Videolar-Innova S.A.

Financial statements

December 31, 2017 and 2016

Contents

KPMG Auditores Independentes
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Independent auditors' report on financial statements

To the Shareholders and Directors of
Videolar Innova S.A.
Manaus - AM

Opinion

We have reviewed financial statements of Videolar-Innova S.A. ("Company"), comprising the balance sheet as of December 31, 2017 and the related statements of income, comprehensive income and changes in shareholders' equity, and cash flows for the year then ended, as well as the corresponding notes, comprising the significant accounting policies and other clarifying information.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Videolar-Innova S.A. as of December 31, 2017, the performance of its operations and its cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

Basis for opinion

Our audit was conducted in accordance with Brazilian and international standards on auditing. Our responsibilities, in compliance with such standards, are described in the following section, titled "Auditors' Responsibilities for the Audit of Financial Statements." We are independent in relation to the Company, according to the relevant ethical principles established in the Accountants' Professional Code of Ethics and the professional standards issued by the Federal Accounting Council, and we comply with the other ethical responsibilities according to these standards. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

The key audit matters are those who, in our professional judgment, were the most significant in our audit of current year. These matters were addressed in the context of our audit of financial statements as a whole and in expressing our opinion on these financial statements and, therefore, we do not express a separate opinion on these issues.

Intangible assets recoverable value with undefined useful life (goodwill) and deferred tax assets – notes 6,6, 6.9, 15.1 and 25

The Company maintains a significant balance of intangible assets with undefined useful lives (goodwill) and deferred tax assets, whose recoverability is based on cash flow analyses and projections, and income generation. The Company makes significant judgment in the determination of cash flow projections and future taxable income which are based on assumptions that includes its economic and operational environment, especially the estimates of production and sales, inflation, and discount and economic growth rates. Due to the significant degree of judgment of estimates used in cash flow projects and future taxable income and effect in possible changes could have in financial statements, we consider this matter as significant in our audit.

How our audit conducted this issue

We understood the evaluation process of recoverable value of goodwill and determination of deferred tax asset and evaluated the design and of key internal controls related to the preparation and review of business plan, budgets and impairment analysis and deferred tax assets provided by the Company. We can count with the help of our experts in corporate finance, we have evaluated assumptions and methodologies used, such as production and sales estimates, inflation, and the discount and economic growth rates used by the Company in cash flow and future taxable income projections. In addition, with the aid of our tax experts, we evaluated the fairness of tax basis used to calculate deferred taxes using prevailing tax law as reference. We also evaluated disclosures made by the Company regarding goodwill and deferred taxes and related to sensitivity analysis, which demonstrate the impact on recoverable value resulting from possible and reasonable changes in key assumptions used by the Company.

As a result of evidence from the procedures summarized above, we consider that recognition of intangible asset with undefined useful life (goodwill) and deferred tax asset is acceptable in the context of financial statements for the year ended December 31, 2017 taken as a whole.

Responsibility of management for the financial statements

The Management is responsible for the preparation and adequate presentation of the financial statements in accordance with the accounting practices adopted in Brazil, and the internal controls it deemed necessary to enable the preparation of financial statements free of material misstatements, regardless of whether caused by fraud or error.

In the preparation of the financial statements, management is responsible for evaluating the Company's ability to continue as a going concern, disclosing, when applicable, the issues related to the going concern and the use of this accounting base in the preparation of financial statements, unless management intends to settle the Company or discontinue its operations, or has no realistic alternative to prevent the discontinuance of operations.

The ones responsible for the Company's management are those with responsibility for overseeing the process of preparation of financial statements.

Responsibilities of the auditors regarding the audit of financial statements

Our objectives are to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatements, regardless of whether any such misstatement is caused by fraud or error, and issue an audit report containing our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that the audit conducted pursuant to Brazilian and international auditing standards will always detect any existing material misstatements. Misstatements may be due to fraud or error and are considered material when, individually or taken as a whole, can influence, within a reasonable perspective, the economic decisions of users taken based on these financial statements.

As part of the audit conducted in accordance with Brazilian and international auditing standards, we exercise professional judgment and maintain our professional skepticism throughout the audit. In addition:

- We identify and assess the risks of material misstatement in the financial statements (regardless of whether any such misstatement is caused by fraud or error), we plan and perform audit procedures in response to such risks, and we obtain audit evidence that is appropriate and sufficient to underpin our opinion. The risk of not detecting material misstatement resulting from fraud is higher than that arising from error, once the fraud may involve the act of dodging the internal controls, collusion, falsification, omission or false intentional representations.
- We obtain an understanding of the internal controls relevant to the audit to design audit procedures suitable to the circumstances, but not with the aim of expressing an opinion on the effectiveness of the Company’s internal controls.
- We evaluated the adequacy of the accounting policies used and the reasonableness of the accounting estimates and the respective disclosures made by the management.
- We reach a conclusion as to the suitability of Management’s use of the accounting basis for going concern and, based on the audit evidence obtained, as to whether there is a material uncertainty regarding events or conditions that could raise a significant doubt regarding the Company’s capacity for going concern. If we conclude that there is material uncertainty, we will call attention in our audit report to the respective disclosures in the financial statements or include any change in our opinion, if the disclosures are inappropriate. Our conclusions are based on the audit evidences obtained until the date of our report. However, future events or conditions may cause the Company not to continue as going concern.
- We assess the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the corresponding transactions and events in a manner that is consistent with the objective of proper reporting.

We communicate with management regarding, among other things, the planned scope, the timing of the audit and the significant findings of the audit, including any significant deficiencies in internal controls that we identified during our work.

Of the matters that were subject of communication with those charged with Management, we determine those that were considered the most significant in the audit of the financial statements for the current year and, thus, represent the key audit matters. We describe these issues in our audit report, unless a law or regulation has prohibited the public disclosure of the issue, or when, under extremely rare circumstances, we determine that the issue shall not be reported in our report, because the adverse consequences from such report may, from a reasonable perspective, exceed the benefits from the report for public interest.

São Paulo, February 27, 2018

KPMG Auditores Independentes
CRC 2SP014428/O-6
Original report in Portuguese signed by
Juliana Leonam de Araujo Braga
Accountant CRC 1SP251062/O-5

Videolar-Innova S.A.

Balance sheets at December 31, 2017 and 2016

(In thousands of reais)

Assets	**Note**	**2017**	**2016**
Current assets			
Cash and cash equivalents	8	6.080	48.726
Accounts receivable	9	462.307	414.846
Financial instruments		-	20.672
Inventories	10	264.084	246.436
Recoverable income and social contribution taxes	25.c	583	2.107
Recoverable taxes	11	18.980	16.551
Other accounts receivable	12	3.825	4.231
Advance to suppliers		12.324	283
Prepaid expenses		3.471	3.517
		771.654	757.369
Non-current assets			
Deferred income and social contribution taxes	25.a	189.754	231.193
Accounts receivable	9	8.404	14.224
Recoverable taxes	11	16.723	15.211
Other accounts receivable	12	5.206	7.887
Judicial deposits	18	13.588	22.594
		233.675	291.109
Investment property	13	185.312	185.312
Property, plant and equipment	14	1.160.830	1.136.803
Intangible assets	15	284.958	320.470
		1.631.100	1.642.585
		2.636.429	2.691.063

Liabilities	**Note**	**2017**	**2016**
Current liabilities			
Loans and financing	16	198.821	326.641
Financial instruments	28	12.623	-
Suppliers	17	351.365	289.435
Labor obligations and social charges		24.151	29.307
Tax obligations		8.121	8.521
Other liabilities		36.621	25.294
		631.702	679.198
Non-current liabilities			
Loans and financing	16	275.126	457.559
Provision for contingencies	18	16.262	18.606
Other liabilities		22.047	10.306
		313.435	486.471
Shareholders' equity			
Capital	19.a	686.832	686.832
Tax incentive reserves	19.e	781.646	672.794
Legal reserve	19.c	33.552	25.655
Profit reserves	19.f	92.254	42.943
Equity valuation adjustment	19.b	97.008	97.170
Shareholders' equity		1.691.292	1.525.394
		2.636.429	2.691.063

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of income

Years ended December 31, 2017 and 2016

(In thousands of reais)

	Note	2017	2016
Net operating income	20	2.191.921	2.048.888
Cost of products sold	21	(1.791.204)	(1.650.460)
Gross operating income		**400.717**	**398.428**
Operating income (expenses)			
Administrative and selling expenses	22	(169.264)	(186.035)
Realization of goodwill		(31.683)	(31.683)
Other operating income, net	23	43.700	31.766
		(157.247)	(185.952)
Financial income	24	41.597	41.604
Financial expenses	24	(110.660)	(84.083)
Monetary and exchange variations, net	24	52.184	205.517
Net financial income (expenses)		(16.879)	163.038
Income (loss) before taxes		**226.591**	**375.514**
Current income and social contribution taxes	25.b	(10.808)	-
Deferred income and social contribution taxes	25.b	(57.844)	9.038
Net income for the year		**157.939**	**384.552**

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of comprehensive income

Years ended December 31, 2017 and 2016

(In thousands of reais)

	2017	2016
Income (loss) for the year	157.939	384.552
Comprehensive income		
Other comprehensive income, net of income and social contribution taxes	-	-
Total comprehensive income	157.939	384.552
Comprehensive income attributable to		
Controlling shareholders	157.939	384.552
Total comprehensive income	**157.939**	**384.552**

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of changes in shareholders' equity

Years ended December 31, 2017 and 2016

(In thousands of reais)

			Profit reserve				
	Capital	**Equity valuation adjustments**	**Legal**	**Tax incentives**	**Profit retention**	**Retained earnings (loss)**	**Total**
Balances at December 31, 2015	686.832	106.534	6.427	350.168	-	-	**1.149.961**
Net income for the year	-	-	-	-	-	384.552	**384.552**
Equity valuation adjustment	-	(9.119)	-	-	-	-	**(9.119)**
Realization of equity adjustment	-	(245)	-	-	-	245	-
Formation of legal reserve (Note 20.c)	-	-	19.228	-	-	(19.228)	-
Formation of reserve for tax incentives (Note 20.e)	-	-	-	322.626	-	(322.626)	-
Formation of profit retention reserve (Note 20.f)	-	-	-	-	42.943	(42.943)	-
Balances at December 31, 2016	**686.832**	**97.170**	**25.655**	**672.794**	**42.943**	**-**	**1.525.394**
Equity valuation adjustment	-	83	-	-	-	-	**83**
Realization of tax incentive reserve - IRPJ	-	-	-	7.876	-	-	**7.876**
Net income for the year	-	-	-	-	-	157.939	**157.939**
Realization of equity adjustment	-	(245)	-	-	-	245	-
Formation of legal reserve (Note 19.c)	-	-	7.897	-	-	(7.897)	-
Formation of tax incentive reserve (Note 19.e)	-	-	-	100.976	-	(100.976)	-
Formation of profit retention reserve (Note 19.f)	-	-	-	-	49.311	(49.311)	-
Balances at December 31, 2017	**686.832**	**97.008**	**33.552**	**781.646**	**92.254**	**-**	**1.691.292**

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of cash flows

Years ended December 31, 2017 and 2016

(In thousands of reais)

	Note	2017	2016
Cash flows from operating activities			
Net income for the year		157.939	384.552
Adjustments for reconciliation of income (loss) for the year with funds from operating activities			
Depreciation and amortization	14 and 15	74.353	78.285
Realization of goodwill		31.683	31.683
Deferred and current income tax		68.652	(9.038)
Write-off of fixed and intangible assets		36.078	80.477
Reversal of provision for contingencies	18	(2.344)	(1.953)
Allowance for estimated credit loss for allowance for doubtful accounts	9	(207)	1.485
Provision for obsolescence	10	(393)	(2.059)
Financial charges and foreign exchange variation on balances with associated companies, financing, tax obligations, judicial deposits, accounts payable and receivable, net		24.905	(163.113)
		390.666	400.319
Decrease (increase) in assets			
Trade and other notes receivable		(40.612)	(117.968)
Inventories		(17.255)	(12.810)
Recoverable taxes		(2.417)	5.452
Other		98	23.437
		(60.186)	(101.889)
Increase (decrease) in liabilities			
Suppliers		45.506	116.188
Royalties payable		-	(4.742)
Salaries and social security charges		(5.156)	1.607
Other		16.002	7.802
		56.352	120.855
Cash generated by operating activities		386.832	419.285
Income taxes paid		(2.349)	-
Net cash flow from operating activities		384.483	419.285
Cash flow from investment activities			
Acquisition of property, plant and equipment		(145.858)	(98.798)
Acquisitions of intangible assets		(1.092)	(3.289)
Investment property		-	(23.253)
Cash flow used in investment activities		(146.950)	(125.340)
Cash flow from financing activities			
Funding financing		140.603	97.874
Payment of financing and interest		(420.782)	(363.331)
Net cash used in financing activities		(280.179)	(265.457)
(Decrease) increase in cash and cash equivalents		(42.646)	28.488
Cash and cash equivalents at the beginning of the year		48.726	20.238
Cash and cash equivalents at the end of the year		6.080	48.726
Changes in CCE for the year		(42.646)	28.488

See the accompanying notes to the financial statements.

Notes to the financial statements

1 Operations

Videolar-Innova S.A. (“Videolar-Innova” and “Company) is a privately-held company domiciled in Brazil. Registered address of the Company’s head office is Avenida Torquato Tapajós, nº 5.555, Bloco B, Taruma, CEP 69041-025, located in Manaus - AM.

The Company is engaged in the Plastic Resins sector (Styrene and Polystyrene and Expandable Polystyrene), supplying the needs of clients in the Electric and Electronic Appliance, Plastic, Disposable goods, Food and other sectors, as well as operating in transformed plastics such as for example: Plastic Lids and BOPP (Biaxial polypropylene film).

On October 31, 2014, upon acquisition of 60% shareholding interest in Innova S.A. (“Innova”), which formerly belonged to Petroleo Brasileiro S.A. (“Petrobrás”), the Company, has well established itself in the petrochemical sector.

Videolar S.A. on September 30, 2015 effectively formalized the merger of Innova and the Company now does business under the name, Videolar-Innova S.A.

After a corporate reorganization, the Company now encompasses three manufacturing plants, two located in Manaus in the state of Amazonas and one in the city of Triunfo in Rio Grande do Sul State and today is the Polystyrene market leader in the country.

2 Preparation basis

Statement of conformity (regarding the Accountant Statements Committee - CPC standards)

The financial statements were prepared in accordance with accounting practices adopted in Brazil.

The issuance of financial statements was authorized by the Executive Board on February 27, 2018. After their issuance, only the shareholders have the power to change the financial statements.

Details on the Company’s accounting policies are shown in Note 6.

All relevant information specific to the financial statements, and only such information, is being evidenced, and corresponds to the information used by company Management.

3 Functional and presentation currency

These financial statements are being presented in Brazilian Real, functional currency of the Company. All balances have been rounded to the nearest value, except otherwise indicated.

4 Use of estimates and judgments

The preparation of these financial statements, Management used judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed in a continuous manner. Reviews of estimates are recognized on a prospective basis.

(i) Use of estimates and judgments

Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information on uncertainties as to assumptions and estimates that pose a high risk of resulting in a material adjustment within the year to end at December 31, 2018 are included in the following notes:

- **Note 9** – Estimated loss for allowance for doubtful accounts;
- **Note 14 -** Fixed assets - review of useful life;
- **Note 15 -** Intangible asset and goodwill impairment test;
- **Note 18** – Provisions for contingencies;
- **Note 25** – Deferred income and social contribution taxes.

5 Measuring basis

The financial statements were prepared based on the historical cost, except for the following material items recognized in the balance sheets:

- Investment property is measured at fair value.

6 Significant accounting policies

We present below a table of contents of the significant accounting policies which have been consistently applied to all the periods presented in these financial statements. Aiming at improving the presentation of "costs of products sold" and "administrative and sales expenses" captions, in 2016, the Company reclassified R$ 38,447 related to the idleness in production of administrative and sales expenses to costs of products sold.

- **6.1** – Business combination
- **6.2 -** Operating income
- **6.3 -** Government grants and assistance
- **6.4 -** Financial income and expenses
- **6.5** – Foreign currency
- **6.6 -** Income and social contribution taxes
- **6.7** – Inventory
- **6.8** – Property, plant and equipment
- **6.9 -** Intangible assets

- **6.10** – Investment property
- **6.11** – Financial instruments
- **6.12** – Impairment
- **6.13** – Provisions
- **6.14 -** Employee benefits
- **6.15 -** New standards and interpretations not yet effective

6.1 Business combination

Business combinations are recorded using the acquisition method when control is transferred to the Company. The consideration of the transferred acquisition is usually measured at fair value, as well as the identifiable net assets acquired. Any goodwill arising from the transaction is annually tested for impairment. Transaction costs are recorded in profit or loss as incurred, except the costs related to the issue of debt or equity instruments.

Any contingent consideration payable is measured at its fair value on acquisition date. If the payment is classified as an equity instrument, it is not remeasured and the liquidation is recorded in shareholders' equity. For other payments, subsequent changes in the fair value of the contingent consideration are recorded in income for the year.

6.2 Operating income

(i) Products sold

The operating income from sale of goods in the normal course of business is measured at the fair value of the consideration received or receivable. Operating income is recognized when there is convincing evidence that the risks and rewards inherent to the ownership of the assets have been transferred to the purchaser, it is probable that the financial economic benefits will flow to the Company, the related costs and potential return of products can be reliably estimated, there is no continued involvement with the goods sold, and the amount of operating income can be reliably measured. In the event that it is probable that discounts will be granted and their amounts can be reliably measured, discounts are recognized as a reduction to sales.

The correct moment for the transfer of risks and benefits varies depending on the individual conditions of the sales agreement.

(ii) Tax incentives

Income deriving from tax incentives described in Note 27, received as monetary asset, is recognized in income for the year on a systematic basis, throughout the period corresponding to incurred expenses, which is the object of this incentive. Conditions established for the maintenance of tax incentives were duly complied with by the Company.

(iii) Income earned from rental of investment property

The income from investment property lease is recognized in statement of income on a straight-line basis, over the lease period. Lease incentives granted are recognized as an integral part of the total rental income, over the lease period.
Income from the rental of other properties is recognized as “Other income”.

6.3 Government grants and assistance

Government grants and assistances are recognized when there is reasonable assurance that conditions established by Amazonas State government have been met and that they will be earned and are recorded as revenue in income for the period necessary to confront them with the expense that the government grant or assistance intends to offset.

Videolar-Innova is beneficiary of the following tax incentives granted by Amazonas, Rio Grande do Sul State, and Federal Government:

a. ICMS

Tax incentive credits related to ICMS (Tax on the Circulation of Goods and Transportation and Communication Services) reimbursement, from State of Amazonas, were accounted for in the Company's income (loss) for the year as a counterparty to ICMS payable in the amount of R$ 100,976 (R$ 95,772 in 2016), as Note 27.

b. FUNDOPEM - Investment grant

The Company has Financial Benefits from FUNDOPEM/RS – Fundo Operação Empresa/RS (Rio Grande do Sul Company Operation Fund) and from INTEGRAR/RS –Programa de Harmonização de Desenvolvimento da Indústria do Rio Grande do Sul (Rio Grande do Sul State Industry Development Harmonization Program), provided for in Decree No. 49.205/12. The benefit was granted to the Company under Decrees 52972 and 52973, both dated March 31, 2016.

The Company complied with the requirements of CPC 07 - "Government grants and assistance" for its recognition and this reserve for investments was recorded in the Company's income (loss) for the year.

c. Income tax

The Company, in the units of Manaus, has approval of its project by the Superintendency of development for the Amazon—SUDAM, and is entitled to exemption from or reduction of income tax and other non-refundable surtaxes, being obliged to capitalize the amount of the tax benefit pursuant to Decree-Law 756 of 1969.

As of December 31, 2017 and 2016, the Company complied with all legal requirements to receive such incentives.

d. IPI

Excise tax – Products produced in the Free economic zone of Manaus—ZFM, Decree 7,212/10, article 81, item II.

e. PIS / Cofins

PIS (Program of Social Integration) /COFINS (Contribution for the Financing of Social Security) - Law 10996/2004 art. 3 and art. 4.

f. Import tax

Income tax – Provisional Measure 2199-14 Article 1, Regulatory Instruction 217, of October 9, 2002, with new wording from Law 11196, of 2005, Article 32.

6.4 Financial income and expenses

Financial income includes interest income on invested funds, changes in the fair value of financial assets measured at fair value through profit or loss. Interest income is recognized in profit or loss using the effective interest method.

Financial expenses include expenses with interest on loans, discount at present value adjustments on provisions and contingent compensation, changes in financial assets fair value measured at fair value through profit or loss and impairment losses recognized in financial assets (except for receivables). Borrowing costs which are not directly attributable to the acquisition, construction, or production of a qualifying asset are accounted for in profit or loss using the effective interest rate method.

Exchange gains and losses are reported on a net basis.

6.5 Foreign currency

Transactions in foreign currency are translated into the respective functional currencies of the Company at the exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date. Exchange gain or loss in monetary items is the difference between the amortized cost of the functional currency at the beginning of the year, adjusted by interest and effective payments during the year, and the amortized cost in foreign currency at the exchange rate at the end of the presentation year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the foreign exchange rate on the date the fair value was determined.

Exchange differences arising from the reconversion are charged to income.

6.6 Income and social contribution taxes

The income and social contribution taxes of the year, both current and deferred, are calculated based on the rates of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 for income tax and 9% on taxable income for social contribution on net income, and consider the offsetting of tax loss carryforward and negative basis of social contribution, limited to 30% of the taxable income.

The income and social contribution tax expense comprises current and deferred taxes on income. Current taxes and deferred taxes are recognized in profit or loss unless they are related to the business combination, or items directly recognized in shareholders' equity or other comprehensive income.

(i) Current tax

Current taxes are the taxes payable or receivable on the taxable income or loss for the year, at tax rates enacted or substantively enacted on the date of preparation of the financial statements, and any adjustments to taxes payable in relation to prior years. Current tax also includes any tax liability arising from the declaration of dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred income and social contribution taxes are calculated on existing temporary differences in tax bases of assets and liabilities and book values, determined by using current rates on closing dates of financial statements and that must be applied when the respective deferred income and social contribution tax assets were realized or when the deferred income and social contribution tax liabilities are settled.

Deferred income and social contribution tax assets are recognized only in the proportion of the probability that the future taxable income and which temporary differences can be used against it. Future taxable income is determined based on the reversal of relevant taxable temporary differences. If the amount of the taxable temporary differences is insufficient to fully recognize a deferred tax asset, the future taxable income, adjusted for reversals of the existing temporary differences, will be considered, based on Company's business plans.

Deferred tax assets are reviewed at each balance sheet date and reduced when their realization is no longer probable.

Deferred tax assets and liabilities are measured at tax rates expected to be applied to temporary differences when they are reversed, based on rates decreed up to the balance sheet date.

Measurement of deferred tax assets and liabilities includes tax consequences that follow the manner in which the Company expects to recover or settle the assets and liabilities.

The amount of asset and liability income and social contribution taxes are offset only when the rights to it can be legally executed to offset tax assets/credits against the tax liabilities.

(iii) Tax exposures

When determining current and deferred income tax, the Company takes into consideration the impact of uncertainties related to tax positions taken and whether additional taxes and interest may be due. The Company believes that the provision for income tax recorded in liabilities is adequate for all outstanding tax periods, based on its evaluation of several factors, including interpretations of tax laws and past experience. This evaluation is based on estimates and assumptions and may involve several judgments on future events. New information may be provided, making the Company change its judgment on the existing provision adequacy; such changes of provision will impact income tax expenses for the year in which they are made.

6.7 Inventories

Stated at the average cost of acquisition, net of recoverable taxes, when applicable.

The cost of finished products and work in process comprises raw materials, other production materials, cost of labor, other direct costs and a portion (allocation) of the fixed and variable costs, based on the normal operating capacity. The evaluation of inventories does not exceed its market value. Provisions for slow-moving or obsolete inventories are formed when considered necessary by Management.

6.8 Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment items are stated at historical cost of acquisition or construction, net of accumulated depreciation and impairment losses.

The cost includes expenditures that are directly attributable to the acquisition of assets. The cost of assets constructed by the Company itself include:

- The cost of materials and direct labor;
- Any other costs attributable to bringing the assets to the location and condition required for them to operate in the manner intended by the Management;
- The costs for dismantling and restoration of the site where these assets are located; and
- Borrowing costs on qualifiable assets.

The cost of a fixed asset may include reclassifications of other comprehensive income of qualifiable cash flow hedge instruments for the purchase of fixed assets in foreign currency. Purchased software that is integral to the functionality of a piece of equipment is capitalized as part of that equipment.

When parts of a property, plant and equipment item have different useful lives, they are accounted for as separate items (major components) of PP&E.

Gains and losses on disposal of a property, plant and equipment item (determined by comparing the proceeds from disposal with the book value of property, plant and equipment) are recognized in other operating income (expenses) in profit or loss.

(ii) Reclassification for investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as an investment property. Any gain on from this remeasurement is recognized in income (loss) as the gain reverses a impairment loss on the specific property, and any remaining gain recognized as other comprehensive income and presented under equity valuation adjustment account. Any loss is immediately recognized in income (loss).

(iii) Subsequent costs

Subsequent expenditures are capitalized in accordance with the probability that associated future benefits may be earned by the Company. Maintenance expenses and recurring repairs are recorded in the income.

(iv) Depreciation

Fixed asset items are depreciated using the straight-line method in the income for the year based on the estimated economic useful life of each component. Leased assets are depreciated over the shorter of the lease term or the estimated useful life of the asset, unless it is reasonably certain that the Company will obtain ownership at the end of the lease term. Land is not depreciated. Items of fixed assets are depreciated as of the date they are installed and are available for use, or, in the case of assets constructed internally, as of the date the construction is concluded and the asset is available for use.

The depreciation methods, useful lives and residual values are revised at the reporting date of the financial statements and any adjustments are recognized as changes to accounting estimates.

Depreciation of other assets is calculated using the straight-line method, with the costs of other assets being allocated to their residual values over the estimated useful life in years, as follows:

	2017	**2016**
Equipment	5	5
Improvements / facilities	10	10
Machinery, equipment and tools	10	10
Furniture and fixtures	10	10
Vehicles	5	5
Other	20	20

6.9 Intangible assets

(i) Goodwill

Goodwill arising from the acquisition of subsidiaries is presented with intangible assets in the financial statements.

Subsequent measurement
Goodwill is measured at cost, less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets acquired by the Company with finite useful lives are carried at cost, less accumulated amortization and any accumulated impairment losses.

(iii) Subsequent expenses

Subsequent expenses are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally-generated goodwill and trademarks and patents, are recognized in profit or loss as incurred.

(iv) Amortization

Except for the goodwill, the intangible assets are amortized on the straight-line method and the amortization is recognized in income based on the estimated useful life of the assets as of the date they are available for use. Estimated useful lives for current and comparative years are as follows:

Trademarks and patents	5 years
Software	5 years

The amortization methods, useful lives and residual values are reviewed at each reporting date, and adjusted if appropriate.

6.10 Investment property

Investment property is initially measured at cost and, subsequently, at fair value, and changes to fair value are recognized in the income (loss).

Gains and losses in the disposal of an investment property (calculated by the difference between the net value received in the sale and the item book value) are recognized in the statement of income. When an investment property previously recognized as a fixed asset is sold, any amount recognized in equity valuation adjustment is transferred to retained earnings.

6.11 Financial instruments

Videolar-Innova classifies non-derivative financial assets in the following categories: financial assets measured at fair value through profit or loss, investments held to maturity and loans and receivables. The Company classifies non-derivative financial liabilities in the category of other financial liabilities.

(i) Non-derivative financial assets and liabilities – recognition and derecognition

The Company initially recognizes the loans and receivables and debt instruments on the date that they are originated. All other financial assets and liabilities (including assets designated at fair value through profit or loss) are initially recognized on the date of the negotiation under which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flow of the asset expire, or when the Company transfers the rights to the reception of contractual cash flows over a financial asset in a transaction in which essentially all the risks and benefits of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by Videolar-Innova is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or canceled or expire.

Financial assets and liabilities are offset and the net value reported in the balance sheet only when Videolar-Innova has a legally enforceable right to set off and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets - Measurement

Financial assets measured at fair value through profit or loss

A financial asset is classified as measured at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. The transaction costs are recognized in income (loss) as incurred. Financial assets recorded at fair value through profit or loss are measured at fair value and changes in the fair value of such assets, including gains with interest and dividends, are recognized in the income for the year.

Loans and receivables

Such assets are initially recognized at fair value plus any transaction costs directly assignable. After their initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents include balances of cash and financial investments with short-term original maturity and high liquidity, which are subject to an insignificant risk of change in value and are used by the Company to manage short-term obligations.

In cash flow statements, cash and cash equivalents include overdraft accounts' negative balances that are immediately receivable and an integral part of the Company's cash management.

(iii) Non-derivative financial liabilities

Non-derivative financial liabilities are initially recognized at fair value less any transaction costs directly assignable. After their initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

Effective interest rate method
Used to calculate the amortized cost of a debt instrument and allocate the interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash flows over the expected life of the debt instrument or, when appropriate, over a shorter period, to the net book value on initial recognition date.

Measurement
The regular purchases and sales of financial assets are recognized on the trading date, which is the date when the Company commits to buy or sell the asset. Financial assets classified at fair value through profit or loss are initially recognized at fair value, and transaction costs are debited in the statement of income. Loans and receivables are calculated at the amortized cost.

Offsetting of financial instruments
Financial assets and liabilities are offset and their net values in the balance sheet only when there is a legal right to offset the amounts recognized and there is an intent to settle them on net bases, or realize the asset and settle the liability simultaneously.

Derivative financial instruments and swap activities
The Company holds derivative financial instruments to hedge its exposure to foreign currency and interest rate changes. Derivatives are separated from the host contracts and separately recorded when certain criteria are met.

Derivatives are initially measured at their fair value; any attributable transaction costs are recognized in profit or loss when incurred. After the initial recognition, derivatives are measured at fair value and changes are recorded in profit or loss.

(iv) Derivative financial instruments
The Company holds derivative financial instruments to hedge its exposure to foreign currency and interest rate changes. Embedded derivatives are separated from the host contracts and separately recorded when certain criteria are met.

Derivatives are initially measured at their fair value; any attributable transaction costs directly attributable are recognized in profit or loss when incurred. After the initial recognition, derivatives are measured at fair value and changes are recorded in profit or loss.

(v) Capital

Common shares
Additional costs directly attributable to the issue of shares and share options are recognized as a deduction from shareholders' equity, net of any tax effects.

Preferred shares
The Company did not issue redeemable preferred shares in the period.
The compulsory minimum or priority dividends, as established in the By-laws, are recognized as liabilities.

6.12 Impairment

(i) Non-derivative financial assets

Financial assets not classified as financial assets at fair value through profit or loss, including investments accounted for under the equity method, are evaluated at each balance sheet date to determine if there are objective impairment evidence.

Objective evidences of financial assets' impairment include:

- Debtor's default or delays;
- Restructuring of an amount owed to the Company at conditions that the Company would not consider as normal conditions;
- Indications that the debtor or issuer will face bankruptcy;
- Negative changes in payment situation of debtors or issuers;
- The disappearance of an active market for an instrument; or
- Observable data indicating that expected cash flow measurement of a group of financial assets decreased.

For investments in membership certificates, objective impairment evidences include a significant or prolonged decline in fair value, below cost.

Financial assets measured at the amortized cost

The Company considers as evidence of impairment of assets measured by amortized cost (for receivables and financial assets held-to-maturity) both individually and on an aggregate basis. Individually significant assets are assessed for impairment. Those identified as non-impaired on an individual basis are collectively assessed for any impairment loss not yet identified. Assets that are not individually significant are collectively evaluated for impairment based on group of assets with similar risk characteristics.

When assessing impairment on an aggregate basis the Company makes use of historical trends of the recovery term and the amounts of losses incurred, adjusted to reflect the management's judgment if the current economic and credit conditions are such that the actual losses will probably be higher or lower than those suggested by historical trends.

An impairment is calculated as the difference between the asset's book and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The losses are recognized in an allowance in the income statement. When the Company considers that it is not possible to reasonably expect recovery, amounts are written-off. When a subsequent event causes the amount of the impairment loss to decrease, the impairment loss is reversed to the profit or loss.

(ii) Non-financial assets

The book values of the Company's non-financial assets, except for inventories are reviewed at each balance sheet date for indication of impairment. If such indication exists, the asset's recoverable value is estimated.

Recoverable value of an asset is the higher of value in use and fair value less selling costs. Value in use is based on estimated future cash flows discounted to present value using a discount rate before taxes that reflects current market evaluations of times value of money and the asset's specific risks

An impairment loss is recognized when the book value of an asset exceeds its recoverable value.

Impairment losses are recognized in profit or loss. Regarding other assets, impairment losses are reversed only with the condition that the book value of the asset does not exceed the book value that would have been calculated, net of depreciation or amortization, if the value loss had not been recognized.

6.13 Provisions

A provision is set up when the Company has a legal or constructive obligation as a result of a past event, which can be reliably estimated, and it is probable that an outflow of funds will be required to settle the obligation. Provisions are calculated by discounting the expected future cash flows at a pre-tax rate which reflects the current market evaluations as to the value of the cash over time and the specific risks of the liability. The financial costs incurred are recorded in the statements of income.

6.14 Employee benefits

Obligations for short-term employee benefits are recognized as personnel expenses as the related service is rendered. The liability is recognized at the amount expected to be paid, if the Company has a legal or constructive obligation to pay this amount as a result of prior service rendered by the employee, and the obligation can be reliably estimated.

6.15 New standards and interpretations not yet effective

Several new standards or amendments to standards and interpretations will become effective for the years started after January 1, 2018. The Company did not adopt these changes for preparation of these financial statements. The Company does not plan to adopt these standards in advance.

CPC 47 - IFRS 15 - Income from Contracts with Clients

CPC 47 (IFRS 15) introduces a comprehensive framework for determining whether and when income is recognized. The pronouncement became effective for annual periods starting on or after January 1, 2018 and replaced current guidelines for income recognition in CPC 30 - Income / IAS 18, CPC 17 – Construction Contracts / IAS 11 and IFRIC 13 - Client Loyalty Programs.

The Company will adopt CPC 47 (IFRS 15) in its financial statements for the year to end on December 31, 2018 on a prospective basis. The Company is under final evaluation of potential impacts for adopting CPC 47 (IFRS 15) in its financial statements. As a result of initial evaluation made by the Company, impacts identified thus far are as follows:

(i) Sale of products
For product sales, income is currently recognized when the goods are delivered to the client's location or removed by them in Company's location, the time when the client accepts the goods and the risks and benefits related to ownership. Income is recognized at this time, provided that the income and costs can be measured reliably, receipt of consideration is probable, and there is no continuous involvement of Management with the products.

According to CPC 47 (IFRS 15), income must be recognized when the client obtains control of the products. Accordingly, relevant changes in measurement and recognition of income are not expected with adoption of mentioned new accounting standard.

(ii) Returns from clients
After the client formally confirms receipt of products, when quality of products is measured and accepted, and although there are no negotiations that would allow the client to return goods, returns may occur on an exceptional basis, of products not complying with specifications, identified after tax receipt. Therefore, returns may occur in the future, by clients, however, at immaterial volume and amount.

(iii) Other
The Company does not expect other impacts from adoption of CPC 47, since it does not have sales operations by construction contracts, loyalty programs, or other issues related to income that suffered changes in relation to the accounting practices for the adoption of CPC 47.

CPC 48 - IFRS 9 - *Financial Instruments*
CPC 48 (IFRS 9) includes new models for the classification and measurement of financial instruments and measurement of expected credit losses for financial and contractual assets, and new requirements on hedge accounting.
The pronouncement became effective for annual periods starting on or after January 1, 2018 and replaces guidelines of CPC 38 - Financial Instruments: Recognition and Measurement (IAS 39).

The effective impact of the adoption of IFRS 9 (CPC 48) on the Company's financial statements for the year ended in 2018 cannot be estimated with confidence, as it will depend on the financial instruments held by the Company and the economic conditions in this year, as well as accounting decisions and judgment calls that the Company will make in the future. The new standard requires the Company to review its accounting procedures and internal controls related to the classification and measurement of financial instruments, and these changes are not yet finalized. However, the Company conducted a preliminary assessment of the potential impact of adopting CPC 48 (IFRS 9) based on its position at December 31, 2017 under CPC 38 (IAS 39). Outcome of this evaluation is indicated in items below.

(i) Classification - Financial assets
CPC 48 (IFRS 9) contains a new approach to financial asset classification and measurement that reflects the business model in which the assets are managed and their cash flow characteristics. The pronouncement contains three main classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income (FVTOCI) and at fair value through profit or loss (FVTPL). The standard eliminates the categories existing in CPC 48 (IAS 39) of held-to-maturity, loans and receivables, and available for sale.

Based on its preliminary assessment, the Company does not consider that the new classification requirements, if applied at December 31, 2017, would have a significant impact on the calculation of interest earning bank deposits, cash, trade accounts receivable and other financial assets.

On December 31, 2017, the Company had no equity investments classified as available for sale. From the adoption of CPC 48 (IFRS 9), in case the Company has assets with such classification, the Company shall then decide to classify them as fair value through other comprehensive income and fair value through profit or loss.

(ii) Impairment - Financial and contractual assets

CPC 48 (IFRS 9) replaces the "incurred losses" model of CPC 38 (IAS 39) with a prospective "expected credit losses" model. This requires a relevant judgment as to how changes in economic factors affect the expected credit losses, which will be determined based on weighted probabilities.

The new model of expected losses will be applied to financial assets measured at amortized cost or VFTOCI, with the exception of investments in equity instruments and contractual assets. According to CPC 48, the provisions for expected losses will be measured on one of the following bases:

- Expected credit losses for 12 months, i.e., credit losses that result from potential delinquency events within 12 months after the reporting date; and
- Lifetime expected credit losses, i.e., credit losses that result from all possible delinquency events over the expected life of a financial instrument.

The measurement of lifetime expected credit losses applies if the credit risk of a financial asset at the reporting date has increased significantly since its initial recognition, and the 12-month credit loss measurement applies if the risk has not increased significantly since its initial recognition. An entity may determine that the credit risk of a financial asset has not increased significantly if the asset has low credit risk on the reporting date. However, the measurement of lifetime expected credit losses always applies to trade accounts receivable and contractual assets without a significant financing component; an entity may opt to apply this policy also to trade accounts receivable and contractual assets with a significant financing component.

The Company is still evaluating the impairment loss methodology that will be applied in the scope of CPC 48 (IFRS 9); however, the historical losses of the Company are not material, and significant changes are not expected in impairment of financial assets.

(iii) Classification - Financial liabilities

CPC 48 retains a large part of the requirements of CPC 38 (IAS 39) for the classification of financial liabilities. However, according to o CPC 38 (IAS 39), all changes in fair value of the liabilities designated as FVTPL are recognized in statement of income, whereas, according to CPC 48 (IFRS 9), these changes in fair value are generally reported as follows:

- the amount of the change in fair value that is attributable to changes in the credit risk of the financial liability is presented in Other comprehensive income; and

- the remaining amount of the change in fair value is presented in income (loss).

As of December 31, 2017, the Company does not have liabilities classified as fair value through profit or loss, and, therefore, no material impact is expected.

(iv) Disclosures

CPC 48 (IDRS 9) will require extensive new disclosures, specifically credit risk and expected credit losses. The Company is under preliminary evaluation and will be prepared to meet new CPC 48 (IFRS 9) requirements upon its adoption.

Other changes

The following changed standards and interpretations should not have a significant impact on the Company’s financial statements:

– Cycle of annual improvements for IFRS 2014-2016 – Amendments to IFRS 1 and IAS 28;
– IFRS 16 - Leases;
– Amendments to CPC 10 (IFRS 2) – Share-based payment in relation to classification and measurement of certain transactions with share-based payment;
– Transfers of Investment Property (Amendments to CPC 28 / IAS 40);
– Amendments to CPC 36 Consolidated Statements (IFRS 10) and CPC 18 Investments in Associated Company (IAS 28) in relation to sales or contributions of assets between an investor and its associated company or joint venture.
– ICPC 21 / IFRIC 22 Foreign-currency transactions and advance;
– IFRIC 23 Uncertainty related to Income Tax Treatments.

The Accounting Pronouncements Committee has not yet issued any accounting pronouncement or amendments in current pronouncements corresponding to all IFRS new standards. Therefore, the early adoption of these IFRSs is not permitted to entities that disclose their financial statements in accordance to the accounting practices adopted in Brazil.

7 Determination of the fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

When applicable, additional information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Investment property

The fair value of investment properties is determined by independent external real estate appraisers, with appropriate and recognized professional qualification, and recent experience in the property location and category that is being appraised. The independent appraisers provide the fair value of the investment property portfolio of the Company each year.

(ii) Property, plant and equipment

The fair value of property, plant and equipment recognized due to a business combination is based on market values. The market value of a property is the estimated amount for which the asset could be exchanged on the valuation date between well informed parties interested in the transaction under normal market conditions. The fair value of property, plant and equipment is based on a market approach and on a cost approach using market prices quoted for similar items, when available, and replacement costs, when applicable.

(iii) Intangible assets

The fair value of intangible assets is based on the discounted cash flows expected to be accrued from the use and possible sale of the assets.

(iv) Trade accounts receivable and other credits

The fair value of accounts receivable and other receivables, excluding construction in progress, is estimated as being the present value of future cash flows discounted by the market interest rate calculated on the balance sheet date. Such fair value is determined for disclosure purposes.

(v) Other non-derivative financial liabilities

The fair value that is determined for disclosure purposes is calculated based on the present value of principal and future cash flows, discounted at market interest rate on the date of presentation of the financial statements. For convertible debt securities, the market interest rate is determined by reference to similar liabilities that do not have a conversion option. For financial leases, the interest rate is determined by reference to similar lease agreements.

8 Cash and cash equivalents

	2017	2016
Cash and cash equivalents	5,560	4,041
Interest earning bank deposit	520	44,685
	6,080	**48,726**

The investments retained by the Company in fixed income securities reflect the usual market conditions and are remunerated at the rate of the Interbank Deposit Certificates (“CDI”). Operations with a minimum investment term of 30 days were remunerated at an average rate of 97% of the CDI (99.5% in 2016) and were measured at fair value as a counterparty to profit or loss. Such assets are convertible into a known sum of cash and subject to an insignificant risk of change of value.

9 Accounts receivable

Amounts receivable as of December 31, 2017 and 2016 are as follows:

	2017	2016
Trade accounts receivable	513,570	472,132
Related parties (Note 26)	-	4
	513,570	**472,136**
Allowance for doubtful accounts	(42,859)	(43,066)
	470,711	**429,070**
Current assets	**462,307**	**414,846**
Non-current assets	**8,404**	**14,224**

An allowance for doubtful accounts is formed at an amount considered sufficient by Management to cover possible losses on realization of credits, considering individual analysis of debtors whose default exceeds 180 days, as shown in the following aging list:

	2017	**2016**
Amounts falling due	**443,230**	**418,919**
Overdue - in days:		
up to 30	14,788	5,815
31–60	736	3,950
61–90	12,202	135
91–180	84	883
>181	42,530	42,434
Total overdue	**70,340**	**53,217**
Accounts receivable	**513,570**	**472,136**

Changes in the allowance for doubtful accounts are as follows:

	2017	**2016**
Balance at the beginning of the year	43,066	41,581
Supplement to allowance for the year	532	4,993
Values written-off of provision	(739)	(3,508)
Balance at December 31	**42,859**	**43,066**

Management believes that risk related to trade accounts receivable is minimized by the fact that the breakdown of the Company's end clients is highly diversified. The Company has more than 220 active clients in portfolio and no client represents 20% or more of income or accounts receivable as of December 31, 2017 and 2016.

Inventories

	2017	**2016**
Raw material	107,943	90,985
Work in process	50,453	50,101
Finished products	94,326	82,942
Packaging	3,356	2,741
Other materials	1,185	6,274
Imports in progress	6,821	13,393
	264,084	**246,436**

Changes to the provision for obsolescence are as follows:

	2017	**2016**
Balance at the beginning of the year	(1,239)	(3,298)
Supplement of provision	(1,404)	(937)
Amounts written off from the provision	1,797	2,996
Balance at December 31	**(846)**	**(1,239)**

Inventory items with no movement for over 90 days are regarded as obsolete and then are included in the provision balance. In the year 2017, main items provisioned for finished products, raw material and in the process of BOPP, Plastic Sheets and Lids.

10 Recoverable taxes

	2017	**2016**
ICMS recoverable	14,932	11,889
PIS/COFINS recoverable	231	755
PIS/COFINS tax process (i)	16,723	15,211
Withholding income tax (IRRF) recoverable	1,094	1,099
IPI recoverable	278	1,643
Other	2,445	1,165
	35,703	**31,762**
Current assets	**18,980**	**16,551**
Non-current assets	**16,723**	**15,211**

(i) The Company obtained a favorable decision for injunction no. 0060657.83.2013.4.01.0000, which addresses the exclusion of ICMS from PIS/COFINS basis; accordingly, a final decision was issued for this lawsuit, generating tax credit of R$ 16,723 (R$ 15,211 as of December 31, 2016).

11 Other accounts receivable

	2017	**2016**
Costs to be amortized (i)	2,681	2,681
Other advances	671	830
Claims receivable	207	361
Other accounts receivable	266	359
Current assets	**3,825**	**4,231**
Costs to be amortized (i)	4,915	7,596
Other accounts receivable	291	291
Non-current assets	**5,206**	**7,887**

(i) The Company incurred costs with financial institutions in structuring loan contracts for the acquisition of Innova. This cost was accounted for in short and long-term debt and will be amortized together with the loan contract payments.

12 Investment property

	2017	**2016**
Land and buildings	185,312	185,312
Balance at December 31	**185,312**	**185,312**

The investment properties are recorded at fair value, which was based on valuations made by independent external appraisers, at December 31, 2017.

The balance of investment property transactions was as shown below:

	2017	**2016**
Balance at January 1	185,312	162,059
Reclassification of property, plant and equipment for investment property	-	23,253
Total	**185,312**	**185,312**

Investment property is real estate (land, building or part of a building or both) retained by the proprietor to earn income from rentals or for capital appreciation or both situations with no intention to sell or use, which generates cash flows separate from other assets.

13 Property, plant and equipment

	Land	Buildings and improvements	Machinery and equipment	Parts and Spare Assemblies	Industrial facilities	Furniture and fixtures	Data processing equipment	Vehicles	Molds and tools	Telephony equipment	Provision for impairment loss (Note 14.1)	Construction in progress (note 14.2)	Spare Parts	Goodwill - Property, plant and equipment	Total
Balances at December 31, 2015	85,023	275,838	961,558	-	166,353	15,416	21,503	721	29,819	1,144	(6,295)	118,540	26,725	203,479	1,899,824
Additions	-	641	5,326	305	-	55	126	-	39	19	(12,093)	104,377	27,371	-	126,166
Write-off	8,624	(31,877)	(6,913)	-	-	(25)	(583)	(497)	-	-	-	(56,410)	(19,740)	-	(107,421)
Transfer	-	9,932	86,150	-	302	93	468	3,938	2,052	-	-	(102,935)	-	-	-
Balances at December 31, 2016	93,647	254,534	1,046,121	305	166,655	15,539	21,514	4,162	31,910	1,163	(18,388)	63,572	34,356	203,479	1,918,569
Additions	-	-	31,713	192	27	35	36	66	36	17	(856)	114,592	-	-	145,858
Write-off	-	(440)	(595)	-	-	(8)	(329)	(30)	-	-	41	(33,062)	(2,054)	-	(36,477)
Transfer	-	359	13,906	861	879	-	696	544	-	-	-	(17,245)	-	-	-
Balances at December 31, 2017	93,647	254,453	1,091,145	1,358	167,561	15,566	21,917	4,742	31,946	1,180	(19,203)	127,857	32,302	203,479	2,027,950
Depreciation															
Balances at December 31, 2015	-	(84,872)	(493,585)	-	(57,869)	(12,830)	(19,218)	(602)	(26,043)	(1,055)	-	-	-	(3,282)	(699,356)
Depreciation for the year	-	(9,332)	(51,508)		(13,762)	(415)	(725)	(545)	(190)	(10)	-	-	-	(13,128)	(89,615)
Write-off	-	-	6,597	-	-	24	584	-	-	-	-	-	-	-	7,205
Balances at December 31, 2016	-	(94,204)	(538,496)	-	(71,631)	(13,221)	(19,359)	(1,147)	(26,233)	(1,065)	-	-	-	(16,410)	(781,766)
Depreciation for the year	-	(8,581)	(54,466)	-	(7,544)	(271)	(668)	(711)	(375)	(9)	-	-	-	(13,128)	(85,753)
Write-off	-	0	74	-	-	4	321	-	-	-	-	-	-	-	399
Balances at December 31, 2017	-	(102,785)	(592,888)	-	(79,175)	(13,488)	(19,706)	(1,858)	(26,608)	(1,074)	-	-	-	(29,538)	(867,120)
Residual value															
Balances at December 31, 2017	93,647	151,668	498,257	1,358	88,386	2,078	2,211	2,885	5,338	106	(19,203)	127,857	32,302	173,940	1,160,830
Balances at December 31, 2016	93,647	160,330	507,625	305	95,024	2,318	2,155	3,015	5,677	98	(18,388)	63,572	34,356	187,069	1,136,803
Annual average rate of depreciation	0.00%	3.34%	6.06%	0.00%	9.76%	7.96%	16.28%	19.34%	11.00%	6.30%	0.00%	0.00%	0.00%	0.00%	16.28%

The company offered its property in Unit I, located on Avenida Torquato Tapajós, from its fixed assets as collateral for the loans for the expansion and technological update projects for the biaxial polypropylene (BOPP) film production unit. The amount offered as collateral was R$ 314,835.

13.1 Provision for impairment loss - Impairment test

The provision for impairment losses is comprised of property, plant and equipment and spare parts of discontinued segments. The amount of R$ 19,203 includes items that are no longer in operation as described below:

	2017	**2016**
Machinery and equipment	11,557	11,557
Molds and tools	2,009	2,009
Other	1,035	1,035
Spare parts	4,602	3,787
	19,203	**18,388**

In compliance with the requirements of CPC Pronouncement No. 01 (R1) dated August 6, 2010 - Assets Impairment, the Company performed the annual recovery test of its intangible assets as of December 31, 2017, which were estimated based on the values in use, using the discounted cash flows. The assets related to acquisition of Innova S.A. with a undefined useful life, as goodwill for expected future earnings is tested for impairment on an annual basis, regardless of loss indicators. The main cash flow assumptions are: prices based on the last disclosed strategic plan, production curves related to plans existing in the Company portfolio, market operating costs and investments needed to complete the projects.

13.2 Construction in progress

As of December 31, 2017, the construction in progress was R$ 127,857 (R$ 63,572 on December 31, 2016) and was mainly represented by the projects: Expansion of the Styrene plant (R$ 32,500); New plant of EPS 2 - Expanded polystyrene (R$ 14.800); Investment for start-up of Line 3 BOPP (R$ 8,230); Modernization and improvements of the PS, ES, EB and Lid plants (R$ 6,800).

The loan costs directly related to the acquisition, construction and updating of the manufacturing complex, which is forecast to start up operations in the second half of 2018, are capitalized as part of the project cost. The paid-in loan costs to be activated, and calculated up to December 31, 2017 were R$ 52,597 (R$ 48,472 in 2016). All other loan costs unrelated to the acquisition of property, plant and equipment were recorded as expenses for the period.

14 Intangible assets

Details on the Company's intangible assets are presented in the tables below:

	Software	Brands, rights and patents	Goodwill due to expectation of future profitability	Goodwill	Total
Balances at December 31, 2015	18,954	16,930	243,866	106,279	386,029
Additions	998	2,293	-	-	3,291
Balances at December 31, 2016	19,952	19,223	243,866	106,279	389,320
Additions	1,091	1	-	-	1,092
Write-offs	(1)	-	-	-	(1)
Balances at December 31, 2017	21,042	19,224	243,866	106,279	390,411
Amortization					
Balances at December 31, 2015	(9,542)	(13,915)	-	(8,719)	(32,176)
Amortization for the year	(1,798)	-		(34,876)	(36,674)
Balances at December 31, 2016	(11,340)	(13,915)	-	(43,595)	(68,850)
Amortization for the year	(1,728)	-	-	(34,876)	(36,604)
Write-off	1	-		-	1
Balances at December 31, 2017	(13,067)	(13,915)	-	(78,471)	(105,453)
Residual value					
Balances at December 31, 2017	7,975	5,309	243,866	27,808	284,958
Balances at December 31, 2016	8,612	5,308	243,866	62,684	320,470
Annual average amortization rate	19.13%	0.00%	0.00%	0.00%	19.13%

14.1 Goodwill

The goodwill recognized in the Company records, as a result of Innova S.A. acquisition, was computed as per the following:

Cost of acquisition	1,105,219
(-) Shareholders' equity - Innova on 31/10/2014	(643,381)
(-) Goodwill	(217,972)
Goodwill on acquisition	**243,866**

The acquisition resulted in goodwill based on the expectation of future profits of R$ 243,866. It is the result of several factors especially the synergy between the two companies´ businesses. There is also a high level of commercial synergy in that the absorbing company also produces Polystyrenes, but not Styrene.

Another noteworthy point is the expansion project for the construction of a second Styrene plant. This will enable Videolar-Innova to gain a higher share of the styrene, market in which there is currently a shortage in Brazil.

Cash generating unit to which goodwill was allocated is submitted annually to impairment tests or more frequently when there is indication that the unit may present indications of impairment losses of its assets. If the recoverable value of the cash-generating unit is less than its book value, the impairment loss is allocated first to reduce the book value of any goodwill allocated to this unit and then to the other assets of the unit pro rata based on the book value of each asset in the unit. An impairment loss related to goodwill is not reversed in a posterior period.

The assumptions adopted for impairment testing considered an annual growth rate of 11.4% and annual discount rate of 14.04% in a five-year horizon.

15 Loans and financing

Financial institution		**Charges**	**Guarantees**	**Maturity**	**2017**	**2016**
Banco do Brasil - FINIMP	(i)	3.15% p.a.	Surety	01/13/2017	-	48,529
Banco Bradesco Europa	(ii)	Libor EUR + 3.25% p.a.	Promissory Note	07/22/2021	16,846	41,691
BNDES Contrato I	(iii)	TJLP + 2.12% p.a.	Real estate	10/15/2017	-	13,010
BNDES Contrato II	(iii)	TJLP + 2.42% p.a.	Real estate	06/15/2020	15,931	21,629
Debentures	(iv)	FX + 4.96% p.a.	Surety + Lien	10/20/2020	205,631	346,130
Banco Citibank	(v)	Libor USD + 3.50% p.a.	Surety + Lien	09/25/2020	214,463	310,042
Other - Adto s/ Exchange Rates on Delivered goods	(vi)	1.35–1.47% p.a.	Trade Notes	04/14/2018	21,076	-
Banco Bradesco - FINAME	(vii)	14.63% a.a.	Lien	12/15/2020	-	3,169
					473,947	**784,200**
Current liabilities					**198,821**	**326,641**
Non-current liabilities					**275,126**	**457,559**

(i) The Company settled a contract in place with the Banco do Brasil in relation to financing for the acquisition of raw materials (Finimp) used in the Plastic Resin manufacturing process.

(ii) The Company has an international loan contract signed with the Banco Bradesco Europa earmarked for the acquisition of machinery and equipment which interest rate is Libor EUR + 3.25% p.a. The financing comprised several disbursements with maximum terms of 60 months, which began in February 2011 and included a six-month grace period for interest and 24 months for payment of the principal. In August 2016, the last disbursement (26th) totaled EUR 744.

(iii) In 2010, the Company acquired a credit facility from BNDES (Brazilian National Bank for Economic and Social Development) in the amount of R$84,100. The contract provided a remuneration comprised of Long Term Interest Rate + 2.12% p.a.

In 2012, a new credit facility from the BNDES bank in the amount of R$ 30,100 was made available with remuneration comprising the Long-Term Interest Rate + 2.42% p.a. with a grace period of two years for payment of principal and amortization in 66 months.

Such financings have a grace period of 2 years for paying the principal and amortization in 66 months and had the purpose of expanding and building a industrial unit for the production of biaxially oriented polypropylene films (BOPP), as well as to acquire national machinery and equipment. Properties pledged in guarantee total R$ 314,835.

In 2017, Contract I (of 2010) was settled, remaining only the balance of Contract II, signed in 2012.

(iv) On October 7, 2014, the Company signed a *Private Deed Instrument for the First Issuance of Simple Debentures* in the amount of R$ 300,000, bearing the October 25, 2014 issuance date and maturing on October 25, 2020. The debentures are corrected by the Exchange rate fluctuation factor between the Brazilian real and US dollars (PTAX800, option 5) justifying remuneration interest rate payments of 4.96% p.a., paid out in consecutive half yearly installment with no grace period beginning on the issuance date. The principal will be amortized in 9 (nine) installments, also semi-annual and consecutive, where the first one fell due on October 25, 2016.

The funds raised were used solely to pay part of the price of acquisition of Innova S.A.
At the end of each year, since 2014, the agreement has obligations related to financial indicators (covenants) measured based on the ratios of Net Financial Debt divided by EBITDA and the ratio of Total Debt divided by Shareholders' Equity.

(v) On October 23, 2014, the Company entered into a credit agreement in the amount of USD 100,004 with Banco Citibank falling due on September 25, 2020. The agreement provides for remuneration with interest rate of Libor USD + 3.50% p.a., where interest is paid on quarterly basis with grace period of two years for payment of principal.

The funds raised were used solely to pay part of the price of acquisition of Innova S.A..

The agreement has obligation related to a financial indicator (covenant) measured on a quarterly basis based on the ratio of Net Financial Debt divided by EBITDA accumulated over 12 months.

(vi) The Advance on Foreign Exchange Contract (ACC) operations were contracted in April 2017 in the amount of EUR 10,000 at interests from 1.35% to 1.47% p.a. and maturity in April 2018.

(vii) In December 2015, the Company obtained from Banco Bradesco, through onlending contracted with BNDES, FINAME (Special Agency for Industrial Financing) operation in the amount of R$ 3,544 with prefixed rate of 14.63% p.a. and maturity on 12/15/2020. The funds are used for acquisition of trucks to Triunfo/RS unit. In December 2017, this contract was early settled.

Amounts recorded in non-current liabilities as of December 31, 2017 and 2016 mature as follows:

	2017	**2016**
2018	-	155,638
2019	160,674	156,064
2020	113,807	145,857
2021	645	-
Non-current liabilities	**275,126**	**457,559**

Equity changes in loans and financing:

Description	**Balance 2016**	**Addition**	**Interest**	**Compound interest**	**IRRF (Withholding income tax)**	**Amortization**	**Capitalized exchange-rate change**	**Exchange rate change**	**Balance in 2017**
Banco do Brasil - FINIMP	48,529	27,826	404	-	51	(77,553)	-	743	-
Banco Bradesco Europa	41,691	-	(23)	882	129	(29,200)	3,243	124	16,846
BNDES	34,639	-	2,170	-	-	(20,878)	-	-	15,931
Debentures	346,130	-	12,858	-	-	(80,701)	-	(72,656)	205,631
Banco Citibank	310,042	-	12,166	-	2,147	(111,485)	-	1,593	214,463
Other - Adto s/ Exchange Rates on Delivered goods	-	112,777	-	-	-	(97,435)	-	5,734	21,076
Banco Bradesco – FINAME	3,169	-	361	-	-	(3,530)	-	-	-
Overall total	**784,200**	**140,603**	**27,936**	**882**	**2,327**	**(420,782)**	**3,243**	**(64,462)**	**473,947**

a. Financial ratios (Covenants)

Debt instruments for the payment of part of the price of acquisition of Innova S.A. provide for contractual limits to financial indicators used to monitor the indebtedness level (leverage) of the Company, as follows:

Debentures

- Net Financial Debt/EBITDA ratio at the end of the twelve-month period ended December 31, 2017 equal to or lower than 3.0 times;

- Total Debt/Shareholders' equity ratio at the end of the period ended December 31, 2017 equal to or lower than 1.0 times.

Credit Agreement CITIBANK

- Net Financial Debt/EBITDA ratio at the end of the twelve-month period ended December 31, 2017, equal to or less than 3.5 times.

As of December 31, 2017, the Company was compliant with all indices (covenants) established by creditors.

16 Suppliers

	2017	**2016**
Domestic suppliers	39,444	21,886
Foreign suppliers	311,921	267,549
	351,365	**289,435**

17 Provision for contingencies and judicial deposits

Based on an individual analysis of court and administrative proceedings with regard to tax, labor and civil issues against the Company, provisions were formed for risks of losses deemed likely by our legal advisors, of sums considered sufficient as follows:

	2017	**2016**
Tax	-	506
Labor	3,949	5,823
Civil	1,293	1,257
Goodwill	11,020	11,020
Non-current liabilities	**16,262**	**18,606**

The provision for civil lawsuits consists chiefly in reparation suits in connection with contractual disputes. Labor contingencies refer to outstanding lawsuits in the Labor Court which, individually, are not relevant to the Company's business.

Transactions with provisions are shown below:

Provision for contingencies	Tax	Labor	Civil	Goodwill	Total
Balances at December 31, 2015	**3,477**	**3,018**	**3,044**	**11,020**	**20,559**
(+) Supplement of provision	2,546	7,145	-	-	9,691
(-) Write-off of provision	(5,517)	(4,340)	(1,787)	-	(11,644)
Balances at December 31, 2016	**506**	**5,823**	**1,257**	**11,020**	**18,606**
(+) Supplement of provision	-	2,463	45	-	**2,508**
(-) Write-off of provision	(506)	(4,337)	(9)	-	**(4,852)**
Balances at December 31, 2017	**-**	**3,949**	**1,293**	**11,020**	**16,262**

Main lawsuits are commented as follows:

Tax proceedings

The forecast of possible loss not recognized in the amount of R$ 764,057 (R$ 464,299 in 2016) refers to the Company's contestation of the collection of assessment notices.

Main lawsuits are: (i) State Inspection alleging non-payment of ICMS related to the following proceedings: proceeding No. 4.003.845-2 with historical value of R$ 263,633 (R$ 263,633 in 2016), proceeding No. 4.053.124-7 with historical value of R$ 111,415 and proceeding No. 4.064.588-5 with historical value of R$ 114,533; (ii) difference of Import Tax due to the non-restatement of DCR-E process No. 10283.722865/2015-40 in the amount of R$ 42,923 (R$ 33,959 in 2016) and (iii) impugnation of tax assessment notice 2016000088, filed by the municipal government of Manaus/AM in view of AMZ (merged by Videolar in 2015) related to the retention of ISSQN on remittance of Royalties in the amount of R$ 72,276 (R$ 72,276 in 2016).

The Company has tax judicial deposits recorded of R$ 10,540 (R$ 19,568 in 2016) for the Proceeding 2006.32.00.005992-1 of PIS/ COFINS exclusion on the calculation basis of IR and CSLL of R$ 728 (R$ 8,561 in 2016). The reduction in the amount was caused by court decision; Proceeding 0011620-22.2015.54.01.3200 on Non-requirement of payment of PIS/COFINS on financial income in the amount of R$ 1,569; Proceeding 0016693-09.2014.4.01.3200 assuring the unquestionable right of the Plaintiff to proceed with the import and customs clearance of styrene amounting to R$ 2,890 (R$ 1,497 in 2016); and Proceeding 0007521-72.2016.4.01.3200 due to the lack of collection of union contributions totaling R$ 685.

Labor proceedings

The provision for labor contingencies corresponds to losses estimated based on individual analysis of labor lawsuits.

Videolar-Innova is defendant in labor claims, in the total amount of R$ 12,144 (R$ 18,742 in 2016), for which the chance of loss is possible and, therefore, the respective provision has not been recognized, in the total amount of R$ 3,949 (R$ 5,823 in 2016), for which the chance of loss is considered probable, and the respective provision has been recognized.

Civil proceedings

Videolar-Innova is the defendant of civil lawsuits amounting to R$ 11,101 (R$ 118,627 in 2016) for which loss is considered as possible. The provision for civil contingencies corresponds to estimated losses related to lawsuits mainly involving commercial discussions. In 2017, the main case presented settlement among the parties:

Banco Fortis

In June 2008, the Company contracted a credit facility from Banco Fortis in the amount of EURO 20,400 thousand. The characteristic of this credit facility is that Banco Fortis will directly finance Darlet Merchant Technologies S.A. (“Darlet”), the supplier responsible for delivering to the Company machinery and equipment for the new BOPP production line.

Until December 31, 2009, Banco Fortis had released EURO 15,811 thousand to be used to pay Darlet.

In March 2010, the Company was notified about the bankruptcy of supplier Darlet. In the second half of 2009, Banco Fortis Bank NV/AS was acquired by Banco BNP Paribas.

On January 31, 2011, Banco BNP Paribas forwarded a letter requesting the payment of the first installment in the amount of EURO 1,695 thousand. through its legal advisors in France, Sonier & Associes; the Company rejected the payment request taking into consideration that, over five years, all advances paid by Fortis to Darlet violated the Credit Agreement and, therefore, the Company is not obliged to pay advances made to Banco BNP Paribas. This rejection is based on Article 5 of the Credit Agreement, which provides that the creditor, that is, Banco Fortis, should make advances to the Company through payments to Darlet.

As of December 31, 2010, the Company’s management, supported by its legal advisors’ opinion, made the following accounting adjustments:

	12/31/2010
Write-off of advance to supplier as a result of stated bankruptcy	(43,858)
Write-off of liabilities because likelihood of disbursement to Banco Fortis is remote.	36,163
Net loss recognized in other operating expenses	(7,695)

In November 2011, Videolar-Innova was notified by BNP Paribas on the opening of an arbitration proceeding with the International Court of Arbitration of the International Chamber of Commerce (“ICC”), in Paris, France, aimed at collecting released funds and interest incurred during the period, which were estimated as EUR 18,715,000.

On April 18, 2017, Videolar-Innova and BNP Paribas signed an agreement with a total amount of EUR 10,872 thousand (R$ 32,719), for payment by Videolar-Innova in 48 months, the first installment having been paid on April 30, 2017 and the last installment payable on March 30, 2021. Installment amounts are decreasing, beginning in EUR 246 thousand and ending in EUR 207 thousand. As of December 31, 2017, the balance payable of R$ 31,846 is recorded in other liabilities, of which R$ 9,799 and R$ 22,047 in current and non-current, respectively.

Goodwill

On the acquisition date of Innova, a surplus of existing contingent liability was recognized on the contract signature date amounting to R$ 62,888. After the partial realization of this surplus, the balance shown in 2017 is R$ 11,020.

Judicial deposits

Judicial deposits linked and not linked to proceedings for which provisions were recorded, classified in non-current assets, are as follows.

Judicial deposits	Tax	Labor	Civil	Goodwill	Total
Balances at December 31, 2015	**30,608**	**1,116**	**16**	**223**	**31,963**
(+) Addition	6,917	513	1,684	-	9,114
(-) Write-off	(17,956)	(527)	-	-	(18,483)
Balances at December 31, 2016	**19,569**	**1,102**	**1,700**	**223**	**22,594**
(+) Addition	15,731	561	50	-	16,342
(-) Write-off	(24,760)	(588)	-	-	(25,348)
Balances at December 31, 2017	**10,540**	**1,075**	**1,750**	**223**	**13,588**

18 Shareholders' equity

a. Capital

As of December 31, 2017 and 2016, the Company's capital amounts to R$ 686,832.

As of December 31, 2017 and 2016, the Company's capital is represented by 1,185,861 common shares and 363,859 class "A" preferred shares, totaling 1,549,720 shares. Preferred shares are not entitled to voting in Annual Shareholders' Meeting decisions.

b. Equity valuation adjustment

The equity valuation adjustments derive from equity valuation of land and buildings available at Investment Property and adoption of Deemed Cost on assets recorded in Property, plant and equipment.

Amounts recorded in equity valuation adjustments will be totally or partially reclassified to income (loss) for the year upon disposal, write-off or depreciation of assets to which they refer.

c. Legal reserve

The legal reserve is formed at the rate of 5% of the net income for the year in compliance with article 193, Law 6404/76, up to the limit of 20% of capital. Due to income for the year of R$ 157,939, a legal reserve was recognized in the amount of R$ 7,897.

d. Dividends

In 2017, net income was allocated to legal reserves (R$ 7,897), tax incentive reserves (R$ 100,976) and profit reserves (R$ 49,311). The by-laws do not provide for minimum payment of dividends.

e. Tax incentive reserve

Established by assigning a portion of income for the year, equivalent to tax incentives from government grants, in conformity with Article 195-A of the Brazilian Corporate Law. This reserve may not be distributed to partners or shareholders and will comprise the company's capital reserve, which may only be used to absorb losses or increase capital (paragraph 3 of Article 19 of Decree-Law no. 1.598/1977).

The amount of R$ 322,626 was allocated to the formation of tax incentive reserves as of December 31, 2016. Where R$ 108,094 from year 2016 and R$ 214,532 complementing the profit limitation from 2012 to 2015.

The amount of R$ 100,976 was allocated to the formation of ICMS tax incentive reserve as of December 31, 2017. This incentive is granted by the state of Amazonas, which increases the presumed tax credit percentage arising from regionalization so that the determined tax does not represent creditor or debtor balance. The income tax incentive provides a reduction in such tax expense. This incentive, calculated based on exploitation profit, is applied to the revenues of the Manaus Units. In 2017, the amount of R$ 7,876 was recognized in IRPJ tax incentive reserve.

f. Profit retention reserve

In 2017, a profit retention reserve was formed in the amount of R$ 49,311 (R$ 42,943 in 2016), totaling R$ 92,254 to shareholders.

19 Net operating income

	2017	**2016**
Gross operating income	2,551,790	2,408,265
Tax incentive credits (Note 27)	100,976	95,772
Taxes on revenues	(448,058)	(439,803)
Returns	(12,787)	(15,346)
	2,191,921	**2,048,888**

20 Cost of products sold

	2017	**2016**
Cost of products sold	(1,507,623)	(1,391,996)
Cost of goods resold	(27,062)	(15,597)
Manufacturing general expenses	(197,314)	(198,989)
Production Idleness	(52,759)	(38,447)
Other	(6,446)	(5,431)
	(1,791,204)	**(1,650,460)**

21 Administrative and sales expenses

	2017	**2016**
Payroll expenses	(53,732)	(56,861)
Depreciation	(5,422)	(9,246)
Electric power	(517)	(507)
Taxes and rates	(3,150)	(3,003)
Provisions	1,208	(204)
Impairment	(815)	(12,094)
Lawyers' fees	(3,554)	(1,173)
Preservation of assets	(212)	(404)
Travel expenses	(1,366)	(1,130)
Freight and carriage	(76,618)	(76,031)
Maintenance and repairs	(4,048)	(4,458)
Consulting and advisory	(5,101)	(4,910)
Insurance costs	(437)	(519)
Use license	(2,028)	(2,199)
Import expenses	(3,852)	(3,527)
Advertising and publicity	(1,060)	(2,376)
Other	(8,560)	(7,393)
	(169,264)	**(186,035)**

22 Other operating income (expenses), net

	2017	2016
Sale of assets	219	1,086
Losses and gains on write-off of property, plant and equipment	(19)	(317)
Gains and losses with claims	(360)	(16)
Sale of scrap	2,107	1,663
Revenue from rental	9,245	9,581
Fundopem (Note 27)	24,886	20,417
Recovery of taxes	10,380	-
Other	(2,758)	(648)
	43,700	**31,766**

23 Net financial income (expenses)

	2017	2016
Financial income		
Interest and gains on investments	10,498	6,530
Inflation adjustment	13,913	5,211
Discounts obtained	21	888
Income from SWAP operations	17,165	28,975
	41,597	**41,604**
Financial expenses		
Interest on loans	(47,171)	(48,301)
Discounts granted	(4,865)	(2,494)
Bank expenses	(348)	(2,031)
Expense with swap operations	(44,920)	(20,642)
Other	(13,356)	(10,615)
	(110,660)	**(84,083)**
Net exchange-rate changes		
Foreign exchange income	169,591	389,828
Foreign exchange costs	(117,407)	(184,311)
	52,184	**205,517**

24 Income and social contribution taxes

a. Breakdown of deferred income and social contribution taxes

	2017	2016
Credits on tax losses	108,768	150,064
Equity valuation adjustment	(50,100)	(50,184)
Tax goodwill produced by future profitability	115,459	133,933
Deferred tax on goodwill	(64,923)	(81,245)
Tax credits on temporary differences:		
- credits on provisions	80,550	78,625
Total income tax and social contribution deferred, net	**189,754**	**231,193**

The Company has tax losses and social contribution carryfowards generated in Brazil amounting to R$ 319,907 (R$ 441,362 as of December 31, 2016) that may be offset against future taxable income, without statute of limitations.

Realization of deferred income tax on equity valuation adjustment is proportional to reserve realization.

As of December 31, 2017, the Company has recorded under “Deferred income tax” amounts calculated on expenses that are temporarily non-deductible from taxable income calculation for income tax purposes, which are available for future offsets against said tax.
Deferred taxes generated by these temporary differences are as follows:

	2017	**2016**
Exchange variation, net	134,410	146,805
Estimated losses for allowance for doubtful accounts	42,859	43,066
Estimated losses on recoverable values of inventories	846	1,239
Estimated sundry losses	53,555	32,554
Provision for judicial contingencies	5,242	7,586
Total Provisions (reversals)	236,912	231,250
IR and CS tax rate -34% and 15%	34%	34%
IR/CS on temporary differences	80,550	78,625

The Company, based on expected future taxable income determined through technical studies conducted at the end of 2017 and approved by Executive Board, recognized tax credits on tax loss carryforwards and temporary differences, with no statute of limitations. Deferred assets book value is reviewed by the Company on an annual basis.

Based on the technical study regarding estimated generation of future taxable income, Videolar-Innova foresees the recovery of tax credits in the following years:

Years	**2017**	**2016**
	32,631	
2018		42,900
2019	22,842	32,149
2020	15,989	22,505
2021–2028	37,306	52,510
	108,768	**150,064**

The expected recoverability of the tax credits is based on the projections of future taxable income taking into consideration various business and financial assumptions. Accordingly, these estimates may differ from the effective taxable income in the future due to the inherent uncertainties involving these estimates.

b. Reconciliation of current and deferred income and social contribution taxes

The reconciliation of income from current and deferred income and social contribution taxes in the amount of (R$ 68,652) in 2017 and R$ 9,038 in 2016 is as follows:

	2017	**2016**
Income (loss) before income and social contribution taxes	226,591	375,514
Combined statutory rate	34%	34%
Expense with income and social contribution taxes at the combined rate	**(77,041)**	**(127,674)**
Incentives and grants	43,750	36,772
Use of tax loss for paying taxes (*)	(36,551)	-
Permanent differences	1,127	12,356
Timing differences	63	78,465
Deferred on evaluation of assets	-	9,119
Total Current and Deferred Income Tax (IR)	**(68,652)**	**9,038**
Effective rate	30%	(2%)
Current income and social contribution taxes	(10,808)	-
Deferred income and social contribution taxes	(57,844)	9,038

(*) The use of tax loss is related to offset in the determination of income and social contribution taxes, and, mainly, offset of taxes, which were being disputed in court, with likelihood of loss considered possible and remote by the Company's legal counsel, in the amount of R$ 55,860, by means of the adherence to the Special Tax Regularization Program (PERT).

c. Income and social contribution tax, recoverable

	2017	**2016**
Income tax	-	647
Social contribution	583	1,460
	583	**2,107**

d. Transitory tax regime—RTT

The Company opted for the Transition Tax Regime ("RTT") established by Law no. 12.973, dated May 13, 2014, through which IRPJ (corporate income tax), CSLL (social contribution on net income), and PIS and COFINS (taxes on income) calculation continues to be determined according to accounting methods and criteria defined by Law.

Accordingly, deferred income and social contribution taxes calculated on adjustments arising from the adoption of new accounting practices deriving from Law no. 12.973/14 were recorded in the Company's financial statements, when applicable, in conformity with pronouncement CPC 32 – Income taxes. The Company confirmed this option in the Corporate Income Tax Return ("DIPJ") for 2016.

25 Information on related parties

Key management personnel includes board members and officers. Management’s global annual remuneration, including Board of Directors’ members’ fees, was established as up to R$ 3,000, as approved in the Annual and Special Shareholders' Meeting held on April 10, 2017.

Total management’s remuneration for the year ended December 31, 2017 was R$ 2,679 (R$ 2,211 in 2016).

Said expenditures were accounted for under caption general and administrative expenses in the statement of income.

Management carried out transactions with related parties, as shown below:

	2016		
	Assets	**Liabilities**	**Sales / Purchases**
M. L. Parisotto	4	-	107
	4	**-**	**107**

Assets	**2017**	**2016**
Accounts receivable (Note 9)	-	4
Total assets	**-**	**4**

Above-mentioned transactions were carried out in accordance with contract conditions established by the parties.

26 Tax incentives

Incentive	**2017**	**2016**
ICMS tax benefit on shipment of intermediate assets (Note 20);	100,976	95,772
Financial benefit of FUNDOPEM/RS (note 23)	24,886	20,417
	125,862	**116,189**

27 Financial instruments

a. Financial risk management

The Company is exposed to the following risks resulting from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operating risk

- Capital risk

This note contains information on Videolar-Innova exposure to each of the abovementioned risks, the objectives, practices and the processes for measuring and managing risk and the capital management. Additional quantitative disclosures are included throughout these financial statements.

b. Risk management structure

The main risk factors to which the Company is exposed reflect strategic operational and economic/financial aspects. Strategic-operating risks are addressed using the Company's management model.

The economic and financial risks mainly reflect the behavior of macroeconomic variables such as exchange and interest rates as well as the characteristics of the financial instruments that the Company uses. These risks are managed by means of monitoring by Management that actively participates in the Company's operational management.

Videolar-Innova has the practice of managing its existing risks in a conservative manner, aiming mainly to preserve the value and liquidity of financial assets and to guarantee financial resources for the smooth running of business.

(i) Credit risk

Credit risk is the risk that the Company incurs financial losses if a client or a counterpart of a financial instrument fails to fulfill its contractual obligations. Such risk is mainly due to Company’s trade accounts receivable, and financial instruments.

The book values of financial assets classified as loans and receivables represent the maximum credit exposure. Book value of financial assets that represent the maximum exposure to credit risk as showed:

	2017	**2016**
Cash and cash equivalents	6,080	48,726
Accounts receivable	470,711	429,070
Other accounts receivable and advance to suppliers	21,355	12,401
	498,146	**490,197**

Cash and cash equivalents

Cash and cash equivalents are maintained with banks and financial institutions, which are considered the prime line type.

Accounts receivable

The Company's exposure to credit risk is influenced, mainly, by the individual characteristics of each client. Management understands that there is no significant credit risk to which the Company is exposed, taking into consideration the characteristics of the counterparties, concentration levels and the relevance of the amounts in relation to total revenue.

In relation to the estimated loss for doubtful accounts, details are available in Note 9 - Accounts Receivable.

(ii) Liquidity risk

Liquidity risk is the risk of the Company encountering difficulties in performing the obligations associated with its financial liabilities that are settled with cash payments or with another financial asset.

Management's approach to liquidity risk management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

We present below the contractual maturities of financial liabilities including payment of estimated interest and excluding, the impact of the negotiation agreements. Therefore, cannot be conciliated with the amounts of balance sheet:

			Contractual cash flow			
	Book value	**Total**	**Up to 1 year**	**2–3 years**	**4 years**	**>4 years**
Loans and financing	473,947	509,540	217,679	291,187	674	-
Suppliers	351,365	351,365	351,365	-	-	-
	825,312	**860,905**	**569,044**	**291,187**	**674**	**-**

The cash flows presented above are not expected to be significantly advanced.

(iii) Market risk

a. Interest rate risk

The Company has interest earning bank deposits remunerated at the CDI interest rate change. Such assets amount to R$ 520 as of December 31, 2017.

	2017	**2016**
Variable rate instrument		
Interest earning bank deposit	520	44,685
	520	**44,685**

Analysis of sensitivity to changes in CDI rate

To estimate the principal financial indicators for sensitivity analysis, the Company uses the Focus survey, organized by the Central Bank of Brazil and based on the analysis of forecasts of financial and non-financial institutions. As of December 31, 2017, market expects, indicated a CDI/SELIC effective average rate of 6.75% for 2018, against the effective rate of 9.91% verified in 2017.

	Probable scenario	Scenario I – of 25%	Scenario II – of 50%
Interbank Deposit Certificate annual effective rate in 2017	9.91%	7.43%	4.96%
Interest earning bank deposits	520	520	520
Interbank Deposit Certificate estimated annual rate for 12 months	6.75%	5.06%	3.38%
Effect in the financial instrument			
Increase / (Decrease)	(16)	(12)	(8)

Sensitivity analysis at changes in Libor USD rate

The Company has financial liabilities indexed to the change in Libor USD on December 31, 2017. Under these conditions, the Company presented equity values of loans and financing in the amount of R$ 214,463.

The Company's estimate indicated an estimated USD Libor rate for 12 months of 2.53%, probable scenario for 2018, against the effective rate of 2.11% verified on December 31, 2017.

	Probable scenario	Scenario I – of 25%	Scenario II – of 50%
Annual effective rate of USD Libor in 2017	2.11%	1.58%	1.06%
Loan Banco Citibank	64,832	64,832	64,832
Estimated annual rate of USD Libor for 12 months (*)	2.53%	1.90%	1.27%
Effect in the financial instrument			
Increase / (Decrease)	272	207	136

(*) The Focus survey does not disclose forecasts of interest rates of Libor USD. Accordingly, to determine the probable scenario, Videolar-Innova considered an increase of 20% of the current market levels.

Sensitivity analysis at Libor changes in EUR rate

The Company has financial liabilities indexed to the change in Libor EUR on December 31, 2017. Under these conditions, the Company presented equity values of loans and financing in the amount of R$ 16,846.

The Company's estimate indicated an estimated EUR Libor rate for 12 months of 0.0%, probable scenario for 2018, against the effective rate of (0.24%) verified on December 31, 2017.

	Probable scenario	Scenario I – of 25%	Scenario II – of 50%
Annual effective rate of EUR Libor in 2017	0.00%	0.00%	0.00%
Bradesco Europa - Loan	4,244	4,244	4,244
Estimated annual rate of EUR Libor for 12 months	(0.24%)	(0.18%)	(0.12%)
Effect in the financial instrument			
Increase / (Decrease)	(10)	(8)	(5)

Sensitivity analysis at TJLP rate changes

The Company has financial liabilities indexed to the change in TJLP on December 31, 2017. Under these conditions, the Company presented equity values of loans and financing in the amount of R$ 15,931.

Market expects, indicated a TJLP tax of 6.75%, probable scenario for 2018, against the effective rate of 7.12% verified in 2017.

	Probable scenario	Scenario I – of 25%	Scenario II – of 50%
Annual effective rate of TJLP (Long-term interest rate) of 2017	7.12%	5.34%	3.56%
BNDES loan	15,931	15,931	15,931
Estimated TJLP (Long-term interest rate) for 12 months (*)	6.75%	5.06%	3.38%
Effect in the financial instrument			
Increase / (Decrease)	(59)	(45)	(29)

(*) The probable scenario used by Videolar-Innova for TJLP considered a maintenance of current market levels, in line with the general expectations for reduction of the basic interest rates in Brazil.

b. *Exchange rate risk*

The related risk derives from the possibility of incurring losses due to fluctuations in foreign exchange rates that reduce or increase amounts raised in the market. Below we present the exposure by currency as of December 31, 2017 and 2016, which considers the book values of loans and financing and cash and cash equivalents:

		2017		**2016**	
		Foreign currency nominal value In $'000	**R$ thousand**	**Foreign currency nominal value In $'000**	**R$ thousand**
Loan from Banco do Brasil	USD	-	-	14,890	48,529
Citibank loan (*)	USD	64,832	214,463	95,131	310,042
Debentures	USD	62,131	205,531	106,204	346,130
Bradesco Loan	EUR	4,244	16,846	12,125	41,691
Advances on exchange contracts (ACC)	EUR	5,310	21,076	-	-
Foreign suppliers	USD	90,414	299,090	79,162	257,998
Foreign suppliers	EUR	3,224	12,797	2,778	9,551
Foreign suppliers	GBP	8	34	-	-

Gains and losses involving these transactions are recognized in income for the year under caption financial income.

(*) The Company has a SWAP USD-EUR agreement with Banco Santander in amount equivalent to the loan with Banco Citibank.

Foreign exchange swap transactions

The Company realized financial derivatives in US dollars and EUR, in which it will receive the difference between the foreign exchange variation in dollars or EUR observed in the period, multiplied by the reference value (asset leg) with payment of the difference between the foreign exchange variation in dollars or EUR observed in the period and the reference value in US dollars or EUR on the date of the agreement (liability leg). On December 31, 2017, the Company recognized in the statement of income a loss of R$ 12,623 on this type of operation related to the agreement that was outstanding on that date and the total volume hedged is US$ 71,497 thousand and EURO 62,798 thousand.

Maturity	Assets (USD)	Liabilities (EUR)	Parity EUR/USD	Amount USD	USD Adjustment	USD rate	Adjustment (R$)
09/25/2020	**71,497**	**62,798**	1.1993	75,313	(3,816)	3.3080	**(12,623)**

Sensitivity analysis - Foreign exchange
The sensitivity analysis is based on the assumption of maintaining as a probable scenario the market values as at December 31, 2017. Videolar-Innova considered the scenarios below for the volatility of the US Dollar and Euro exchange rate.

For foreign exchange transactions subject to Dollar fluctuation, the following effects were estimated for the four scenarios, based on foreign exchange rate as of December 31, 2017 of R$ 3.3080 per US$1.00:

- **Scenario 1:** (25% of Brazilian real appreciation);
- **Scenario 2:** (50% of Brazilian real appreciation);
- **Scenario 3:** (25% devaluation of the Reais); and
- **Scenario 4:** (50% devaluation of the BRL);

Risk: Dollar fluctuation

		Income or expense on exchange rate			
	Reference value, USD	Scenario 1	Scenario 2	Scenario 3	Scenario 4
		2.4810	***1.6540***	***4.1350***	***4.9620***
Citibank Loan	64,832	53,615	107,231	(53,617)	(107,233)
Loan - HSBC	62,131	51,484	102,866	(51,281)	(102,663)
Foreign suppliers	90,414	74,773	149,545	(74,772)	(149,544)
Financial income - income (expense)		179,872	359,642	(179,670)	(359,440)

For foreign exchange transactions subject to EURO fluctuation, the following effects were estimated for the four scenarios, based on foreign exchange rate as of December 31, 2017 of R$ 3.9693 per EUR $1.00:

- **Scenario 1:** (25% of Brazilian real appreciation);
- **Scenario 2:** (50% of Brazilian real appreciation);
- **Scenario 3:** (25% devaluation of the Reais); and
- **Scenario 4:** (50% devaluation of the BRL);
- **Risk:** Euro fluctuation

		Income or expense on exchange rate			
	Reference value EUR	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**
		2.9770	***1.9847***	***4.9616***	***5.9540***
Bradesco Loan	4,244	4,212	8,423	(4,211)	(8,423)
Foreign suppliers	3,224	3,199	6,398	(3,199)	(6,399)
Advances on exchange contracts (ACC)	5,310	5,268	10,538	(5,270)	(10,539)
Financial income - income (expense)		12,679	25,359	(12,680)	(25,361)

(iv) Operating risk

Operating risk is the risk of direct or indirect losses arising from different causes related to the Company's processes, personnel, technology and infrastructure and external factors, except credit risks, market and liquidity risks, as those arising from legal and regulatory requirements.

The Company aims at the constant maintenance, updating of processes, thus minimizing operating risks and reducing possible financial flow impacts and damage to its reputation by seeking cost effectiveness to avoid operating restriction.

(v) Capital risk

The Company's objectives in managing its capital are to safeguard its normal operations, besides maintaining a capital structure, appropriate to offer return to shareholders and benefits to the other stakeholders besides maintaining an optimal capital structure to reduce this cost.

Fair value measurement

Book values of the Company’s financial assets and liabilities may suffer change. The table below presents the comparison per class of book and fair values, including fair value hierarchy levels. It does not include information on the fair value of financial assets and liabilities not measured at fair value if the book value is a reasonable approximation of fair value.

	Rating	**Book value**		**Fair value**		**Hierarchy**
		2017	**2016**	**2017**	**2016**	
Financial assets						
Cash and cash equivalents	Loans and receivables	5,560	4,041	5,560	4,041	-
Interest earning bank deposits	Loans and receivables	520	44,685	520	44,685	-
Accounts receivable	Loans and receivables	470,711	429,070	470,711	429,070	
Other accounts receivable and advance to suppliers	Loans and receivables	21,355	12,401	21,355	12,401	-
Total		**498,146**	**490,197**	**498,146**	**490,197**	
Financial liabilities						
Loans and financing	Other financial liabilities	268,316	438,070	268,316	438,070	
Debentures	Other financial liabilities	205,631	346,130	205,631	346,130	Level 2
Financial instruments	Other financial liabilities	12,623	-	12,623	-	Level 2
Suppliers	Other financial liabilities	351,365	289,435	351,365	289,435	
Total		**837,935**	**1,073,635**	**837,935**	**1,073,635**	

Fair value represents the amount by which the asset/liability can be exchanged in a current transaction between parties willing to negotiate.

Videolar-Innova uses the following hierarchy to determine and disclose fair value of financial assets and liabilities using the evaluation technique:

- **Level 1 -** Prices quoted (not adjusted) in active markets for identical assets and liabilities.

- **Level 2** – Inputs, except for quoted prices, included in Level 1 which are observable for assets or liabilities, directly (prices) or indirectly (derived from prices).

- **Level 3 –** Assumptions, for assets or liabilities, which are not based on observable market data (non-observable inputs).

Capital management
One of the Company's management main objective is to ensure that the Company maintains a strong credit score and capital ratio free from problems in order to support businesses and maximize shareholders' value. The Company administrates capital structure and adjusts it considering changes in economic conditions.

Objectives, policies and proceedings were not changed during years ended December 31, 2017 and 2016.

	2017	**2016**
Loans and financing	473,947	784,200
(-) Cash and cash equivalents	(6,080)	(48,726)
Net bank debt	467,867	735,474
Shareholders' equity	1,691,292	1,525,394
Shareholders' equity and net debt	**2,159,159**	**2,260,868**
Ratio of shareholders' equity and net bank debt	**0.28**	**0.48**

28 Insurance coverage

At December 31, 2017, operating a civil liability risk insurance coverage was comprised of R$ 1,975,944 for material damage and R$ 449,848 for loss of profits. Regarding Specific Risks, coverage was comprised of R$ 789,903 for material damage and R$ 86,835 for loss of profits. For commercial general liability R$ 50,000 and for environmental risk insurance R$ 50,000.

For insurance of domestic cargo transportation, the coverage was R$ 3,000 for terrestrial loading and R$ 8,000 for aerial and waterway loading. On international transportation import, the coverage is US$ 30,000 thousand exclusively for styrene monomer in bulk and polystyrene in bulk; US$ 15,000 for other goods by vehicle/waterway; US$ 5,000 thousand to air transportation of other goods or US$ 2,000 per vehicle/road trip. For insurance of export transportation, the coverage was US$ 4,500 thousand exclusively for ethylbenzene and styrene and US$ 500 thousand for other goods by vehicle/ship/airplane/transportation or accumulation. The coverage for group life insurance of the employees has salary multiple of 26 times for natural death and of 52 times for accidental death, limited to R$ 1,528 of coverage.

29 Operating leases

The commitments refer basically to the lease agreement with Petrobrás related to the Duct installed between the port of Petrobras and Videolar-Innova aimed at transporting the Styrene Monomer into the silos of Videolar-Innova at unit IV in Manaus. This agreement falls due on August 01, 2019 with monthly value of R$ 76.

The equipment lease agreement refers to the lease of nitrogen cylinder entered into with WhiteMartins for indefinite term.

* * *

Executive Board

Lírio Albino Parisotto – CEO and resident at Manaus

Claudio Rocha Filho – Operations and Human Resources Officer

Rubén Eduardo Madoery – Commercial director

Sergio de Oliveira Machado – Industrial Officer

Mario Daud Filho - Legal and Compliance Director

Board of Directors

Lírio Albino Parisotto

Elie Linetzky Waitzberg

Tania Maris Vanin Parisotto

Phillip Wojdyslawski

Accountant

Antonio Carlos de Barros
CRC SP 193.292/O-6