Videolar-Innova S.A.

Financial statements

December 31, 2016 and 2015
(A translation of the original report in Portuguese containing financial statements prepared in accordance with accounting practices adopted in Brazil)

KPDS 179031

Contents

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Independent auditors' report on the financial statements

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

Opinion

We have examined the financial statements of Videolar - Innova S.A. ("Company"), comprising the balance sheet as of December 31, 2016 and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, as well as the corresponding explanatory notes, comprising the significant accounting policies and other explanatory 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, 2016, 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 “Auditor’s Responsibilities for the Auditing 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.

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 preparing the financial statements, Management is responsible for evaluating the Company's ability to continue operating, and disclosing – where applicable – matters related to its going concern and the use of this accounting basis in the preparation of the financial statements, unless Management intends to liquidate the Company or cease its operations, or has no realistic alternative to avert closing down operations.

Those responsible for the management of the Company are also the ones in charge of the financial statement preparation and supervision process.

Responsibilities of the auditor 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 jointly, they may – from a reasonable perspective – influence the economic decisions of the users made based on the respective financial statements.

As part of the audit conducted according to Brazilian and international auditing standards, we exercise professional judgment and maintain 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 greater than that of misstatement resulting from error, since fraud may involve intentional misrepresentation, circumvention of internal controls, collusion, falsification or omission.

- We obtain an understanding of the internal controls relevant to the audit to design auditing procedures suitable to the circumstances, but not with the aim of expressing an opinion on the effectiveness of the Company's internal controls.

- We assess the suitability of the accounting policies used and the reasonableness of the accounting estimates and respective disclosures made by 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 findings are based on audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to no longer remain in 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 and timing of the audit, as well as significant audit findings, including any significant deficiencies in internal controls that we identify during our work.

São Paulo, February 20, 2017

KPMG Auditores Independentes
CRC 2SP014428/O-6
Original report in Portuguese signed by
Mateus de Lima Soares
Accountant CRC RJ-079681/O-0

Videolar-Innova S.A.

Balance sheets at December 31, 2016 and 2015

(In thousands of Reais)

Assets	Note	2016	2015
Current assets			
Cash and cash equivalents	8	48,726	20,238
Accounts receivable	9	414,846	315,247
Financial instruments	29	20,672	15,906
Inventories	10	246,436	239,198
Income and social contribution tax, recoverable	26.c	2,107	2,560
Recoverable taxes	11	16,551	23,428
Other accounts receivable	12	4,231	2,607
Advance to suppliers		283	19,668
Prepaid expenses		3,517	2,800
		757,369	641,652
Non-current assets			
Deferred income and social contribution taxes	26.a	231,193	214,953
Accounts receivable	9	14,224	-
Recoverable taxes	11	15,211	13,333
Other accounts receivable	12	7,887	10,277
Judicial deposits	19	22,594	31,963
		291,109	270,526
Investment property	14	185,312	162,059
Property, plant and equipment	15	1,136,803	1,200,468
Intangible assets	16	320,470	353,853
		1,642,585	1,716,380
		2,691,063	2,628,558

Liabilities	Note	2016	2015
Current liabilities			
Loans and financing	17	326,641	333,598
Suppliers	18	289,435	204,993
Labor obligations and social charges		29,307	27,700
Tax liabilities		8,521	7,534
Royalties payable		-	4,742
Other liabilities		25,294	18,574
		679,198	597,141
Non-current liabilities			
Loans and financing	17	457,559	850,686
Provision for contingencies	19	18,606	20,559
Other liabilities		10,306	10,211
		486,471	881,456
Shareholders' equity			
Capital	20.a	686,832	686,832
Tax incentive reserves	20.e	672,794	350,168
Legal reserve	20.c	25,655	6,427
Income reserves	20.f	42,943	-
Equity valuation adjustment	20.b	97,170	106,534
Shareholders' equity		1,525,394	1,149,961
		2,691,063	2,628,558

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of income

Years ended December 31, 2016 and 2015

(In thousands of Reais)

	Note	2016	2015
Net operating income	21	2,048,888	1,130,130
Cost of products sold	22	(1,612,013)	(959,190)
Gross operating income		**436,875**	**170,940**
Operating income (expenses)			
Sales expenses		(1,907)	(1,536)
Administrative expenses	23	(222,575)	(84,709)
Equity in income of subsidiaries	13	-	119,347
Realization of goodwill		(31,683)	(17,580)
Other operating income (expenses), net	24	31,766	5,412
		(224,399)	20,934
Financial income	25	41,604	54,117
Financial expenses	25	(84,083)	(89,471)
Monetary and exchange variations, net	25	205,517	(451,697)
Net financial income (expenses)		163,038	(487,051)
Income (loss) before taxes		**375,514**	**(295,177)**
Deferred income and social contribution taxes	26.b	9,038	368,709
Income (loss) for the year before reversal of interest on own capital		384,552	73,532
Reversal of interest on own capital		-	(1,097)
Net income (loss) for the year		**384,552**	**72,435**

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of comprehensive income

Years ended December 31, 2016 and 2015

(In thousands of Reais)

	2016	2015
Income (loss) for the year	384,552	72,435
Comprehensive income		-
Other comprehensive income, net of income and social contribution taxes	-	-
Total comprehensive income	384,552	72,435
Comprehensive income attributable to		
Controlling shareholders	384,552	72,435
Total comprehensive income	**384,552**	**72,435**

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of changes in shareholders' equity

Years ended December 31, 2016 and 2015

(In thousands of Reais)

			Profit reserve				
	Capital	Equity valuation adjustments	Legal	Tax incentives	Profit retention	Retained earnings (loss)	Total
Balances at December 31, 2014	555,381	78,733	2,805	-	-	(26,253)	**610,666**
Capital increase by merger	131,451	-	-	-	-	-	**131,451**
Tax incentive reserve due to merger	-	-	-	307,363	-	-	**307,363**
Equity valuation adjustments - Merger L.Parisotto	-	28,046	-	-	-	-	**28,046**
Realization of equity valuation adjustment	-	(245)	-	-	-	245	**-**
Net income for the year	-	-	-	-	-	72,435	**72,435**
Formation of legal reserve	-	-	3,622	-	-	(3,622)	**-**
Formation of reserve for tax incentives	-	-	-	42,805	-	(42,805)	**-**
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 adjustments	-	(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**

See the accompanying notes to the financial statements.

Videolar-Innova S.A.

Statements of cash flows

Years ended December 31, 2016 and 2015

(In thousands of Reais)

	Note	2016	2015
Cash flows from operations			
Net income (loss) for the year		384,552	72,435
Adjustments for reconciliation of net income to operating income			
Depreciation and amortization	15	78,285	60,223
Realization of goodwill		31,683	14,189
Deferred and current income tax		(9,038)	(377,320)
Write-off of fixed and intangible assets		80,477	23,723
Equity in income of subsidiaries	13	-	(119,347)
Provision for contingencies	19	(1,953)	(72,373)
Allowance for estimated credit loss for allowance for doubtful accounts	9	1,485	3,156
Provision for obsolescence	10	(2,059)	(4,541)
Financial charges and foreign exchange variation on balances with associated companies, financing, tax obligations, judicial deposits, accounts payable and receivable, net		(163,113)	454,941
		400,319	40,897
Decrease (increase) in assets			
Trade and other notes receivable		(117,968)	104,308
Inventories		(12,810)	106,257
Recoverable taxes		5,452	(4,431)
Other		23,437	186,846
		(101,889)	392,980
Increase (decrease) in liabilities			
Suppliers		116,188	(50,980)
Investments payable		-	(133,784)
Royalties payable		(4,742)	(7,110)
Salaries and social security charges		1,607	2,730
Copyright assignment		-	(3,174)
Other		7,802	(146,447)
		120,855	(338,765)
Net funds from operating activities		419,285	95,112
Cash flow used in investment activities			
Acquisition of property, plant and equipment		(98,798)	(112,639)
Acquisitions of intangible assets		(3,289)	(29)
Dividends received		-	99,702
Adjustment of inventory		-	10,410
Cash from the merger		-	63,147
Write-off of investment due to merger		-	(471,799)
Investment property		(23,253)	-
Net funds of provision for investment activities		(125,340)	(397,019)
Cash flow from investment activities			
Raising of financing		97,874	207,972
Payment of financing and interest		(363,331)	(493,024)
Capital increase by merger		-	131,451
Equity valuation adjustment		-	28,046
Tax incentive reserve		-	307,363
		-	
Net funds from financing activities		(265,457)	181,808
Increase (decrease) in cash and equivalents		28,488	(120,099)
Cash and cash equivalents at the beginning of the year		20,238	140,337
Cash and cash equivalents at the end of the year		48,726	20,238
Variation in cash and cash equivalents for the year		28,488	(120,099)

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

The publication of these financial statements were authorized by the Executive Board on February 14, 2017. Once the financial statements have been issued, only the shareholders have the power to change them.

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 principles 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

The preparation of financial statements according to CPC standards requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported values of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on a continuous basis. 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, 2016 are included in the following notes:

- **Note 9** – estimated loss for allowance for doubtful accounts
- **Note 15** - Fixed assets - review of the useful life
- **Note 19** – Provisions for contingencies
- **Note 26** – 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.

- 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 - New standards and interpretations not yet adopted

6.1 Business combination

Business combinations are recorded using acquisition method, that is, 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

Revenue deriving from tax incentives described in Note 28, 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.

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. Value-added tax on sales and services—ICMS

Tax incentive credits related to ICMS reimbursement were accounted for in the Company's income (loss) for the year as a counterparty to ICMS payable in the amount of R$ 95,772 (R$ 77,144 in 2015), as Note 28.

b. FUNDOPEM - Investment subsidy

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 extended to the Company under Decrees 52.972 and 52.973, both dated March 31, 2016.

The secured benefit results in a presumed credit of as much as 30% of the monthly ICMS tax balance owed limited to 100% of investments made (offset) or a term of eight years, beginning February 2016, whichever comes first.

The Company complied with the requirements of CPC 07 - "Subsidy Agreement and Government Assistance" for its recognition and this reserve for investments was recorded in the Company's income 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, 2016 and 2015, the Company complied with all legal requirements to receive such benefits.

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/COFINS – Law No. 10,996/2004, article 3 and 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 from invested funds (including financial assets available for sale), dividend income (except for dividends received from investees valued under the equity method by the parent company), gains from the sale of financial assets available for sale, variations in fair value of financial assets measured at fair value by means of income, and gains from hedge instruments not recognized in income. Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in income on the date when the Company's right to receive the payment is established. The distributions received from investees recorded under the equity method reduce the amount of the investment.

Financial expenses include loan interest expenses, adjustment of discount to present value of the provisions and contingent consideration, losses on disposal of assets available for sale, preferred-share dividends classified as liabilities, variations in fair value of financial assets measured at fair value by means of income, losses arising from a reduction in the recoverable value (impairment) recognized in financial assets (except 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.

(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.

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 acquisition or construction cost, 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 qualifying 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 remeasurement is recognized in profit or loss to the extent the gain reverses a previous impairment loss on the specific property, with any remaining gain recognized as other comprehensive income and presented in 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 assets 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:

	2016	**2015**
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. For investees recorded at the equity method, goodwill book value is included in investment book value, and impairment losses are assigned to book value of the entire investment.

(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.

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 sale 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, 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 amount 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.

Held to maturity financial assets

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

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 amortization 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 amounts 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) 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 income, 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 value 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 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, 2017. The Company has not adopted these changes in the preparation of these financial statements. The Company does not plan to adopt these standards in advance.

Disclosure Initiative (Amendments to CPC 26)

The changes require additional disclosures that allow users of financial statements to understand and assess changes in liabilities arising from financing activities, whether arising from cash flow and other changes.

Changes are effective in years starting on or after January 1, 2017. Early adoption is permitted only for financial statements in accordance with IFRS.

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to CPC 32)

The changes clarify the accounting of deferred tax assets for unrealized losses on debt instruments measured at fair value.

Changes are effective in years starting on or after January 1, 2017, and early adoption is allowed only to financial statements, pursuant to IFRSs.

The Company is evaluating the potential impact on its financial statements. Thus far, the Company does not expect any significant impact.

Income from Contracts with Clients - CPC 47

CPC 47 introduces a comprehensive framework for determining whether and when income is recognized, and how income is measured. CPC 47 replaces current income recognition standards, including CPC 30 Income, CPC 17 Construction Contracts, and CPC 30 Interpretation A Client Loyalty Programs.

CPC 47 becomes effective for annual periods starting on or after January 1, 2018. Early adoption is permitted only for financial statements in accordance with CPCs.

The Company has not concluded its initial evaluation of the potential impact from the adoption of IFRS 15 on its financial statements.

IFRS 9 Financial Instruments

IFRS 9 replaces guidelines of IAS 39 (CPC 38) Financial Instruments: Recognition and measurement. 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 new standard maintains the IAS 39 guidelines about acknowledging and disacknowledging financial instruments.

IFRS 9 will become effective for annual periods starting on or after January 1, 2018, with early adoption allowed only to financial statements, pursuant to IFRSs.

The effective impact of the adoption of IFRS 9 on the Company's financial statements in 2018 cannot be estimated with confidence, as it will depend on the financial instruments held by the Company and the economic conditions in 2018, as well as accounting decisions and judgment calls that the Company will make in the future. The new standard will require 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.

The Company has not concluded its initial evaluation of the potential impact from the adoption of IFRS 9 on its financial statements.

IFRS 16 Leases

IFRS 16 introduces a single accounting model for leasing operations in the balance sheet for lessees. A lessee recognizes, under assets, the right of use, which reflects its right to use the leased asset and a leasing liability which reflects its obligation to make payments toward the lease. Optional exemptions are available for short term leasing and low valued items. The lessor's accounting remains similar to the current regulation, i.e., the lessors continue to classify the lease as financial or operational.

IFRS 16 substitutes the leasing agreement regulations now in force, including CPC 06 (IAS 17) Commercial Leasing Operations and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) Commercial Leasing Operations Complementary Aspects.

The standard is effective for annual periods starting on or after January 1, 2019. The early adoption of this is allowed only for financial statements in compliance with the IFRSs and only for entities that use IFRS 15 Income from Contracts with Clients on or prior to the initial IFRS 16 usage date.

The Company has not concluded an initial evaluation of the potential impact from adopting IFRS 16 on its financial statements.

Other changes

New standards or standards amended are not expected to have a significant impact on the Company's financial statements.

- Amendments to CPC 10 – Payment based on shares in relation to the classification and measurement of certain transactions with payments based on shares.

- Amendments to CPC 36 Consolidated Financial Statements - and to CPC 18 Investments in an associated company in relation to sales or tax contributions between an investor and its associated company or joint venture.

The Accounting Pronouncements Committee has not yet issued any accounting pronouncement or amendments in current pronouncements corresponding to all new IFRSs. Therefore, the early adoption of these IFRS is not permitted for entities that disclose their financial statements according to 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 reviewers provide the fair value of the property portfolio for Company investment 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 calculated by referring to similar lease agreements.

8 Cash and cash equivalents

	2016	2015
Cash and cash equivalents	4,041	3,459
Interest earning bank deposit	44,685	16,779
	48,726	**20,238**

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"). Very short term repurchase agreements (daily liquidity) were remunerated at an average rate of 65.0% of the CDI. Operations with a minimum investment term of 30 days were remunerated at an average rate of 99.5% of the CDI (99.0% for the year ended December 31, 2015) and were measured at the fair value and offset in income. 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, 2016 and 2015 are as follows:

	2016	2015
Trade accounts receivable	472,132	356,705
Related parties (note 27)	4	123
	472,136	**356,828**
Allowance for doubtful accounts	(43,066)	(41,581)
	429,070	**315,247**
Current assets	**414,846**	**315,247**
Non-current assets	**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:

	2016	2015
Amounts falling due	**418,919**	**306,341**
Overdue - in days:		
up to 30	5,815	8,401
31–60	3,950	1,722
61–90	135	41
91–180	883	1,138
>181	42,434	39,185
Total overdue	**53,217**	**50,487**
Accounts receivable	**472,136**	**356,828**

Changes to the allowance for doubtful accounts are as follows:

	2016	2015
Balance at the beginning of the year	41,581	18,248
Addition by merger	-	20,177
Supplement to allowance for the year	4,993	4,783
Values written-off of provision	(3,508)	(1,627)
Balance at December 31	**43,066**	**41,581**

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 250 active customers in portfolio and no client represents 15% or more of income or accounts receivable as of December 31, 2016 and 2015.

10 Inventories

	2016	2015
Raw material	90,985	104,268
Work in process	50,101	25,694
Finished goods	82,942	92,051
Packaging	2,741	2,135
Other materials	6,274	15,050
Imports in progress	13,393	-
	246,436	**239,198**

Changes to the provision for obsolescence are as follows:

	2016	2015
Balance at the beginning of the year	(3,298)	(7,839)
Provision supplement	(937)	(2,643)
Amounts written off from the provision	2,996	7,184
Balance at December 31	**(1,239)**	**(3,298)**

Inventory items that have not moved for over 90 days are regarded as obsolete and then are included in the provision balance. In 2016, the main items in the provision were the Mídias Virgens line, BOPP, Sheets, PP Cast, Lids and ABS.

11 Recoverable taxes

	2016	2015
ICMS recoverable	11,889	12,477
PIS//COFINS recoverable	755	1,925
PIS/COFINS tax process (i)	15,211	13,333
IRRF recoverable	1,099	7,446
IPI recoverable	1,643	1,580
Other	1,165	-
	31,762	**36,761**
Current assets	**16,551**	**23,428**
Non-current assets	**15,211**	**13,333**

(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$ 15,211 (R$ 13,333 as of December 31, 2015).

12 Other accounts receivable

	2016	2015
Costs to be amortized (i)	2,681	2,607
Other advances	830	-
Claims receivable	361	-
Other accounts receivable	359	-
Current assets	**4,231**	**2,607**
Costs to be amortized (i)	7,596	10,277
Other accounts receivable	291	-
Non-current assets	**7,887**	**10,277**

(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.

13 Equity in income of subsidiaries

a. Equity in income of subsidiaries

	% - Int.	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Shareholders' equity	Total liabilities	Income	Expenses	Income (loss)	Group's interest in income /(losses)
AMZ Mídia Indl. S.A. *(i)*	100%	57,288	13,037	70,326	6,521	212	63,592	70,326	12,119	(976)	11,143	11,143
Innova S.A. *(ii)*	60%	489,612	333,456	823,068	144,556	14,722	663,790	823,068	1,124,196	(943,856)	180,340	108,204
December 31, 2015		546,900	346,493	893,394	151,077	14,934	727,382	893,394	1,136,315	(944,832)	191,483	**119,347**

(i) AMZ Mídia Industrial S.A. was merged by Videolar as of December 31, 2015. The balance of equity income (loss) recorded as of the date of the merger was R$ 11,143.

(ii) Innova S.A. was merged by Videolar as of September 30, 2015. The balance of equity income (loss) recorded as of the merger date was R$ 108,204.

14 Investment property

	2016	2015
Land and buildings	185,312	155,813
Industrial facilities	-	4,655
Machinery and equipment	-	1,591
Balance at December 31	**185,312**	**162,059**

The investment properties are recorded at fair value, which was based on valuations made by independent external appraisers, at December 31, 2016.

The balance of investment property transactions was as shown below:

	2016	2015
Balance at January 1	162,059	24,009
Reclassification of property, plant and equipment for investment property	23,253	-
Addition by merger – L. Parisotto	-	138,050
Total	**185,312**	**162,059**

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.

15 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 16.1)	Construction in progress (Note 16.2)	Imports in progress	Spare Parts – Construction in progress	Goodwill - Property, plant and equipment	Total
Balances at December 31, 2014	82,967	216,640	307,430	-	127,298	13,549	16,396	509	30,079	1,085	(20,239)	213,894	30,222	17,515	-	1,037,345
Additions	-	-	306		-	174	120	-	49	35	-	37,773	64,972	9,210	203,479	316,118
Merger	2,056	58,130	484,566		5,626	1,734	5,800	225	-	-	-	20,023	-	-	-	578,160
Write-off			(2,231)		-	(65)	(843)	(28)	(356)	(1)	13,944	(1,546)	(34,437)	-	-	(25,563)
Adjustment in inventory	-	1,068	5,402		(4,964)	3	(391)	15	(3,767)	7		(993)				(3,620)
Transfer	-	-	166,085		38,393	21	421	-	3,814	18	-	(150,611)	(60,757)	-	-	(2,616)
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
Depreciation																
Balances at December 31, 2014	-	(40,876)	(167,227)	-	(42,019)	(11,393)	(15,414)	(421)	(24,761)	(1,030)	-	-	-	-	-	(303,141)
Depreciation for the year	-	(7,796)	(26,299)		(11,194)	(343)	(547)	(30)	(844)	(10)	-	-	-	-	(3,282)	(50,345)
Merger	-	(36,415)	(296,147)		(3,844)	(1,134)	(4,014)	(147)	-	-	-	-	-	-	-	(341,701)
Adjustment of inventory	-	215	(5,089)		(812)	(16)	(54)	(18)	(438)	(16)					-	(6,228)
Write-off	-	-	1,177	-	-	56	811	14	-	1	-	-	-	-	-	2,059
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)
Residual value																
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
Balances at December 31, 2015	85,023	190,966	467,973	-	108,484	2,586	2,285	119	3,776	89	(6,295)	118,540	-	26,725	200,197	1,200,468
Balances at December 31, 2014	82,967	175,764	140,203	-	85,279	2,156	982	88	5,318	55	(20,239)	213,894	30,222	17,515	-	734,204
Balances at December 31, 2013	99,656	195,864	180,033	-	73,054	2,715	1,477	146	6,115	71	(45,623)	234,609	27,553	20,441	-	796,111
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%	0.00%	16.28%

The company offered its property in Unit I, located on Avenida Torquato Tapajós, from its property 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.

15.1 Provision for impairment loss - Impairment test

The provision for losses from reduced recoverable value comprises fixed assets and replacement parts in discontinued segments and the amount of R$ 18,388 includes items that are no longer in operation as described below:

	2016	**2015**
Machinery and equipment	11,557	5,262
Molds and tools	2,009	78
Other	1,035	865
Spare parts	3,787	90
	18,388	**6,295**

The recoverable value of fixed assets is analyzed at the end of every year.

15.2 Construction in progress

On December 31, 2016 the construction in progress was R$ 63,572 (R$ 118,540 on December 31, 2015) and in the main was represented by the 3 BOPP line (R$ 51.058), plant improvements in PS, ES e EB (R$ 1,715) and modernization of PS – control center upgrade (R$ 1,332). The amount of R$ 55,609 of Planta EPS (Expanded Polystyrene) was formed in property, plant and equipment.

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 2017, are capitalized as part of the project cost. The paid-in borrowing costs to be activated, and calculated up to December 31, 2016 were R$ 6,821 (R$ 25,065, on December 31, 2015). All other loan costs unrelated to the acquisition of property, plant and equipment were recorded as expenses for the period.

16 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, 2014	11,272	16,908	-	-	28,180
Additions	29	-	243,866	106,279	350,174
Merger	5,789	241	-	-	6,030
Write-offs	-	(219)	-	-	(219)
Transfer	2,617	-	-	-	2,617
Adjustment of inventory	(753)	-	-	-	(753)
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
Amortization					
Balances at December 31, 2014	(5,985)	(13,913)	-	-	(19,898)
Amortization for the year	(1,156)	(2)	-	(8,719)	(9,877)
Merger	(2,591)	-	-	-	(2,591)
Adjustment of inventory	190	-	-	-	190
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)
Residual value					
Balances at December 31, 2016	8,612	5,308	243,866	62,684	320,470
Balances at December 31, 2015	9,412	3,015	243,866	97,560	353,853
Balances at December 31, 2014	5,287	2,995	-	-	8,282
Annual average amortization rate	19.13%	19.13%	0.00%	0.00%	19.13%

16.1 Impairment test

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 fixed assets as of December 31, 2016, 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.

16.2 Goodwill

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

Cost of acquisition	1,105,219
(-) Net 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.

17 Loans and financing

Financial institution		**Charges**	**Guarantees**	**Maturity**	**2016**	**2015**
Banco do Brasil - FINIMP	(i)	Libor USD + 1.50% p.a.	Surety	03/28/2016	-	84,503
Banco do Brasil - FINIMP	(i)	2.15% p.a.	Surety	06/15/2016	-	58,026
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	41,691	116,791
BNDES Contrato I	(iii)	TJLP + 2.12% p.a.	Real estate	10/15/2017	13,010	27,609
BNDES Contrato II	(iii)	TJLP + 2.42% p.a.	Real estate	06/15/2020	21,629	28,232
Debentures	(iv)	VC + 4.96% p.a.	Aval + Alien. Fiduc.	10/20/2020	346,130	466,665
Banco Citibank	(v)	Libor USD + 3.50% p.a.	Aval + Alien. Fiduc.	09/25/2020	310,042	393,908
Other - Adto s/ Exchange Rates on Delivered goods	(vi)	1.97%%–2.35% p.a.	Trade Notes	08/12/2016	-	4,997
Banco Bradesco - FINAME	(vii)	14.63% p.a.	Lien	12/15/2020	3,169	3,553
					784,200	**1,184,284**
Current liabilities					**326,641**	**333,598**
Non-current liabilities					**457,559**	**850,686**

(i) The Company has 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.

In the course of 2016, the Company paid off three FINIMP loan contracts in the amounts of US$ 6,108 and US$ 15,407 (falling due on 28/03/2016) and USD 14,847 (due on 15/06/2016).

(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. The 26th disbursement was released in 2016 totaling an amount of EUR 744 conducted in August 2016.

(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 calls for remuneration comprising the Long-Term Interest Rate + 2.12% p.a.

In 2012, a new line of credit 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.

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 an 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.

(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) ACE (Advance on Exchange Agreements) operations contracted on November 6, 2015 and December 2, 2015 have been duly settled during 2016.

(vii) In December 2015, the Company obtained from Banco Bradesco, through onlending contracted with BNDES, FINAME 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.

Amounts recorded in non-current liabilities as of December 31, 2016 and 2015 mature as follows:

	2016	**2015**
2017	-	258,079
2018	155,638	208,806
2019	156,064	208,806
2020	145,857	174,995
Non-current liabilities	**457,559**	**850,686**

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

(i) Net Financial Debt/EBITDA ratio at the end of the twelve-month period ended December 31, 2016 equal to or lower than 4.0 times;

(ii) Total Debt/Shareholders' equity ratio at the end of the period ended December 31, 2016 equal to or lower than 1.5 times.

Credit Agreement CITIBANK

(i) Net Financial Debt/EBITDA ratio at the end of the twelve-month period ended December 31, 2016 equal to or lower than 3.5 times.

As of December 31, 2016, the Company was compliant with all indices (covenants) established by creditors.

18 Suppliers

	2016	2015
Domestic suppliers	21,886	27,085
Foreign suppliers	267,549	177,908
	289,435	**204,993**

19 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:

	2016	2015
Tax	506	3,477
Labor	5,823	3,018
Civil	1,257	3,044
Goodwill	11,020	11,020
Non-current liabilities	**18,606**	**20,559**

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, 2014	13,779	893	505	-	15,177
(+) Supplement of provision	4,490	1,209	3,000	62,888	71,587
(-) Write-off of provision	(27,861)	(850)	(493)	(51,868)	(81,072)
(+) Merger	13,069	1,766	32	-	14,867
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**

Main lawsuits are commented as follows:

Tax proceedings

The provision for tax contingencies in the amount of R$ 506 refers to success legal fees derived from process 0001460-69.2014.4.01.3200 – TSA Suframa. The forecast of possible loss not recognized in the amount of R$ 464,299 refers to the Company's contestation of the collection of assessment notices. Main lawsuits are: State Inspection alleging non-payment of ICMS – tax substitution process No. 4.003.845-2 with balance of R$ 263,633 (R$ 263,633 in 2015), difference of Import Tax due to the non-update of DCR-E process No. 10283.722865/2015-40 in the amount of R$ 33,959 (R$ 33,959 in 2015) and impugnation of assessment notice 2016000088, filed by the municipal government of Manaus/AM in view of AMZ (incorporated by Videolar in 2015) related to the retention of ISSQN on remittance of Royalties in the amount of R$ 72,276.

The Company has tax escrow deposits recorded in the amount of R$ 19,568 (R$ 30,608 in 2015) concerning Process 2006.32.00.005992-1 of exclusion of PIS/COFINS from the IR and CSLL tax base in the amount of R$ 8,561; and Process 2001.32.00.010129-9 of non-levy of PIS/COFINS on internal sales of Z. Franca de Manaus, in the amount of R$ 3,982.

Labor proceedings

The provision for labor contingencies correspond to losses estimated based on individual analyses of 175 labor lawsuits.

Videolar-Innova is defendant in labor claims, in the total amount of R$ 18,742 (R$ 31,900 in 2015), for which the chance of loss is possible and, therefore, the respective provision has not been recognized, in the total amount of R$ 5,823 (R$ 3,018 in 2015), for which the chance of loss is considered probable, and the respective provision has been recognized.

Civil proceedings

Videolar-Innova is the defendant is civil lawsuits amounting to R$ 118,627 for which loss is considered as possible. The provision for civil contingencies correspond to estimated losses related to 27 lawsuits involving mainly commercial discussions, the main of which are as follows:

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 Paribás 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.

The parties are discussing the value in dispute concurrent with the process, in order to reach an agreement.

Escrow 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, 2014	**15,257**	**312**	**25**	**-**	**15,594**
(+) Supplement of provision	2,422	218	-	52,091	54,731
(-) Write-off of provision	(21,903)	(66)	(9)	(51,868)	(73,846)
(+) Merger	34,832	652	-	-	35,484
Balances at December 31, 2015	**30,608**	**1,116**	**16**	**223**	**31,963**
(+) Supplement of provision	6,917	513	1,684	-	9,114
(-) Write-off of provision	(17,956)	(527)	-	-	(18,483)
Balances at December 31, 2016	**19,569**	**1,102**	**1,700**	**223**	**22,594**

20 Shareholders' equity

a. Capital

On December 31, 2016 and 2015, the Company's capital amounts to R$ 686,832. According to Special Shareholders' Meeting (ESM) held on September 30, 2015, it was approved the capital increase of the Company in view of Incorporations in the amount of R$ 131,451.

As of December 31, 2016 and 2015, 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 adjustments of equity appraisal derive from equity appraisals of land and buildings available at Property for Investment and adoption of Deemed Cost on assets recorded in Fixed Assets.

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

The movement of R$ 9,119 in the equity valuation adjustment was due to the reversal of deferred income tax from prior years.

c. Legal reserve

Legal reserve is formed at 5% of net income for each year, pursuant to the terms of art. 193 of Law no. 6.404/76, up to the limit of 20% of capital. Due to income for the year of R$ 384,552, a legal reserve was recognized in the amount of R$ 19,228.

d. Dividends

In 2016, net income was allocated to legal reserves (R$ 19,228), tax incentive reserves (R$ 322,626) and profit reserves (R$ 42,943). 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 Annual Shareholders' Meeting (ASM) of April 27, 2015 authorized the use of the balance of R$ 42,256, recorded as profit retention reserve and R$ 23,474, recorded as tax incentive reserve, to offset accumulated losses of 2014.

The amount of R$ 42,805 was allocated to the formation of tax incentive reserves as of December 31, 2015.

On October 31, 2015, with the merger of Innova, it was recognized a tax incentive reserve in the amount of R$ 307,363.

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.

f. Profit retention reserve

The profit retention reserve was recognized in the amount of R$ 42,943 and is available to the shareholders.

21 Net operating income

	2016	**2015**
Gross operating income	2,408,265	1,273,763
Tax incentive reserves (Note 28)	95,772	77,144
Taxes on revenues	(439,803)	(212,714)
Returns	(15,346)	(8,063)
	2,048,888	**1,130,130**

22 Costs of products sold

	2016	**2015**
Cost of products sold	(1,391,997)	(786,483)
Cost of goods resold	(15,597)	(10,592)
Manufacturing genearal expenses	(198,989)	(111,239)
Other	(5,430)	(50,876)
	(1,612,013)	**(959,190)**

23 Administrative expenses

	2016	**2015**
Payroll expenses	(72,704)	(38,416)
Depreciation	(41,333)	(17,477)
Electric power	(18,537)	(8,215)
Taxes and rates	(1,950)	-
Provisions	(6,493)	3,957
Impairment	(12,093)	6,295
Lawyers' fees	(619)	(362)
Preservation of assets	(5,535)	(2,540)
Travel expenses	(691)	(674)
Freight and carriage	(40,354)	(17,508)
Maintenance and repairs	(5,248)	(2,514)
Consulting and advisory	(3,400)	(2,820)
Promotional material	-	(198)
Import expenses	(2,306)	-
Insurance costs	(2,041)	-
Other	(9,271)	(4,237)
	222,575	**84,709**

24 Other operating income (expenses), net

	2016	**2015**
Sale of assets	1,086	1,132
Losses and gains on write-off of property, plant and equipment	(317)	(11,875)
Sale of scrap	1,663	2,991
Revenue from rental	9,581	6,879
Result of merger	-	4,941
Fundopem	20,417	-
Other	(664)	1,344
	31,766	**5,412**

25 Net financial income (expenses)

	2016	**2015**
Financial income		
Interest and gains on investments	6,530	7,346
Monetary variation	5,211	2,425
Discounts obtained	888	338
Income from SWAP operations	28,975	43,836
Other	-	172
	41,604	**54,117**
Financial expenses		
Interest on loans	(48,301)	(52,699)
Discounts granted	(2,494)	(1,732)
Bank expenses	(2,031)	(1,486)
Expense with swap operations	(20,642)	(27,215)
Other	(10,615)	(6,339)
	(84,083)	**(89,471)**
Exchange variation, net		
Foreign exchange variations in assets	389,828	223,579
Liability foreign exchange fluctuations	(184,311)	(675,276)
	205,517	**(451,697)**

26 Income and social contribution taxes

a. Breakdown of deferred income and social contribution taxes

	2016	2015
Credits on tax losses	150,064	92,094
Equity valuation adjustment	(50,184)	(86,568)
Tax goodwill produced by future profitability	133,933	152,406
Deferred tax on goodwill	(81,245)	(97,566)
Tax credits on temporary differences:		
- credits on provisions	78,625	154,587
Total income tax and social contribution deferred, net	**231,193**	**214,953**

The Company has tax losses and social contribution carryfowards generated in Brazil amounting to R$ 441,362 (R$ 270,866 as of December 31, 2015) 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, 2016, 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:

	2016	2015
Net foreign exchange variations	146,805	389,745
Estimated losses for allowance for doubtful accounts	43,066	41,581
Estimated losses on recoverable values of inventories	1,239	3,298
Estimated sundry losses	30,449	9,988
Provision for judicial contingencies	9,691	10,055
Total Provisions (reversals)	231,250	454,667
IR and CS tax rate -34% and 15%	34%	34%
IR/CS on temporary differences	78,625	154,587

The Company, based on expected future taxable income determined through technical studies conducted at the end of 2016 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	2016
2018	42,900
2019	32,149
2020	22,504
2021–2027	52,510
	150,063

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 deferred income and social contribution taxes

The reconciliation of the result of deferred income and social contribution taxes in the amount of R$ 9,038 recorded as income in 2016 and R$ 368,709 recorded as income in 2015 is as follows:

	2016	2015
Income (loss) before income and social contribution taxes	375,514	(296,274)
Combined statutory rate	34%	34%
Expense with income and social contribution taxes at the combined rate	**(127,674)**	**100,733**
Equity pick-up on subsidiaries	-	40,578
Deferred IR on PF from prior years - not recognized in 2014 and adjusted in 2015	-	58,016
ICMS Grant – permanent exclusion	(36,772)	(11,427)
Tax goodwill produced by future profitability	133,933	152,407
Other permanent additions	12,356	28,402
Deferred on appraisals of assets	9,119	-
Total deferred income tax	**9,038**	**368,709**
Effective rate	-	-
Current income and social contribution taxes	-	-
Deferred income and social contribution taxes	9,038	368,709

c. Income and social contribution tax, recoverable

	2016	2015
Income tax	647	950
Social contribution	1,460	1,610
	2,107	**2,560**

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 2015.

27 Information on related parties

Management's key personnel includes board members and officers. Management's global annual remuneration, including Board of Directors' members' fees, was established as up to R$ 2,000, as approved in the Annual and Special Shareholders' Meeting held on April 29, 2016.

Total management's remuneration for the year ended December 31, 2016 was R$ 2,211 (R$ 2,169 in 2015).

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 / Purchase
M. L. Parisotto	4	-	107
	4	**-**	**107**

	2015		
	Assets	Liabilities	Sales / Purchase
M. L. Parisotto	123	-	486
L.A.I.S.P.E Empreendimentos	-	(3,455)	-
	123	**(3,455)**	**486**

Assets	**2016**	**2015**
Accounts receivable (Note 9)	4	123
Total assets	**4**	**123**

Liabilities	**2016**	**2015**
Other liabilities	-	(3,455)
Total liabilities	**-**	**(3,455)**

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

28 Tax incentives

Incentive	**2016**	**2015**
ICMS tax benefit on shipment of intermediate assets (Note 21);	95,772	77,144
Financial benefit of FUNDOPEM/RS (note 24)	20,417	-
	116,189	**77,144**

29 Financial instruments

a. Financial risk management

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

(i) Credit risk

(ii) Liquidity risk

(iii) Market risk

(iv) Operational risk

(v) 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 of the Company incurring financial losses due to a client or financial instrument counterparty, resulting from failure in complying with contract 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:

	2016	**2015**
Cash and cash equivalents	48,726	20,238
Accounts receivable	414,846	315,247
Other receivables	4,514	22,275
	468,086	**357,760**

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:

	Book value	Up to 1 year	2–3 years	4 years	>4 years
Loans and financing	784,200	326,641	311,702	145,856	-
Suppliers	289,435	289,435	-	-	-
	1,073,635	**616,076**	**311,702**	**145,856**	**-**

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 variation. Such assets amounted to R$ 44,685 as of December 31, 2016.

	2016	2015
Variable rate instrument		
Interest earning bank deposit	44,685	16,779
	44,685	**16,779**

Sensitivity analysis to CDI rate variation

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, 2016, market expects, indicated a CDI/SELIC effective average rate of 10.34% for 2017, against the effective rate of 14.00% verified in 2016.

	Probable scenario	Scenario I – of 25%	Scenario II – of 50%
Interbank Deposit Certificate annual effective rate in 2016	14.00%	10.50%	7.00%
Interest earning bank deposits	44,685	44,685	44,685
Interbank Deposit Certificate estimated annual rate for 12 months	10.34%	7.76%	5.17%
Effect in the financial instrument			
Increase / (Decrease)	1,635	1,224	818

Sensitivity analysis at Libor USD rate variation

The Company has financial liabilities indexed to the variation of Libor USD on December 31, 2016. In these conditions, the Company presented equity values of loans and financing in the amount of R$ 310,042.

The Company's estimate indicated an estimated USD Libor rate for 12 months of 2.03%, probable scenario for 2017, against the effective rate of 1.69% verified on December 31, 2016.

	Probable scenario	**Scenario I – of 25%**	**Scenario II – of 50%**
Annual effective rate of USD Libor in 2015	1.69%	2.11%	2.53%
Loan Banco Citibank	310,042	310,042	310,042
Estimated annual rate of USD Libor for 12 months (*)	2.02%	2.53%	3.03%
Effect in the financial instrument			
Increase / (Decrease)	(1,023)	(1,302)	(1,550)

(*)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 EUR rate variation

The Company has financial liabilities indexed to the variation of Libor EUR on December 31, 2016. In these conditions, the Company presented equity values of loans and financing in the amount of R$ 41,691.

The Company's estimate indicated an estimated EUR Libor rate for 12 months of 0.0%, probable scenario for 2017, against the effective rate of 0.05% verified on December 31, 2016.

	Probable scenario	**Scenario I – of 25%**	**Scenario II – of 50%**
Annual effective rate of EUR Libor in 2016	-0.08%	-0.10%	-0.12%
Bradesco Europa - Loan	41,691	41,691	41,691
Estimated annual rate of EUR Libor for 12 months	-0.10%	-0.12%	-0.15%
Effect in the financial instrument			
Increase / (Decrease)	8	8	13

Sensitivity analysis at TJLP (Long-term interest rate) rate variation

The Company has financial liabilities indexed to the variation of TJLP on December 31, 2016. In these conditions, the Company presented equity values of loans and financing in the amount of R$ 34,639.

Market expects, indicated a TJLP tax of 7.00%, probable scenario for 2017, against the effective rate of 7.50% verified in 2016.

	Probable scenario	**Scenario I – of 25%**	**Scenario II – of 50%**
Annual effective rate of TJLP (Long-term interest rate) of 2016	7.50%	9.38%	11.25%
BNDES loan	34,639	34,639	34,639
Estimated TJLP (Long-term interest rate) for 12 months (*)	7.00%	8.75%	10.50%
Effect in the financial instrument			
Increase / (Decrease)	173	218	260

(*) The probable scenario used by Videolar-Innova for TJLP considered a reduction of 0.50 p.p. on the 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 at December 31, 2016 and 2015, which considers the book values of loans and financing and cash and cash equivalents:

		2016		**2015**	
		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	36,501	142,529
Citibank loan (*)	USD	95,131	310,042	100,878	393,908
Debentures	USD	106,204	346,130	119,510	466,665
Bradesco Loan	EURO	12,125	41,691	27,477	116,791
Foreign suppliers	USD	79,162	257,998	40,240	154,217
Foreign suppliers	EURO	2,778	9,551	4,888	18,734

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, 2016, the Company recognized in the financial result gains of R$ 20,672 on this type of operation related to the agreement that was outstanding on that date and the total volume hedged is US$ 95,131 thousand and EURO 84,232 thousand.

Maturity	Assets (USD)	Liabilities (EUR)	Parity EUR/USD	Amount in US$	USD Adjustment	USD rate	Adjustment (R$)
09/25/2020	**95,131**	**84,232**	1.0541	88,789	6,343	3.2591	**20,672**

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, 2016. 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, 2016 of R$ 3.2591 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, US$ 000	Scenario 1	Scenario 2	Scenario 3	Scenario 4
		2.4443	***1.6296***	***4.0739***	***4.8887***
Banco do Brasil	14,890	36,396	24,265	60,660	72,793
Banco Citibank - 4131	95,131	232,529	155,025	387,554	465,067
Debentures	106,204	259,594	173,070	432,664	519,199
Foreign suppliers	79,162	193,496	129,002	322,498	386,999

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, 2016 of R$ 3.4354 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 $000	Scenario 1	Scenario 2	Scenario 3	Scenario 4
		2.5788	***1.7192***	***4.2980***	***5.1576***
Banco Bradesco Europa	12,125	31,268	20,845	52,113	62,536
Foreign suppliers	2,778	7,164	4,776	11,940	14,328

(iv) Operating risk

Operational 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 assets and liabilities may suffer variation. The table below presents the comparison per class of book values and fair values:

	Book value		**Fair value**	
	2016	**2015**	**2016**	**2015**
Financial assets				
Cash and cash equivalents	4,041	3,459	4,041	3,459
Interest earnings bank deposits	44,685	16,779	44,685	16,779
Accounts receivable	414,846	315,247	414,846	315,247
Income and social contribution tax, recoverable	2,107	2,560	2,107	2,560
Recoverable taxes	16,551	22,707	16,551	22,707
Total	**482,230**	**360,752**	**482,230**	**360,752**
Financial liabilities				
Loans and financing	784,200	1,184,284	784,200	1,184,284
Suppliers	289,435	204,993	289,435	204,993
Tax liabilities	8,521	7,534	8,521	7,534
Total	**1,082,156**	**1,396,811**	**1,082,156**	**1,396,811**

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, 2016 and 2015.

	2016	**2015**
Loans and financing	784,200	1,184,284
(-) Cash and cash equivalents	(48,726)	(20,238)
Net bank debt	735,474	1,164,046
Shareholders' equity	1,525,394	1,149,961
Shareholders' equity and net debt	**2,260,868**	**2,314,008**
Ratio of shareholders' equity and net bank debt	**0.48**	**1.01**

30 Insurance coverage

At December 31, 2016, operating risk insurance coverage was comprised of R$ 2,099,351 for material damage, R$ 525,310 for loss of profit and R$ 50,000 for civil liability and R$ 15,000 for Environmental Risk Insurance.

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 thousand for other goods by vehicle/waterway transportation; US$ 5,000 thousand for other goods covered by the present insurance, by vehicle/aerial transportation or accumulation and US$ 2,000 thousand by vehicle/highway transportation. 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$ 1,600,000.00 of coverage.

31 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 January 31, 2017 with monthly value of R$ 325.

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