: (i) the Company's ability to generate sufficient profits for payment of dividends and, as such, enable settlement of the loans by the shareholders; and (ii) that sufficient cash flows will be generated in order to settle the loan guaranteed by the Company on behalf of shareholders.

In its net income projections, the Company estimates that sufficient dividends will be generated in order to pay the loans and sureties, plus due interest and monetary adjustments, until 2024.

13. Transactions with related parties (Continued)

(a) Balances and transactions (Continued)

(a.4) Other information on transactions with related parties

No losses are expected on receivables from related parties.

As at December 31, 2016, trade accounts receivable will be realized within 45 days. Accounts receivable comprises only amounts receivable from sale of products, whose transactions are conducted under market conditions.

Trade accounts payable refers to amounts from purchase of materials between related parties.

Loans payable refers to amounts resulting from financial transactions between related parties.

(b) Key management personnel compensation

Key management personnel refers to Company shareholders. Compensation paid or payable to management key personnel for their services is as follows:

	Consolidated	
	2016	**2015**
Salaries and other short-term benefits	**6,096**	4,870

(In thousands of reais, unless otherwise stated)

14. Investments in subsidiaries

(a) Information on investments

The consolidated financial statements include the financial statements of Copobras S.A. Indústria e Comércio de Embalagens and its subsidiaries Copobras da Amazônia Industrial de Embalagens Ltda and Incoplast Embalagens do Nordeste Ltda, as follows:

	2016		
	Copobras da Amazônia	**Incoplast**	**Total**
Equity	**5,650**	**59,361**	**-**
Net income (loss) for the year	**2,144**	**1,875**	**-**
Ownership interest %	**26.7%**	**97.6%**	**-**
Changes in investments			
Balance at beginning of year	**1,736**	**57,119**	**58,855**
Capital decrease			
Payment of dividends	**(802)**	**(1,013)**	**(1,815)**
Equity pickup	**572**	**1,830**	**2,402**
Balance at end of year	**1,506**	**57,936**	**59,442**

	2015			
	Braspack	**Copobras da Amazônia**	**Incoplast**	**Total**
Equity	-	5,950	58,524	-
Net income (loss) for the year	-	1,627	9,299	-
Ownership interest %	-	26.7%	97.6%	-
Changes in investments				
Balance at beginning of year	28,574	1,302	48,042	77,918
Capital decrease	(324)	-	-	(324)
Merger of subsidiary	(28,250)	-	-	(28,250)
Equity pickup	-	433	9,077	9,510
Balance at end of year	-	1,735	57,119	58,855

(i) Incoplast Embalagens do Nordeste Ltda. is a limited liability company primarily engaged in manufacture and sale of flexible plastic packaging, disposable thermoformed packaging and packing products, expanded trays and recovery of plastic materials in general, located in the city of João Pessoa, state of Paraíba.

(In thousands of reais, unless otherwise stated)

14. Investments in subsidiaries (Continued)

(a) Information on investments (Continued)

(ii) In November 2014, the Company acquired 26.7% of the units of interest of Copobras da Amazônia Industrial de Embalagens Ltda., a limited liability company primarily engaged in manufacture and sale of disposable thermoformed packaging and packing products, for home or industrial use, plastic laminates or other polymers, located in the city of Manaus, state of Amazonas.

(iii) In May 2014, the Company acquired 100% shares of Braspack Embalagens do Nordeste S.A., a closely-held corporation, primarily engaged in industrial manufacture, sale and resale of expanded polystyrene (EPS) trays. This company is located in the city of Ipojuca, state of Pernambuco. On account of this acquisition, goodwill on expected future profitability was generated, based on cash flow projected over a 7-year period, in which the Company expects to fully recover this investment. Goodwill generated upon aforementioned acquisition of subsidiary Braspack, amounting to R$ 28,250, is recorded as intangible assets in the consolidated balance sheet as at December 31, 2016.

(b) Summary of financial information (Continued)

A summary of financial information on the subsidiaries is as follows:

(i) Condensed balance sheets

				Subsidiaries
	Incoplast do Nordeste		**Copobras da Amazônia**	
	2016	**2015**	**2016**	**2015**
Assets				
Current assets	**41,861**	49,074	**5,259**	5,186
Noncurrent assets	**76,489**	60,619	**15,627**	8,268
Total assets	**118,350**	109,693	**20,886**	13,454
Liabilities and equity				
Current liabilities	**54,252**	45,309	**13,769**	6,138
Noncurrent liabilities	**4,737**	5,860	**1,467**	1,366
Total liabilities	**58,989**	51,169	**15,236**	7,504
Equity	**59,361**	58,524	**5,650**	5,950

(In thousands of reais, unless otherwise stated)

14. Investments in subsidiaries (Continued)

(b) Summary of financial information (Continued)

(ii) Condensed income statements

	Subsidiaries			
	Incoplast do Nordeste		Copobras da Amazônia	
	2016	**2015**	**2016**	**2015**
Revenues	**125,860**	135,255	**30,094**	32,722
Income before income and social contribution taxes	**2,939**	8,933	**3,146**	2,213
Net income	**1,875**	9,299	**2,144**	1,627

Business combination

The Company acquired 100% shares of Braspack Embalagens do Nordeste S.A., which specializes in manufacture of EPS trays, for consideration amounting to R$ 7,175, on May 1, 2014.

On January 15, 2015, 100% of Braspack capital was merged into the Company.

15. Intangible assets

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Goodwill	**28,250**	28,250	**28,250**	28,250
Software	**2,258**	1,614	**2,290**	1,645
Trademarks and patents	**1,467**	1,456	**1,467**	1,456
Accumulated amortization	**(2,277)**	(1,982)	**(2,308)**	(2,013)
	29,698	29,338	**29,699**	29,338

Goodwill

Goodwill upon acquisition of Braspack S/A is recognized in the amount of R$ 28,250 and is attributable to expected future profitability.

(In thousands of reais, unless otherwise stated)

15. Intangible assets (Continued)

Goodwill (Continued)

Intangible assets' impairment test:

As at December 31, 2016, the Company tested the goodwill amount for impairment based on value in use, under the discounted cash flow model. The recoverable amount of cash flow is based on expected future profitability. These calculations use projected cash flows, based on financial budgets approved by management over a ten-year period and extrapolated under perpetual assumptions in the other periods at estimated growth rates. As at December 31, 2016, the recoverable amount of cash flow for impairment test purposes did not indicate the requirement for recording losses in the period. Key assumptions used in the impairment test are as follows:

	2016	2015
	Braspack	**Braspack**
Estimated annual growth rate - %	**5.5%**	5.5%
Annual discount rate - %	**15.50%**	15.34%
Period - in years	**10**	10
Annual expenses with PPE – R$	**500**	500
Recoverable amount – R$	**34,942**	33,301

Both sales volume and operating costs and expenses were projected taking into consideration the annual estimated growth rate allocated to a ten-year projection. This rate is based on past performance and management expectations for market development.

The annual discount rate takes into account average fund-raising costs practiced by the Company for raising funds in the financial market.

Annual expenses with PPE acquisition refer to cash disbursements expected in the industry for machinery refurbishment/maintenance. These expenses are based on management's historical experience and expenses planned for refurbishment/maintenance after business acquisition. No additional revenue or cost economy was considered in the value in use model as a result of these expenses.

Copobras S.A. Indústria e Comércio de Embalagens

Notes to financial statements (Continued)
December 31, 2016 and 2015
(In thousands of reais, unless otherwise stated)

16. Property, plant and equipment

(a) Company

	Land	Buildings	Machinery and equipment	Furniture and fixtures	Vehicles	Data processing equipment	Other PPE	PPE in progress	Total
Net book balance at December 31, 2014	**34.880**	**81.475**	**125.224**	**779**	**306**	**777**	**1.993**	**7.536**	**252.970**
Merger of Braspak PPE	-	-	6,719	97	14	20	3,361	-	10,211
Additions	-	1,419	6,648	102	3,644	166	521	2,551	15,051
Write-offs	-	(659)	(2,992)	-	(198)	(1)	(805)	-	(4,655)
Transfers	-	58	2,234	29	87	-	11	(2,419)	-
Depreciation	-	(2,099)	(16,126)	(194)	(314)	(267)	(1,440)	-	(20,440)
Net book balance at December 31, 2015	**34,880**	**80,194**	**121,707**	**813**	**3,539**	**695**	**3,641**	**7,668**	**253,137**
Additions	**2,868**	**214**	**2,722**	**26**	**-**	**52**	**31**	**3,408**	**9,321**
Write-offs	**-**	**-**	**(3,522)**	**(1)**	**-**	**(1)**	**(34)**	**(45)**	**(3,603)**
Transfers	**-**	**-**	**397**	**16**	**-**	**16**	**1,472**	**(1,901)**	**-**
Depreciation	**-**	**(2,210)**	**(15,746)**	**(210)**	**(373)**	**(211)**	**(648)**	**-**	**(19,398)**
Net book balance at December 31, 2016	**37,748**	**78,198**	**105,558**	**644**	**3,166**	**551**	**4,462**	**9,130**	**239,457**
At December 31, 2016									
Cost	**37,748**	**96,665**	**276,287**	**2,802**	**6,930**	**4,280**	**11,943**	**9,130**	**445,785**
Accumulated depreciation	**-**	**(18,467)**	**(170,729)**	**(2,158)**	**(3,764)**	**(3,729)**	**(7,481)**	**-**	**(206,328)**
Book balance, net	**37,748**	**78,198**	**105,558**	**644**	**3,166**	**551**	**4,462**	**9,130**	**239,457**
Weighted average depreciation rate - %		2%	7%	13%	17%	25%	10%		

(In thousands of reais, unless otherwise stated)

16. Property, plant and equipment (Continued)

(b) Consolidated

	Land	Buildings	Machinery and equipment	Furniture and fixtures	Vehicles	Data processing equipment	Other PPE	PPE in progress	Total
Net book balance at December 31, 2014	39,261	81,849	157,408	970	351	914	5,517	7,603	293,873
Additions		1,419	8,550	119	3,644	174	530	3,016	17,452
Write-offs		(659)	(3,117)	(6)	(198)	(1)	(808)		(4,789)
Transfers		58	2,626	29	87		11	(2,811)	
Depreciation		(2,127)	(19,636)	(219)	(317)	(301)	(1,459)		(24,059)
Net book balance at December 31, 2015	39,261	80,540	145,831	893	3,567	786	3,791	7,808	282,477
Additions	**2,874**	**243**	**6,588**	**35**	**-**	**59**	**32**	**3,659**	**13,490**
Write-offs	**-**	**-**	**(3,761)**	**(1)**	**-**	**(1)**	**(34)**	**(45)**	**(3,842)**
Transfers	**-**	**-**	**630**	**16**	**-**	**16**	**1,472**	**(2,134)**	**-**
Depreciation		**(2,249)**	**(19,571)**	**(232)**	**(383)**	**(240)**	**(672)**	**-**	**(23,347)**
Net book balance at December 31, 2016	**42,135**	**78,534**	**129,717**	**711**	**3,184**	**620**	**4,589**	**9,288**	**268,778**
At December 31, 2016									
Cost	**42,135**	**97,438**	**318,489**	**2,978**	**6,986**	**4,572**	**12,132**	**9,288**	**494,018**
Accumulated depreciation	**-**	**(18,904)**	**(188,772)**	**(2,267)**	**(3,802)**	**(3,952)**	**(7,543)**	**-**	**(225,240)**
Book balance, net	**42,135**	**78,534**	**129,717**	**711**	**3,184**	**620**	**4,589**	**9,288**	**268,778**
Depreciation rate - %		2%	7%	13%	17%	25%	10%		

(In thousands of reais, unless otherwise stated)

16. Property, plant and equipment (Continued)

The recoverable amount of PPE items is periodically analyzed. As at December 31, 2016, no indicators of impairment loss were identified, which would require an impairment test.

As at December 31, 2016, PPE in progress refers substantially to expenses incurred for acquiring machinery, buildings and other assets, which will be concluded between 2017 and 2019.

Company

The amount of R$ 16,855 as at December 31, 2016, (R$ 16,463 in 2015) referring to depreciation expenses was recorded in the income statement under "Cost of sales", R$ 418 (R$ 1,725 in 2015) under "Selling expenses" and R$ 2,125 (R$ 2,252 in 2015) under "Administrative expenses".

As at December 31, 2016, bank loans are guaranteed by land, buildings and machinery amounting to R$ 123,250 (R$ 123,645 at December 31, 2015).

Consolidated

The amount of R$ 20,735 as at December 31, 2016, (R$ 19,633 in 2015) referring to depreciation expenses was recorded in the income statement under "Cost of sales", R$ 465 (R$ 2,152 in 2015) under "Selling expenses" and R$ 2,147 (R$ 2,274 in 2015) under "Administrative expenses".

As at December 31, 2016, bank loans are guaranteed by land, buildings and machinery amounting to R$ 124,348 (R$ 124,743 at December 31, 2015).

17. Trade accounts payable and trade accounts payable - reverse factoring

	Company		Consolidated	
Suppliers	**2016**	**2015**	**2016**	**2015**
Suppliers - domestic	**96,690**	115,401	**150,249**	147,257
Suppliers - foreign	**46,738**	95,935	**53,583**	100,388
Adjustment to present value	**(9,274)**	(13,269)	**(16,022)**	(17,292)
	134,154	198,067	**187,810**	230,353
Current	**122,315**	177,737	**174,192**	206,725
Noncurrent	**11,839**	20,330	**13,618**	23,628

(In thousands of reais, unless otherwise stated)

17. Trade accounts payable and trade accounts payable - reverse factoring (Continued)

Trade accounts payable

These balances refer to purchases of inputs and machinery used in production.

Trade accounts payable – reverse factoring

The Company performs transactions with financial institutions, which are named reverse factoring, and records these transactions under trade accounts payable – reverse factoring. These transactions are aimed at extending the term for payment of suppliers, without however amending the contractual terms agreed upon between the Company and these suppliers. Average term for payment of these notes is 168 days and the Company is subject to no charges thereon.

18. Loans and financing

Terms and conditions of outstanding loans were as follows:

	Company			
Type	**Annual charges**	**Maturity**	**2016**	**2015**
In local currency				
FINAME	8.74% + TJLP	2024	**823**	884
	3.7% Fixed	2024	**976**	1,169
Working capital	7.4% + CDI	2019	**81,570**	118,372
	7.5% + SELIC	2020	**24,251**	-
	22% Fixed	2019	**12,173**	1,002
Debentures	4.8% + CDI	2019	**169,704**	181,286
Leases	4.28% - SELIC	2020	**3,040**	3,406
Commissions and financing charges			**(4,187)**	-
			288,350	306,119
In foreign currency				
Working capital	7.4% + exchange fluctuation	2017	**7,831**	966
			7,831	966
			296,181	307,085
Current portion			**144,742**	68,503
Noncurrent portion			**151,439**	238,582

(In thousands of reais, unless otherwise stated)

18. Loans and financing (Continued)

	Consolidated			
Type	**Annual charges**	**Maturity**	**2016**	**2015**
In local currency				
FINAME	8.74% + TJLP	2024	**823**	884
	4.5% Fixed	2024	**1,955**	2,237
Working capital	7.4% + CDI	2019	**81,570**	118,372
	7.5% + SELIC	2020	**24,251**	-
	22% Fixed	2019	**12,173**	1,002
Debentures	4.8% + CDI	2019	**169,704**	181,286
Leases	4.28% + SELIC	2020	**3,040**	3,406
Commissions and financing charges			**(4,187)**	-
			289,329	307,187
In foreign currency				
Working capital	7.4% + exchange fluctuation	2017	**7,831**	966
			7,831	966
			297,160	308,153
Current portion			**144,881**	68,594
Noncurrent portion			**152,279**	239,559

As at December 31, 2016, the Company maintains in guarantee of loan and financing transactions collateral security from subsidiaries and/or mortgage or chattel mortgage on land, buildings, machinery and equipment, collateral pledge and fiduciary assignment of receivables amounting to approximately R$ 222,039 (R$ 212,473 at December 31, 2015). Other transactions maintain specific sureties, as follows:

i) As at December 31, 2016, BNDES AUTOMÁTICO – PROGEREN working capital, the Company recorded security interest amounting to R$ 27,543 (R$ 27,543 at December 31, 2015).

ii) As at December 31, 2016, the debentures issued on February 14, 2014 relied on security interest amounting to R$ 59,575 (R$ 66.587 as at December 31, 2015), as follows:

- Chattel mortgage on property of Copobras S/A amounting to R$ 42,700;
- Fiduciary assignment of credit rights owned by Copobras S/A amounting to 27.3% of the debentures' debt balance.

(In thousands of reais, unless otherwise stated)

18. Loans and financing (Continued)

i) As at December 31, 2016, the debentures issued on August 20, 2015 relied on security interest amounting to R$ 58,800 (R$ 56,550 at December 31, 2015), as follows:

- Chattel mortgage on property of Copobras S/A amounting to R$ 43,800;
- Fiduciary assignment of credit rights owned by Copobras S/A amounting to 15% of the debentures' debt balance.

As at December 31, 2016, noncurrent portions mature as follows:

	Company	Consolidated
2018	112,756	112,893
2019	34,573	34,710
2020	3,574	3,711
2021 to 2024	536	965
	151,439	152,279

Changes in loans are as follows:

	Company	
	2016	**2015**
Opening balance	**307,085**	269,793
Merger of Braspack	**-**	1,637
Additions	**102,636**	166,561
Interest incurred	**54,252**	51,710
Interest paid	**(51,970)**	(48,570)
Amortization of principal	**(115,822)**	(134,046)
Closing balance	**296,181**	307,085

	Consolidated	
	2016	**2015**
Opening balance	**308,153**	272,348
Additions	**102,636**	166,747
Merger of Braspack	**-**	1,637
Interest incurred	**54,303**	52,034
Interest paid	**(52,025)**	(50,531)
Amortization	**(115,907)**	(134,082)
Closing balance	**297,160**	308,153

18. Loans and financing (Continued)

The financial agreements referred to above have debt covenants that include maintenance of minimum debt coverage indices and debt ratio, among which we highlight:

(a) Maintaining the index obtained by dividing consolidated net debt plus debt with partners by EBITDA, calculated in line with the debt agreement, under 3.0.

As at December 31, 2016, the Company is in conformity with this covenant.

Debentures

The Company performed three issues of unsecured junior debentures not convertible into shares, with additional security interest, in a single series, for public distribution and with restricted placement efforts.

The first issue of unsecured junior debentures, not convertible into shares and subject to security interest occurred on November 16, 2012, in a single series of 5,500 debentures, at unit value of R$10,000. These debentures were fully settled in November 2015, in strict compliance with the settlement schedule.

The second issue of junior debentures, not convertible into shares and subject to security interest occurred on February 2014, in a single series of 10,000 debentures, at unit value of R$10,000. The debenture indentures provide for certain covenants, which require that the Company maintain certain financial indices, which have been appropriately complied with. These debentures were partially settled in 2015 and 2016, in strict compliance with the settlement schedule.

The third issue of junior debentures, not convertible into shares and subject to security interest, with additional personal guarantee, for public distribution with restricted placement efforts occurred on August 20, 2015, in a single series of 10,000 debentures with unit value of R$10,000.

The debenture agreements referred to above have debt covenants that include maintenance of minimum debt coverage indices and debt ratio, among which we highlight:

(a) (a) Maintaining the index obtained by dividing consolidated net debt by EBITDA, calculated in line with the debt agreement, under 2.5;

(b) The debt service coverage ratio, calculated in conformity with the debt agreement: equal to or greater than 2.0 times.

As at December 31, 2016, the Company is in conformity with these covenants.

(In thousands of reais, unless otherwise stated)

19. Payroll, related charges and social contributions

Breakdown of these balances is as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Salaries and wages	**13,940**	10,456	**16,258**	12,591
Social Security Tax (INSS)	**2,190**	2,492	**2,615**	3,096
Unemployment Compensation Fund (FGTS)	**642**	657	**769**	777
	16,772	13,605	**19,642**	16,464

20. Tax liabilities

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Tax installment program - Law No. 12996/2014	**10,933**	11,323	**10,933**	11,323
ICMS	**6,314**	4,871	**6,442**	5,290
IPI	**5,229**	3,665	**5,676**	3,665
IPI/PIS/COFINS in installments	**20,606**	21,497	**20,673**	21,580
COFINS/PIS	**3,114**	1,929	**3,666**	2,833
Other	**1,407**	1,441	**1,978**	1,700
	49,603	44,725	**49,368**	46,391
Current	**19,305**	13,462	**21,025**	15,064
Noncurrent	**28,298**	31,264	**28,343**	31,327

(In thousands of reais, unless otherwise stated)

21. Provision for contingencies and judicial deposits

	Company					
	Provision for contingencies		Judicial deposits		Net	
	2016	2015	2016	2015	2016	2015
Tax	**25,474**	18,786	**20,472**	17,950	**5,002**	836
Labor	**4,818**	3,583	**1,547**	836	**3,271**	2,747
Civil	**3,262**	3,783	**-**	-	**3,262**	3,783
Total	**33,554**	26,152	**22,019**	18,786	**11,535**	7,366

	Consolidated					
	Provision for contingencies		Judicial deposits		Net	
	2016	2015	2016	2015	2016	2015
Tax	**25,509**	18,786	**20,472**	17,950	**5,037**	836
Labor	**6,923**	5,568	**2,690**	2,147	**4,233**	3,421
Civil	**3,277**	3,798	**-**	-	**3,277**	3,798
Total	**35,709**	28,152	**23,162**	20,097	**12,547**	8,055

	Company						
	Provisions			Judicial deposits			
	Tax	Labor	Civil	Tax	Labor	Civil	Net
Balances at December 31, 2015	18,786	3,583	3,783	17,950	836	-	7,366
Additions	**6,789**	**1,646**	**137**	**2,522**	**1,012**	**-**	**5,038**
Write-offs	**(101)**	**(411)**	**(658)**	**-**	**(301)**	**-**	**(869)**
Balances at December 31, 2016	**25,474**	**4,818**	**3,262**	**20,472**	**1,547**	**-**	**11,535**

	Consolidated						
	Provisions			Judicial deposits			
	Tax	Labor	Civil	Tax	Labor	Civil	Net
Balances at December 31, 2015	18,786	5,568	3,798	17,950	2,147	-	8,055
Additions	**6,824**	**2,106**	**137**	**2,522**	**1,152**	**-**	**5,393**
Write-offs	**(101)**	**(751)**	**(658)**	**-**	**(609)**	**-**	**(901)**
Balances at December 31, 2016	**25,509**	**6,923**	**3,277**	**20,472**	**2,690**	**-**	**12,547**

(In thousands of reais, unless otherwise stated)

21. Provision for contingencies and judicial deposits

Tax contingencies amounting to R$ 21,216 refer to PIS/COFINS considering exclusion of ICMS from the calculation base, whose amounts are allocated to judicial deposits.

Labor contingencies refer to amounts provisioned in order to cover probable losses on claims on which appeals have been lodged.

Civil contingencies refer to amounts provisioned in order to cover probable losses on proceedings filed by commercial representatives on which appeals have been lodged.

As at December 31, 2016, the Company recorded R$ 15,514 (R$ 11,584 of a tax nature and R$ 3,930 of a civil nature) referring to contingent liabilities whose likelihood of loss is rated as possible by Company legal advisors, on which therefore no provision was set up.

22. Equity

(a) Capital

As at December 31, 2016 and December 31, 2015, fully subscribed and paid-in capital amounts to R$ 40,000, represented by 15,302,372 shares, and breaks down as follows:

Shareholders	Number of shares	Capital - %
Mário Schlickmann	5,076,050	32.7437
Milton Schlickmann	5,076,050	32.7437
Marcelo Schlickmann	4,428,324	28.5655
Jânio Dinarte Koch	921,948	5.9471
	15,502,372	100.0000

In accordance with its articles of association, the Company had no authorized capital.

(b) Equity adjustment

This refers to adoption of deemed cost for the main PPE items as at January 01, 2009.

(In thousands of reais, unless otherwise stated)

22. Equity (Continued)

(c) Tax incentives

The Company is enrolled with the special regime especial for ICMS payment with the state of Paraíba Finance Office, under the terms of Decree No. 23211 of 07.29.2002, in effect until December 31, 2025, and with the special regime for ICMS payment – PRODEPE, with the state of Pernambuco, under the terms of Decree No. 37674 of November 23, 2011, in effect until 12/31/2022.

(d) Legal reserve

The legal reserve is set up at the rate of 5% of net income determined each year, under the terms of article 193 of Law No. 6404/76, to the limit of 20% of capital.

(e) Income reserve at the discretion of the shareholders' meeting

This reserve refers to the remaining balance of changes in equity, to be allocated as decided in general shareholders' meetings. Pursuant to article 199 of Law No. 6404/76 (as amended by Law No. 11638, of December 28, 2007), income reserves, except for contingencies, tax incentives and unrealized profits, may not exceed the capital amount. Once this limit is reached, the General Meeting shall decide on the allocation of the excess amount to pay capital or pay dividend.

(f) Profit distribution

As at December 31, 2016, the Company paid shareholders dividends amounting to R$ 9,176. In 2015, the Company paid shareholders dividends amounting to R$ 3,071, as follows:

	2016	**2015**
Net income for the year	**7,751**	3,649
Realization of reserves (deemed cost)	**1,362**	-
Set-up of tax incentive reserve	**634**	-
Legal reserve (5%)	**(571)**	(182)
Dividend calculation basis	**9,176**	3,467
Mandatory minimum dividends (25%)	**2,294**	867
Proposed additional dividends	**6,882**	2,204
Total dividends	**9,176**	3,071
Percentage on net income for the year	**118%**	84%

(In thousands of reais, unless otherwise stated)

22. Equity (Continued)

(f) Profit distribution (Continued)

Proposed additional dividend amounting to R$ 6,882, subject to approval in shareholders' meeting, will be fully used to amortized loans taken out from shareholders.

Company management approved, in the Board of Directors' Meeting held on April 30, 2016, partial payment of income reserve, amounting to R$ 1,533, at such date.

23. Revenues

Reconciliation of gross revenue to net revenue presented in the income statements for the years ended December 31, 2016 and 2015 is as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Gross revenue	**883,822**	888,015	**1,064,701**	1,076,769
Adjustment to present value	**(14,087)**	(18,232)	**(17,419)**	(21,585)
Sales taxes	**(233,298)**	(229,928)	**(279,044)**	(276,659)
Returns	**(8,547)**	(8,816)	**(11,886)**	(11,265)
Net revenue	**627,890**	631,039	**756,352**	767,260

(In thousands of reais, unless otherwise stated)

24. Expenses by nature

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Personnel	**(119,138)**	(114,576)	**(140,837)**	(135,103)
Depreciation and amortization	**(19,693)**	(20,490)	**(23,642)**	(24,109)
Electricity	**(23,277)**	(24,820)	**(27,989)**	(29,876)
Used materials	**(312,139)**	(321,080)	**(383,358)**	(385,245)
Freight	**(22,037)**	(25,803)	**(28,930)**	(32,140)
Commissions	**(19,557)**	(20,055)	**(23,228)**	(23,970)
Maintenance	**(12,061)**	(12,721)	**(14,670)**	(15,483)
Travel	**(1,946)**	(2,288)	**(2,252)**	(2,549)
Third-party services	**(6,621)**	(5,675)	**(7,094)**	(6,468)
Provision for contingencies	**(5,539)**	(1,273)	**(6,031)**	(6,570)
Allowance for doubtful accounts	**(2,646)**	(141)	**(3,106)**	(348)
Nonrecurring expenses (tax notices)	**(3,538)**	(1,907)	**(4,090)**	(2,610)
Capital (gain) loss	**(674)**	(1,314)	**(729)**	(1,377)
Other	**(18,814)**	(35,014)	**(24,566)**	(49,962)
Total selling and administrative expenses	**(567,680)**	(587,157)	**(690,522)**	(715,810)
Income statements				
Cost of sales	**(457,727)**	(479,837)	**(556,744)**	(577,223)
Selling expenses	**(72,004)**	(77,952)	**(86,998)**	(95,962)
Administrative expenses	**(28,310)**	(26,616)	**(34,990)**	(33,141)
Other operating expenses, net	**(9,639)**	(2,752)	**(11,790)**	(9,484)
Total	**(567,680)**	(587,157)	**(690,522)**	(715,810)

(In thousands of reais, unless otherwise stated)

25. Financial income (expenses)

Financial income (expenses) for 2015 are presented for comparison purposes.

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Financial expenses				
Interest expenses	**(54,252)**	(51,710)	**(54,303)**	(52,034)
Interest accrued – related parties	**(5,165)**	(5,159)	**-**	-
Adjustment to present value	**(30,137)**	(34,143)	**(41,910)**	(43,897)
Other	**(23,742)**	(12,731)	**(26,713)**	(13,571)
	(113,296)	(103,743)	**(122,926)**	(109,502)
Financial income				
Short-term investments	**2,991**	3,861	**4,365**	4,721
Interest received	**2,765**	1,709	**3,027**	1,932
Adjustment to present value	**16,595**	31,501	**22,719**	38,887
Other	**2,443**	4,125	**3,282**	5,476
	24,794	41,196	**33,393**	51,016
Monetary and exchange variation, net				
Swap operations	**(31,193)**	22,347	**(31,193)**	22,347
Exchange fluctuations	**8,135**	(45,716)	**9,218**	(47,256)
Monetary variations	**62,393**	28,998	**62,806**	30,055
	39,335	5,629	**40,831**	5,146
Financial income (expenses)	**(49,167)**	(56,918)	**(48,702)**	(53,340)

26. Operating lease commitments

The Company leases a real property (warehouse) located in Km 12 of Rodovia PE-60, which measures 4,800m2 of constructed area in the industrial park located in part of the land of Engenho Alagoas, municipality of Ipojuca – state of Pernambuco. This lease is effective for a two-year period and may be extended at the discretion of the lessor.

Lease expenses recorded in the financial statements amounted to R$ 1,167 (R$ 1,026 in 2015).

(In thousands of reais, unless otherwise stated)

27. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the Company's shareholders by the weighted average number of common shares issued over the year excluding common shares purchased by the Company and held as treasury shares, if any.

Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares.

As at December 31, 2016 and 2015, the Company recorded no convertible debt or share purchase options. Accordingly, diluted earnings per share of continued operations equal basic earnings per share.

	2016	**2015**
Income attributable to the Company's controlling shareholders	**7,751**	3,649
Weighted average number of common shares issued	**15,502**	15,502
Basic and diluted earnings per share - R$	**0.50**	0.24

28. Insurance coverage

The Company has a risk management program in order to limit risks, seeking insurance coverage that is compatible with its business size and operations in the market. Insurance coverage was deemed sufficient by management to cover any losses, considering the nature of the Company's business, the risks involved in its operations and based on guidance from its insurance advisors.

As at December 31, 2016, insurance coverage referred to R$ 246,627 for property damage and R$ 102,930 for loss of profits.

29. Operating segments

a) Criteria for identifying operating segments

The Company segmented its operational structure in accordance with the manner in which the business is managed.

Management defined the following operating segments: packaging material; cups; trays, as described below:

Packaging materials: these refer to all revenues and expenses relating to manufacture and sale of flexible packaging. With over 40 years' experience, Incoplast provides excellent services to the food industry in areas such as pasta, biscuits, cereals, sweets, snacks, dairy products, coffee, hygiene and cleaning products, meat products, drinks and pet food. The Company produces packages of premium quality, which protect and maintain the product's characteristics, efficiently transport these products and attract attention at the point of sale.

Cups: these refer to all revenues and expenses relating to manufacture and sale of disposable products, with an extensive range of PP and PS cups, pots, plates and lids. Copobras offers the largest product mix in the market, in order to render people's daily lives easier. Innovation, quality and PS and PP 100% virgin raw material.

Trays: these refer to all revenues and expenses relating to manufacture and sale of trays, pots, cups and other EPS thermoformed products - items that provide higher quality and added value to the customers' products.

(In thousands of reais, unless otherwise stated)

29. Operating segments (Continued)

b) Consolidated information on operating segments

2016	Packages	Cups	Trays	Total
Net revenue	**320,121**	**224,671**	**211,560**	**756,352**
Cost of sales	(255,157)	(160,393)	(141,194)	(556,744)
Gross profit	**64,964**	**64,278**	**70,366**	**199,608**
Selling expenses	(28,318)	(29,185)	(29,495)	(86,998)
Administrative expenses	(11,473)	(12,786)	(10,731)	(34,990)
Other expenses	(5,259)	(2,731)	(3,800)	(11,790)
Income before financial income (expenses) and income taxes	**19,914**	**19,576**	**26,340**	**65,830**
Financial income	9,789	10,232	13,372	33,393
Financial expenses	(36,035)	(37,666)	(49,225)	(122,926)
Monetary and exchange variation, net	11,969	12,512	16,350	40,831
Income before income taxes	**5,637**	**4,654**	**6,837**	**17,128**
Current	(1,516)	(1,585)	(2,071)	(5,172)
Deferred	(759)	(793)	(1,036)	(2,588)
Net income for the year	**3,362**	**2,276**	**3,730**	**9,368**

2015	Packages	Cups	Trays	Total
Net revenue	**309,730**	**229,771**	**227,759**	**767,260**
Cost of sales	(245,007)	(173,949)	(158,267)	(577,223)
Gross profit	**64,723**	**55,822**	**69,492**	**190,037**
Selling expenses	(36,692)	(29,647)	(29,623)	(95,962)
Administrative expenses	(10,820)	(12,293)	(10,028)	(33,141)
Other expenses	(4,774)	(1,428)	(3,282)	(9,484)
Income before financial income (expenses) and income taxes	**12,437**	**12,454**	**26,559**	**51,450**
Financial income	12,096	12,645	26,275	51,016
Financial expenses	(25,964)	(27,141)	(56,397)	(109,502)
Monetary and exchange variation, net	1,220	1,276	2,650	5,146
Income before income taxes	**(211)**	**(766)**	**(913)**	**(1,890)**
Current	(517)	(540)	(1,124)	(2,181)
Deferred	2,164	2,263	4,709	9,136
Net income for the year	**1,436**	**957**	**2,672**	**5,065**

(In thousands of reais, unless otherwise stated)

30. Sensitivity analysis

The Company identified the main risk factors that may generate losses in its transactions involving financial instruments. As such, we performed a sensitivity analysis, as established by Brazilian SEC (CVM) Ruling No. 475, which requires that two scenarios be presented, with deterioration of 25% and 50% of the risk variables considered, in addition to a base scenario. These scenarios may generate impacts on net income and equity, as follows:

Foreign exchange

1 – Base scenario: for defining the base scenario, the US dollar and euro quotation used by the Company follows the future market projections of BM&FBovespa for the next disclosure (March 31, 2017).

2 – Adverse scenario: deterioration of 25% in the exchange rate in relation to the level as at March 31, 2017.

3 – Remote scenario: deterioration of 50% in the exchange rate in relation to the level as at March 31, 2017.

Scenario considering increase in exchange rate

				Consolidated			
		Probable scenario		-25%		-50%	
	Balance at 12/31/2016	Rate	Gain (Loss)	Rate	Gain (Loss)	Rate	Gain (Loss)
Assets							
Trade accounts receivable							
In USD	649	3.35	58	4,19	602	5.03	1,145
			58		602		1,145
Liabilities							
Trade accounts payable							
In USD	(10,509)	3.35	(946)	4.19	(9,747)	5.03	(18,548)
In Euros	(5,618)	3.53	(534)	4.42	(5,498)	5.30	(10,463)
Loans							
In USD	(2,402)	3.35	(216)	4.19	(2,228)	5.03	(4,240)
Financial Forwards							
In USD	(3,345)	3.35	(301)	4.19	(3,111)	5.03	(5,291)
			(1,997)		(20,584)		(38,542)
Net exposure			(1,939)		(19,982)		(37,397)

(In thousands of reais, unless otherwise stated)

30. Sensitivity analysis (Continued)

Foreign exchange (Continued)

Scenario considering decrease in exchange rate

	Consolidated						
		Probable scenario		25%		50%	
	Balance at 12/31/2016	Rate	Gain (Loss)	Rate	Gain (Loss)	Rate	Gain (Loss)
Assets							
Trade accounts receivable							
In USD	649	3.35	58	2.51	(485)	1.68	(1,028)
			58		(485)		(1,028)
Liabilities							
Trade accounts payable							
In USD	(10,509)	3.35	(946)	2.51	7,855	1.68	16,656
In Euros	(5,618)	3.53	(534)	2.65	4,431	1.77	9,396
Loans							
In USD	(2,402)	3.35	(216)	2.51	1,796	1.68	3,807
Financial Forwards							
In USD	(3,345)	3.35	(301)	2.51	2,509	1.68	5,285
			(1,997)		16,591		35,114
Net exposure			(1,939)		16,106		34,116

This sensitivity analysis aims at measuring the impact from changes in exchange market variables on each of the Company's financial instruments. Worth mentioning, the balances recorded as at December 31, 2016 were used as a base for future balance projections. The effective behavior of debt and derivative instrument balances will be determined by the respective agreements, and receivable and payable balances may vary in the ordinary course of business of the Company and its subsidiaries. Nonetheless, settlement of transactions involving these estimates may result in amounts different from those estimated due to uncertainties inherent in the analyses' preparation process.

In order to ensure the balance of its currency exposure, the Company engaged in transactions involving derivatives in US dollars in the financial market.

(In thousands of reais, unless otherwise stated)

30. Sensitivity analysis (Continued)

Interest rate

1 – Base scenario: for defining the base scenario, the Company uses the interest rates as at December 31, 2016.
2 – Adverse scenario: deterioration of 25% in interest rates in relation to the level as at December 31, 2016.
3 – Remote scenario: deterioration of 50% in interest rates in relation to the level as at December 31, 2016.

Concerning interest rate risk management, the strategy adopted by the Company is to diversify the financial instruments backed by fixed and floating rates, continuously monitoring the market to identify any need to change this procedure. Short-term investments, and loans and financing, except those contracted in foreign currency, are pegged to post-fixed interest rates. Sensitivity analysis of interest rate exposure is as follows:

Scenario considering decrease in interest rate

		Consolidated	**Income/(expenses)**					
			Probable scenario		**Possible scenario – 25%**		**Remote scenario – 50%**	
Short-term investments	**Index**	**12/31/2016**	Average rate p.a.	Effect on income (loss)	Average rate p.a.	Effect on income (loss)	Average rate p.a.	Effect on income (loss)
CDBs	75% CDI	**48,916**	10.54%	5,158	7.91%	3,868	5.27%	2,579
Loans								
Related parties	7.19% Fixed	**225,875**	7.19%	16,242	5.39%	12,181	3.60%	8,121
Financing								
Working capital	7.4% + CDI	**(117,994)**	14.06%	(16,589)	10.54%	(12,441)	7.03%	(8,294)
Machinery and Equipment Financing (FINAME)	8.74% + TJLP	**(2,778)**	7.50%	(208)	5.63%	(156)	3.75%	(104)
Debentures	4.8% + CDI	**(165,517)**	14.06%	(23,270)	10.54%	(17,452)	7.03%	(11,635)
Loans in the foreign market	7.4% + exchange fluctuation	**(7,831)**	7.40%	(579)	5.55%	(435)	3.70%	(290)
Leases	4.28% + SELIC	**(3,040)**	13.63%	(414)	10.22%	(311)	6.82%	(207)
Effect on income (loss)				**(19,661)**		**(14,746)**		**(9,830)**

(In thousands of reais, unless otherwise stated)

30. Sensitivity analysis (Continued)

Interest rate (Continued)

Scenario considering increase in interest rate

Consolidated			Income/(expenses)					
			Probable scenario		Possible scenario – 25%		Remote scenario – 50%	
Short-term investments	**Index**	**12/31/2016**	Average rate p.a.	Effect on income (loss)	Average rate p.a.	Effect on income (loss)	Average rate p.a.	Effect on income (loss)
CDBs	75% CDI	**48,916**	10.54%	5,158	13.18%	6,447	15.82%	7,737
Loans								
Related parties	7.19% Fixed	**225,875**	7.19%	16,242	8.99%	20,302	10.79%	24,363
Financing								
Working capital	7.4% + CDI	**(117,994)**	14.06%	(16,589)	17.57%	(20,736)	21.09%	(24,883)
Finame	8.74% + TJLP	**(2,778)**	7.50%	(208)	9.38%	(260)	11.25%	(313)
Debentures	4.8% + CDI	**(165,517)**	14.06%	(23,270)	17.57%	(29,087)	21.09%	(34,905)
Loans in the foreign market	7.4% + exchange fluctuation	**(7.831)**	7.40%	(579)	9.25%	(724)	11.10%	(869)
Leases	4.28% + SELIC	**(3,040)**	13.63%	(414)	17.04%	(518)	20.45%	(622)
Effect on income (loss)				**(19,661)**		**(24,576)**		**(29,491)**

31. Other operating expenses, net

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Provisions for contingencies	(5,539)	(1,275)	(6,032)	(6,572)
Tax fines and arrears	(2,921)	(16)	(3,135)	(62)
Capital gains (losses)	(1,107)	589	(4,115)	(2,580)
Other	(72)	(2,050)	(94)	(2,745)
	(9,639)	**(2,752)**	**(11,790)**	**(9,484)**

32. Government grants

Government grants aimed at compensating the Company for expenses incurred are recorded in net income as other revenues on a systematic basis in the same periods when these expenses were recorded.

In the state of Amazonas, the Company obtained a tax benefit referring to decrease of 55% in the ICMS debt balance computed monthly, valid until December 31, 2017. Also, the Company enrolled in the special ICMS payment regime with the state of Paraíba Finance Office, valid until December 31, 2025 and special ICMS payment regime – PRODEPE, with the state of Pernambuco, under the terms of Decree No. 37674 of December 23, 2011, valid until December 31, 2022.

As at December 31, 2016, this benefit amounted to R$ 4,029 (R$ 2.815 at December 31, 2015), recorded in net income for the year as deductions from operating income. Subsequently, this benefit was allocated to reserve for tax incentives in equity, to the limit of investments provided for in the terms of the agreement. In the year ended December 31, 2016, the Company allocated only R$ 634 to reserve for tax incentives, since the Company elected to distribute part of the benefit earned and subject this portion to tax levy.

* * *