Mills Estruturas e Serviços de Engenharia S.A.

Financial statements at December 31, 2016 and 2015

(A free translation of the original report in Portuguese containing financial statements prepared in accordance with accounting practices adopted in Brazil)

KPDS 178993

Contents

KPMG Auditores Independentes
Av. Almirante Barroso, 52 - 4º andar
20031-000 - Rio de Janeiro/RJ - Brasil
Caixa Postal 2888 - CEP 20001-970 - Rio de Janeiro/RJ - Brasil
Telefone +55 (21) 3515-9400, Fax +55 (21) 3515-9000
www.kpmg.com.br

Independent auditors' report on the financial statements

(A free translation of the original report in Portuguese, as filed with the Brazilian Securities and Exchange Commission (CVM), prepared in accordance with the accounting practices adopted in Brazil, rules of the CVM and the International Financial Reporting Standards - IFRS)

To the Board of Directors and Management
Mills Estruturas e Serviços de Engenharia S.A.
Rio de Janeiro - RJ

Opinion

We have audited the financial statements of Mills Estruturas e Serviços de Engenharia S.A. ("Company"), which comprise the balance sheet as at December 31, 2016, and the statements of operations and other comprehensive income (loss), changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mills Estruturas e Serviços de Engenharia S.A., as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with International and Brazilian Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of Financial Statements section of our report. We are independent from the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements and are set forth on the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade"), and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were the most significant in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverable value of property, plant and equipment and intangible assets

As mentioned in notes 2.2(x) and 13, the Company tested its cash generating units ("CGUs") for impairment, and to calculate the recoverable value of each business segment used a discounted cash flow model, according to each segment's economic and financial projections. Due to the uncertainties inherent in cash flow forecasts, to the estimates to determine asset recovery capacity, such as the discount rate, the estimated economic growth and the cost inflation rate used to determine the value in use of assets, and to the complexity of procedures, which requires a significant degree of judgment by the Company to determine accounting estimates, we considered this to be a key audit matter.

How the matter was addressed in our audit

We obtained an understanding of the design and implementation of internal controls related to the preparation and review of the budget and impairment tests made available by the Company. We evaluated the reasonableness of the estimate of values in use prepared by the Company, the determination of the CGUs and the methodology used to test the assets for impairment. With the assistance of our corporate finance experts, we evaluated the assumptions and methodologies used by the Company to prepare the model and compared the assumptions with the data obtained from external sources, when available, such as the estimated economic growth, the cost inflation rate and the discount rates, and we also conducted a sensitivity analysis for these assumptions. We compared the sum of discounted cash flows with the Company's recorded amounts of property, plant and equipment and intangible assets to determine value in use. The results of the application of our audit procedures to the impairment testing of property, plant and equipment and intangible assets were consistent with the Company's evaluation and we considered them to form our opinion on the Company's financial statements. We also evaluated the adequacy of the disclosures made by management.

Valuation of the Investment in Rohr

As mentioned in notes 2.2 (ii.1) (c); 2.2 (ii.1) (d) and 12, the Company classifies the investment in Rohr S.A. Estrutura Tubulares as an available-for-sale financial asset measured at fair value. The Company used the discounted cash flow valuation model to calculate the fair value of that investment according to economic and financial projections. Due to the inherent uncertainty about cash flow projections and its estimates to determine the fair value of this investment, such as the discount rate, the estimated economic growth, the cost inflation and the complexity of the process, which requires a significant level of judgment, we considered this to be a key audit matter.

How the matter was addressed in our audit

We obtained an understanding of the design and implementation of internal controls related to the preparation and review of the discounted cash flow to determine the fair value of that investment. We evaluated the reasonableness of the projections prepared by the Company and the methodology used to measure the fair value of financial assets. With the assistance of our corporate finance experts, we evaluated the assumptions and methodologies used by the Company to prepare the discounted cash flow and compared them with the data obtained from external sources, when available, such as the estimated economic growth, the cost inflation rate and the discount rates, and we also conducted a sensitivity analysis for these assumptions. We checked whether the amount calculated as the asset's discounted cash flow was duly recognized as the fair value of that financial asset as of December 31, 2016. The results of the application of our audit procedures to the impairment testing of the investment in Rohr were consistent with the Company's evaluation and we considered them to form our opinion on the Company's financial statements. We also evaluated the adequacy of the disclosures made by management.

Deferred tax assets

As mentioned in notes 2.2(v) and 20, the Company recognizes deferred tax assets according to the likelihood that taxable profit will be generated in the future against which these assets can be utilized. Due to the uncertainties inherent in business that have an impact on forecast future taxable profit and on the Company's estimates to determine its capacity to recover these deferred tax assets, and to the fact that the Company exercises significant judgment to determine the value of future taxable profit, which are based on estimated revenues, costs and finance income (expense), we considered this to be a key audit matter.

How the matter was addressed in our audit

We obtained an understanding of the internal controls related to the future taxable profit forecast by the Company. With the assistance of our tax experts, we evaluated the nature of temporary differences and the reasonableness of income and social contribution tax losses that make up taxable profit. Moreover, we involved our corporate finance experts, who have helped us to evaluate the assumptions and methodologies used by the Company, and we compared assumptions with data obtained from external sources, when available, such as the estimated economic growth, the cost inflation rate and the discount rates, and we also conducted a sensitivity analysis to project revenues and costs. We compared the budget approved for the previous year with actual amounts calculated in the current year to check the Company's capacity to project future results. We compared the expected future taxable profit with the amount limit to be recognized as the Company's deferred tax assets. The results of the application of our audit procedures to the impairment testing of deferred tax assets were consistent with the Company's evaluation and we considered them to form our opinion on the Company's financial statements. We also evaluated the adequacy of the disclosures made by management.

Revenue recognition on rental

As mentioned in notes 2.2 (xx) and 27, the Company earns revenue from rendering services, selling merchandise and leasing assets, and its main source of revenue is the lease of assets. Rental revenue is recognized monthly on a pro rata and straight-line basis in profit or loss in accordance with equipment lease agreements. This involves judgment to determine the moment when risks and benefits are transferred to the counterparty, and therefore revenue must be recognized. For that reason and because of its relevance in the financial statements as a whole we considered that to be a key audit matter.

How the matter was addressed in our audit
We obtained an understanding of the procedures followed to recognize rental revenue by evaluating the design of internal controls, and we tested the effectiveness of a sample of key controls for this area. We conducted a detailed test of a sample selected according to the breakdown of revenues, checking for their existence by conducting an analysis of supporting documentation, such as contracts, invoices and service measurement documents. Moreover, we conducted a detailed test of the revenue recognition criteria applied to the sales made close to the reporting date (test of the revenue cutoff date). Our work included an analysis of supporting documentation mainly for the measurement of services. We also evaluated the analytical procedures to check for significant fluctuations, balance trends and exception analyses, if any. The results of the application of our audit procedures to the recognition of rental revenue were consistent with the Company's evaluation and we considered them to form our opinion on the Company's financial statements. We also evaluated the adequacy of the disclosures made by the Company.

Other matters

Statements of value added
The statements of value added for the year ended December 31, 2016, prepared under the responsibility of the Company's management, and presented herein as supplementary information for IFRS purposes, have been subject to audit procedures jointly performed with the audit of the Company's financial statements. In order to form our opinion, we assessed whether those statements are reconciled with financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria determined in the Technical Pronouncement CPC 09 - Statement of Value Added. In our opinion, these statements of value added have been fairly prepared, in all material respects, in accordance with the criteria determined by the aforementioned Technical Pronouncement, and are consistent with the overall financial statements.

Corresponding figures for the prior year
The balance sheet as of December 31, 2015 and the statements of operations, comprehensive income (loss), changes in shareholders' equity, cash flows and value added and related notes for the year ended December 31, 2015, presented as related amounts in the financial statements of the current year, were previously audited by other independent auditors, who issued a report dated March 9, 2016, with no changes. The related amounts for the statements of value added for the year ended December 31, 2015 were submitted to the same audit procedures by those independent auditors and, based on their audit, they issued their report with no changes.

Other Information accompanying the financial statements and auditor's report
Management is responsible for the other information comprinsing the management report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work that we have performed, we conclude that there is a material misstatement of this other information, then we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International and Brazilian Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

Rio de Janeiro, March 8, 2017

KPMG Auditores Independentes
CRC SP-014428/O-6 F-RJ

Original in Portuguese signed by
Luis Claudio França de Araújo
Accountant CRC RJ-091559/O-4

Mills Estruturas e Serviços de Engenharia S.A.

Balance sheet as of December 31, 2016 and 2015

(In thousands of Brazilian Reais – R$)

	Notes	12/31/2016	12/31/2015
Assets			
Current			
Cash and cash equivalents	6	330,682	232,011
Trade receivables	7	65,834	99,719
Inventories	8	13,905	18,398
Inventories - Other assets held for sale	9	-	20,687
IRPJ (Corporate Income Tax) and CSLL (Social Contribution on Profit)	10	12,376	16,387
Taxes recoverable	10	16,630	23,048
Advances to suppliers		2,192	197
Other receivables - Sale of investee	11	22,558	19,778
Other assets		8,081	5,316
		472,258	435,541
Noncurrent			
IRPJ (Corporate Income Tax) and CSLL (Social Contribution on Profit)	10	-	161
Taxes recoverable	10	-	12,186
Deferred taxes - IRPJ and CSLL	20	87,984	47,230
Judicial deposits	21	10,820	11,023
Other receivables - sale of investee	11	-	19,778
		98,804	90,378
Investment			
Available-for-sale financial asset	12	75,052	61,200
Property, plant and equipment	13	821,192	1,004,067
Intangible assets	14	43,441	46,771
		939,685	1,112,038
Total assets		1,510,747	1,637,957

The accompanying notes are an integral part of these financial statements.

Mills Estruturas e Serviços de Engenharia S.A.

Balance sheet as of December 31, 2016 and 2015

(In thousands of Brazilian Reais – R$)

	Notes	12/31/2016	12/31/2015
Liabilities and equity			
Current			
Trade payables	15	13,058	6,844
Borrowings and financing	16	3,173	3,185
Payroll and related taxes		17,670	18,196
Debentures	17	156,562	186,634
Tax debt refinancing program (REFIS)	22	1,271	1,174
Taxes payable	23	1,748	2,687
Dividends and interest on capital payable	24	3	-
Other liabilities		270	184
		193,755	218,904
Noncurrent			
Borrowings and financing	16	8,792	11,931
Debentures	17	281,561	419,085
Provision for tax, civil and labor risks	21	20,125	16,612
Tax debt refinancing program (REFIS)	22	8,350	9,194
Other liabilities		215	-
		319,043	456,822
Total liabilities		512,798	675,726
Equity			
Subscribed capital	24	688,319	563,319
Capital reserves		30,935	29,951
Earnings reserves		289,840	389,248
Treasury shares		(20,287)	(20,287)
Equity adjustment		9,142	-
Total equity		997,949	962,231
Total liabilities and equity		1,510,747	1,637,957

The accompanying notes are an integral part of these financial statements.

Mills Estruturas e Serviços de Engenharia S.A.

Statement of operations

Years ended December 31, 2016 and 2015

(In thousands of Brazilian Reais – R$, except when indicated otherwise)

	Notes	2016	2015
Net revenue from sales and services	27	396,617	576,106
Cost of sales and services	28	(313,623)	(343,779)
Gross profit		82,994	232,327
General and administrative expenses	28	(197,190)	(240,795)
Provision for impairment	29	(3,926)	(57,110)
Loss before finance income (costs) and taxes		(118,122)	(65,578)
Finance income	30	55,540	36,911
Finance expenses	30	(81,810)	(100,051)
Loss before taxes		(144,392)	(128,718)
Deferred income tax and social contribution	20	44,984	30,917
Loss for the year		(99,408)	(97,801)
Basic and diluted loss per share - R$	26	(0.62)	(0.77)

The accompanying notes are an integral part of these financial statements.

Mills Estruturas e Serviços de Engenharia S.A.

Statement of comprehensive income (loss)

Years ended December 31, 2016 and 2015

(In thousands of Brazilian Reais – R$)

	Notes	2016	2015
Loss for the year		(99,408)	(97,801)
Items that may be reclassified subsequently to profit or loss			
Fair value adjustment Investment Rohr, net of taxes	12	9,142	-
Cash flow hedge, net of taxes	32	-	(244)
Total comprehensive income for the year		(90,266)	(98,045)

The accompanying notes are an integral part of these financial statements.

Mills Estruturas e Serviços de Engenharia S.A.

Statement of changes in shareholders' equity

Years ended December 31, 2016 and 2015

(In thousands of Brazilian Reais – R$)

		Capital reserve		Earnings reserves						
	Subscribed capital	Stock option premium	Shares issue premium	Legal	Expansion	Earnings retention	Treasury shares	Equity adjustments	Accumulate losses	Total
At January 1, 2015	563,319	35,396	(15,069)	32,611	63,649	390,789	(11,542)	244	-	1,059,397
Purchase of treasury shares	-	-	-	-	-	-	(8,745)	-	-	(8,745)
Stock option premium	-	9,624	-	-	-	-	-	-	-	9,624
Comprehensive income for the year - cash flow hedge	-	-	-	-	-	-	-	(244)	-	(244)
Loss for the year	-	-	-	-	-	-	-	-	(97,801)	(97,801)
Absorption of loss for the year	-	-	-	-	-	(97,801)	-	-	97,801	-
At December 31, 2015	563,319	45,020	(15,069)	32,611	63,649	292,988	(20,287)	-	-	962,231
At January 1, 2016	563,319	45,020	(15,069)	32,611	63,649	292,988	(20,287)	-	-	962,231
Capital contribution - share issue	125,000	-	-	-	-	-	-	-	-	125,000
Stock option premium	-	4,363	-	-	-	-	-	-	-	4,363
Share issue cost	-	-	(3,379)	-	-	-	-	-	-	(3,379)
Fair value adjustment Investment Rohr	-	-	-	-	-	-	-	9,142	-	9,142
Loss for the year	-	-	-	-	-	-	-	-	(99,408)	(99,408)
Absorption of loss for the year	-	-	-	-	-	(99,408)	-	-	99,408	-
At December 31, 2016	688,319	49,383	(18,448)	32,611	63,649	193,580	(20,287)	9,142	-	997,949

The accompanying notes are an integral part of these financial statements.

Mills Estruturas e Serviços de Engenharia S.A.

Statement of cash flows

Years ended December 31, 2016 and 2015

(In thousands of Brazilian Reais – R$)

	12/31/2016	12/31/2015
Cash flows from operating activities		
Loss for the year	(99,408)	(97,801)
Adjustments:		
Depreciation and amortization	159,025	169,641
Income tax and social contribution expense	(44,984)	(30,917)
Provision for tax, civil and labor risks	691	3,554
Accrued expenses on stock options	4,363	9,624
Residual value of property, plant and equipment and intangible assets sold and written off	45,955	30,433
Interest and monetary exchange gains and losses, net	73,059	86,135
Allowance for doubtful debts	21,217	38,230
Provision (reversal) for slow-moving inventories	2,271	(2,255)
Provision for impairment	3,926	57,110
Provision for rental equipment inventory adjustment	2,171	-
Others	973	1,994
	268,667	363,549
(Increase) decrease in assets and increase (decrease) in liabilities:		
Trade receivables	12,666	17,004
Acquisition of rental equipment	(1,934)	(8,483)
Inventories	2,222	5,650
Taxes recoverable	18,604	25,044
IRPJ (Corporate Income Tax) and CSLL (Social Contribution on Profit)	4,172	(3,665)
Judicial deposits	704	(462)
Other assets	(4,760)	239
Trade payables	5,241	(10,835)
Payroll and related taxes	(526)	(1,229)
Taxes payable	(1,685)	(1,048)
Other liabilities	299	(787)
Lawsuits settled	(2,417)	(1,140)
Interest paid	(68,774)	(79,433)
Income tax and social contribution paid	-	(6,257)
Net cash generated by operating activities	133,071	200,346
Cash flows from investing activities:		
Acquisition of PP&E for own use and intangible assets	(3,594)	(16,473)
Proceeds from sale of the Industrial Services business unit	21,181	18,575
Net cash generated by investing activities	17,587	2,102

Mills Estruturas e Serviços de Engenharia S.A.

Statement of cash flows

Years ended December 31, 2016 and 2015

(In thousands of Brazilian Reais – R$)

	12/31/2016	12/31/2015
Cash flows from financing activities		
Capital contribution	125,000	-
Share issue cost	(3,379)	-
Purchase of treasury shares	-	(8,745)
Dividends and interest on capital paid	-	(21,810)
Amortization of borrowings	(173,608)	(133,541)
Net cash used in financing activities	(51,987)	(164,096)
Net increase (decrease) in cash and cash equivalents	98,671	38,352
Cash and cash equivalents at the beginning of the year (Note 6)	232,011	193,659
Cash and cash equivalents at the end of the year (Note 6)	330,682	232,011
Net increase (decrease) in cash and cash equivalents	98,671	38,352

Until December 31, 2016 the Company wrote off bills up to 5 years past due, totaling R$10,879, which are not reflected in the statement of cash flows since such write-offs did not generate cash effects.

The accompanying notes are an integral part of these financial statements.

Mills Estruturas e Serviços de Engenharia S.A.

Statement of added value

Years ended December 31, 2016 and 2015

(In thousands of Brazilian Reais – R$)

	12/31/2016	**12/31/2015**
Revenues:		
Sales of products and services	505,506	734,669
Cancelations and discounts	(72,783)	(101,785)
Other revenues	233	3,354
Allowance for doubtful debts	(21,217)	(38,230)
	411,739	598,008
Inputs purchased from third parties:		
Cost of sales and Services	(5,691)	(18,273)
Materials, energy, outside services and others	(125,192)	(132,477)
Provision for impairment	(3,926)	(57,110)
Write-off of property, plant and equipment items	(42,499)	(29,993)
Gross added value	234,431	360,155
Depreciation, amortization and depletion	(159,025)	(169,640)
Net added value produced by the Company	75,406	190,515
Added value received in transfer		
Finance income	55,540	36,910
Total added value for distribution	130,946	227,425
Distribution of added value:		
Personnel and payroll taxes	**112,142**	**143,684**
Salaries	86,014	110,420
Benefits	19,746	25,279
Government Severance Indemnity Fund for Employees (FGTS)	6,382	7,985
Taxes and contributions	**18,323**	**56,729**
Federal	15,580	52,271
State	885	2,798
Municipal	1,858	1,660
Lenders and lessors	**99,889**	**124,813**
Interest and exchange gains (losses)	78,783	99,436
Rentals	21,106	25,377
Shareholders	**(99,408)**	**(97,801)**
Retained earnings	(99,408)	(97,801)
Added value distributed	130,946	227,425

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements for the years ended December 31, 2016 and 2015

(In thousands of Brazilian Reais - R$, unless otherwise stated)

1 Operations

Mills Estruturas e Serviços de Engenharia S.A. ("Mills" or "Company") is a publicly-traded corporation with registered offices in the City of Rio de Janeiro, Brazil. The Company operates basically in the infrastructure and real estate markets, engaging in the following principal activities:

(a) Rental and sale, including import and export, of steel and aluminum tubular structures, and steel and aluminum props and access equipment for construction works, as well as reusable concrete formworks, along with the supply of related engineering projects, supervisory and optional assembly services.

(b) Sale, rental and distribution of scissor lifts and telescopic handlers, as well as parts and components, and technical assistance and maintenance services for such equipment.

(c) Holding of ownership interests in other companies, as partner or shareholder.

The Company's bylaws also provide:

(a) Rental, assembly, and disassembling of access tubular scaffolding in industrial areas.

(b) Performance of industrial painting, sandblasting, heat insulation, boilermaker and refractory services, as well as other services inherent in such activities.

The Company's operations are segmented according to the new organization and management model, already reflected in the financial statements as at December 31, 2015, approved by Management, containing the following business units: Real Estate and Rental. The descriptions of each division are mentioned in note 31.

2 Basis of preparation and presentation of the financial statements and summary of significant accounting policies

2.1 Basis of presentation

(i) Statement of compliance

The Company's financial statements have been prepared and are being presented in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil. The accounting practices adopted in Brazil comprise those included in the Brazilian Corporate Law, the standards of the Brazilian Securities Commission (CVM), and the pronouncements, guidance and interpretations of the Accounting Pronouncements Committee (CPC).

Management states that all information material to the financial statements is being evidenced and corresponds to the information used by it in its management.

The accounting information contained in these financial statements was approved by the Company's Board of Directors and authorized for issue on March 8, 2017.

(ii) Basis of measurement

The Company's financial statements have been prepared on the historical cost basis, except for the following items recognized in the balance sheets:

- Financial instruments measured at fair value through profit or loss (Notes 4, 12 and 32);

(iii) Functional and presentation currency

These financial statements are presented in Brazilian reais (R$), which is the Company's functional currency. All financial information is presented in thousands of reais, expect when otherwise indicated.

(iv) Segment information

Segment information is presented consistently with the internal report provided to the Company's chief operating decision maker. The chief operating decision maker, responsible for resource allocation and assessment of segment performance, is the Board of Executive Officers, responsible for implementing the Company's strategic decisions made by the Board of Directors.

(v) Statements of added value

The purpose of this statement is to evidence the wealth created by the Company and its distribution during a certain period and is presented by the Company as required by the Brazilian corporate law, and as supplemental information to the information required by the IFRS.

The statement of added value has been prepared based on information obtained from the accounting records used as a basis for the preparation of the financial statements and following the requirements of CPC 09 - Demonstração do Valor Adicionado (Statement of Value Added).

The first part of this statement presents the wealth created by the Company, represented by revenues (gross sales revenue, including taxes levied on sales, other revenues and the effects of the allowance for doubtful debts), inputs purchased from third parties (cost of sales and acquisition of materials, energy and outside services, including taxes levied on acquisition, the effects of impairment and recovery of assets, and depreciation and amortization) and the wealth received from third parties (dividends received, finance income and other income). The second part of the statement of value added presents the distribution of wealth among personnel, taxes and contributions, lenders and lessors, and shareholders.

2.2 Significant accounting policies

(i) Cash and cash equivalents

Cash and cash equivalents are held to meet short-term cash commitments and other purposes. Cash and cash equivalents include bank deposits and highly liquid short-term investments with original maturity of three months or less, readily convertible into a known amount of cash and subject to an insignificant risk of change in value.

(ii) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets and liabilities at fair value through profit or loss are recognized immediately in profit or loss.

(ii.1) Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, and loans and receivables. Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost and tested for impairment.

The classification depends on the purpose of the financial assets and is determined at the time of initial recognition. All regular way acquisition or sales of financial assets are recognized and derecognized on a trade date basis. Income is recognized on an effective interest basis for instruments other than those financial assets classified as at fair value through profit or loss.

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when there is a legally enforceable right to set off the recognized amounts or the intention either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

a. Financial assets at fair value through profit or loss

This category includes financial assets held for trading. Financial assets at fair value through profit or loss are carried at fair value, with any gains or losses recognized in profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling it in the near term; or (ii) on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

b. Loans and receivables

This category includes non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. They are classified as current assets, except those with maturities greater than 12 months from the end of the reporting period, which are classified as noncurrent assets. The Company's receivables comprise trade and other receivables, judicial deposits and cash and cash equivalents, except short-term investments. Loans and receivables are measured at amortized cost using the effective interest method.

c. Available-for-sale financial assets

These assets are measured initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and any changes that are not impairment losses and differences in foreign currencies on the debt instruments, are recognized in other comprehensive income and accumulated in equity as carrying value adjustments. When these assets are derecognized, cumulative gains and losses maintained as equity adjustments to equity are reclassified to profit or loss. The Company classifies the investment in Rohr within this category of available-for-sale asset.

d. Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(ii.2) Financial liabilities

Financial liabilities are classified as “Other financial liabilities”.

e. Other financial liabilities

Other financial liabilities (including borrowings and debentures) are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(iii) Trade receivables

Trade receivables are recognized on an accrual basis when services are rendered or goods are sold to customers. All trade receivables arise from services rendered or goods sold by the Company’s business units.

Trade receivables are carried at fair value at the time of sale, adjusted by a provision for impairment (allowance for doubtful debts). The allowance for doubtful debts is recognized when there is objective evidence that the Company will not receive the total amount according to the original terms of the receivables.

An allowance for doubtful debts should be recognized for:

1. Any Company receivables sent for court collection. The allowance for this type of receivables is 100%.

2. Past-due Company receivables that are not collateralized, accrued according to the following criterion: non-priority customers, 50% for more than 61 to 120 days past due and 100% above 120 days past due; and preferred customers, 100% above 180 days past due.

The past-due period start date for allowance purposes is the extended due date of each receivable.

If an acknowledgment of debt agreement is entered into providing for collaterals (preferably a bank guarantee or a performance bond) no allowance for doubtful debts is recognized.

An uncollateralized acknowledgment of debt agreement will result in setting up an allowance for doubtful debts, usually pursuant to the criterion above (only for past-due amounts, not including current amounts). The allowance for doubtful debts is fully reversed after confirmation of timely payment of the second installment of the acknowledgment of debt agreement. If the customer is in default again, the entire debt is recognized in the allowance for doubtful debts.

If the event of debt restructuring, the allowance for doubtful debts is recognized pursuant to the rule above, unless the acknowledgment of debt is replaced by a collateral (mortgage or bank guarantee).

(iv) Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined under the average cost method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

The provision for slow-moving inventories is calculated and recognized monthly. A provision should be recognized for all inventory items without movement for more than one year.

(iv.1) Inventories - other assets held for sale

Refer to assets previously included in the Company's property, plant and equipment and currently separate from rental assets due to the purpose of their sale. Such assets are measured in conformity with the requirements of CPC 16 (R1).

(v) Current and deferred income tax and social contribution

Income tax and social contribution expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

The current income tax and social contribution expense is calculated based on tax rates prevailing in Brazil at the end of the reporting period, which are 15% for income tax, plus a 10% surtax on taxable profit exceeding R$240, and 9% on taxable profit for social contribution.

Management periodically reviews positions taken in respect of tax matters that are subject to interpretation and recognizes a provision when the payment of income tax and social contribution according to the tax bases is expected.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The tax rates currently defined are 25% for income tax and 9% for social contribution.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized, based on projections of future results prepared on the basis of internal assumptions and future economic scenarios that are, therefore, subject to changes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

(vi) Judicial deposits

Judicial deposits are presented in noncurrent assets, at amounts adjusted for inflation (Note 21).

(vii) Property, plant and equipment: own use and rental and operational use

Most of the Company's revenues derive from property, plant and equipment for rental and operational use, either through rental only, or rental combined with assembly and disassembly.

Property, plant and equipment for own use comprise mainly facilities to store equipment, office, improvements, furniture and equipment necessary for the operation of these facilities.

Property, plant and equipment are measured at historical cost, less accumulated depreciation. Historical cost includes costs directly attributable to the acquisition of items and may also include transfers from equity of any gains/losses on cash flow *hedge*s qualifying as relating to the purchase of property, plant and equipment in foreign currency.

Subsequent costs are added to the residual value of property, plant and equipment or recognized as a specific item, as appropriate, only if the future economic benefits associated to these items are probable and the amounts can be reliably measured. The residual value of the replaced item is derecognized. Other repairs and maintenance are recognized immediately in profit or loss as incurred.

Depreciation is calculated using the straight-line method, at the rates shown in Note 13, which take into consideration the estimated economic useful lives of assets. Land is not depreciated.

Any gain or loss ariring on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The residual values and estimated useful lives of assets are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

(viii) Intangible assets

Software licenses

Carried at cost less accumulated amortization and accumulated impairment losses, where applicable.

Costs associated to the development and maintenance of such software licenses are expensed as incurred.

Software licenses have finite useful lives and are amortized over ten years (Note 14). The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(ix) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGUs). Goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination and is identified according to the operating segment.

(x) Impairment of assets

At the end of each reporting period, the Company reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use, and the latter is the method used by the Company in testing the impairment of the goodwill recognized in the cash-generating unit “Real Estate”. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(xi) Trade payables

Trade payables are obligations to pay for goods or services acquired in the normal course of business and are classified as current liabilities if the payment is due within one year. Otherwise, they are classified as noncurrent liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. In practice, they are usually recognized at the amount of the corresponding invoice.

(xii) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The provisions for tax, civil and labor claims are recognized at the amount of probable losses, according to the nature of each provision (Note 21). Based on the opinion of its legal counsel, management believes that the recognized provisions are sufficient to cover any losses on ongoing lawsuits. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as expense.

(xiii) Profit sharing

The profit sharing is recognized over the year and paid in the following year (nNte 19).

(xiv) Stock option plans

The Company offers stock option plans to certain employees and executives. The fair value of the options granted is recognized as an expense during the period over which the right is vested, that is, period during which specific vesting conditions should be met. At the end of the reporting period, the Company reviews its estimates of the number of options whose rights must be vested based on the conditions.

This recognizes the impact of the revision of the initial estimates, if any, in the statement of profit or loss, as a balancing item to the capital reserve in equity.

The amounts received, net of any directly attributable transaction costs, are credited to capital when options are exercised.

(xv) Borrowings

Borrowings are initially recognized at fair value and subsequently carried at amortized cost. The calculation methodology for each borrowing follows the specific conditions of each contract, using the effective interest method.

Fees and taxes paid for contracting borrowings are recognized as transaction costs of the borrowings and are also recognized as finance expenses at the effective interest rate.

Management controls monthly the balances of each debt through managerial controls in which it updates the financial indicators (interest rates) as agreed in each agreement.

Borrowings are classified as current liabilities, except for installments that can be unconditionally settled 12 months after the end of the reporting period.

(xvi) Translation into foreign currency

Transactions in foreign currency are translated into Brazilian reais using the exchange rates prevailing at the dates of the transactions. The balances of assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period. Exchange gains and losses arising from the settlement of these transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognized in the statement of profit or loss.

Exchange gains and losses arising from the settlement of these transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognized in the statement of profit or loss, except when deferred in equity as qualifying cash flow hedges.

(xvii) Share Social

The Company's capital comprises common shares without par value.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

(xviii) Share buyback (treasury shares)

Repurchased shares are classified as treasury shares and are presented as a deduction from equity until the shares are canceled or reissued. When treasury shares are subsequently sold or reissued, the value received is recognized as an increase in equity, and the resulting surplus or deficit is transferred to/from capital reserve.

(xix) Payment of dividends and interest on capital

The payment of dividends and interest on capital to shareholders is recognized as a liability in the financial statements at the end of the reporting period based on the Company's bylaws. Any amount above the minimum mandatory dividend is provided for at the date it is approved by the shareholders at the General Meeting.

The tax benefit of interest on capital is recognized in the statement of profit or loss.

(xx) Revenue recognition

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract at the end of the reporting period.

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. The Company's policy for recognition of revenue is the date at which goods are delivered to the buyer.

The rental income is recognized in profit or loss monthly on a straight-line basis according to the equipment rental agreements, classified as operating lease, and there are no contingent or noncancelable receipts recognized as revenue during the effective period.

The Company separates the identifiable components of a single contract or a group of contracts to reflect the substance of the contract or group of contracts, recognizing the revenue of each of the elements proportionally to its fair value. Therefore, the Company's revenue is divided into rental, technical assistance, sales and indemnities/expense recoveries.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate through maturity, when it is determined whether such income will accrue to the Company.

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably).

Income, expenses and assets are recognized net of taxes on sales.

(xxi) Earnings per share

Basic earnings per share are calculated based on the Company's profit for the period and the weighted average of common shares outstanding in the respective period. Diluted earnings per share are calculated based on the mentioned average of outstanding shares, adjusted by instruments potentially convertible into shares, with a diluting effect, in the periods presented, in accordance with CPC 41 and IAS 33.

2.3 Basis of preparation

The accounting policies, calculation methods, significant accounting judgments, estimates and assumptions used in these financial statements are the same used in the financial statements for the year ended December 31, 2015, disclosed in Notes 2 and 3. These financial statements were filed with CVM on March 9, 2016 and published on the newspaper Valor Econômico and the Official Gazette of the State of Rio de Janeiro on March 21, 2016.

2.4 New standards and interpretations

A series of new standards or amendments to standards and interpretations will be effective for the years beginning on or after January 1, 2016. The Company has not adopted these amendments in the preparation of these financial statements. The Company does not plan to adopt the standards earlier.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the guidance existing in IAS 39 Financial Instruments: Recognition: and Measurement: IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new model of expected credit loss to calculate the impairment of financial assets and new requirements on hedge accounting. The standard retains the guidance on the recognition and derecognition of financial instruments of IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company defined a methodology to establish credit ratings for its customers, which will be used to calculate the allowance for doubtful debts, the effects of which will be recognized in the opening balance sheet of 2018, for purposes of compliance with IFRS 9 - Financial Instruments.

CPC 47 / IFRS 15 Revenue from Contracts with Customers

IFRS 15 requires an entity to recognize the amount of revenue reflecting the consideration it expects to receive in exchange for the control of these assets or services. The new standard will replace most of the detailed guidance on revenue recognition currently existing in the IFRSs and on the generally accepted accounting principles in the USA (“GAAP”) when adopted. The new standard is effective on or after January 1, 2018. The standard may be adopted on a retrospective basis, using a cumulative effect approach. The Company hired a specialized consulting for a diagnosis of the need for compliance with do IFRS 15 - Revenue from Contracts with Customers. We expect to have this diagnosis and the formalized action plan in 2017.

IFRS 16 Leases (Arrendamentos)

IFRS 16 introduces a single model for lesses to account for leases in the balance sheet. A lessee recognizes a right-of-use asset that represents its right to use the leased asset and a lease liability that represents its obligation to make lease payments. Optional exceptions are available for short-term leases and leases of low value assets. The lessor accounting remains similar to the current standard, that is, the lessors continue to classify the leases into finance leases and operating leases. The new standard will supersede the new lease standards, including CPC 06

(IAS 17) Leases and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) Supplementary Aspects of Lease. The new standard is effective for annual periods beginning or after January 1, 2019. Early application is permitted only for financial statements in accordance with IFRSs and only for entities that apply IFRS 15 Revenue from Contracts with Customers beginning on or after the date of initial application of IFRS 16. The Company will start the studies related to the implementation of IFRS 16, as from the fourth quarter of 2017. It is expected to completed by the second quarter of 2018, so as to be totally prepared for the definitive implementation of the new standard on January 1, 2019.

The Accounting Pronouncements Committee (CPC) has not yet issued an accounting standard or amendment to the standard in effect related to IFRS 16. Therefore, the early adoption of this IFRS is not permitted for entities that disclose their financial statements in accordance with accounting practices adopted in Brazil.

Other amendments

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

- Amendments to CPC 10 (IFRS 2) Share-Based Payment regarding the classification and measurement of certain share-based payment transactions.

- Amendments to CPC 36 Consolidated Financial Statements (IFRS 10) and CPC 18 Investments in Associates and Joint Ventures (IAS 28) regarding sales or contributions of assets between an investor and its associate or joint venture.

3 Critical accounting judgments and key estimates and assumptions

In the preparation of the Company's financial statements, management is required to make judgments, estimates and assumptions about the carrying amounts of revenues, expenses, assets and liabilities, as well as the disclosure of contingent liabilities at the end of the reporting period. However, the uncertainty related to these assumptions and estimates might lead to results that require a significant adjustment to the carrying amount of the affected asset or liability in future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, hat may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next fiscal year.

3.1 Impairment of nonfinancial assets and investment recognized at fair value

An asset is impaired when its carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use. The value in use calculation is based on the discounted cash flow model. Cash flows derive from the budget and the Company's expectations for the next five years and do not include reorganization activities to which the Company has not yet committed or significant future investments that will improve the asset base of the cash-generating unit or investment subject to testing. The recoverable amount is sensitive to the discount rate used in the discounted cash flow method, as well as to the expected future cash receipts and to the growth rate used for extrapolation purposes, see Notes 12 and 14.

3.2 Share-based payment transactions

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value of share-based payments requires the determination of the most appropriate valuation model for the granting of equity instruments, which depends on the terms and conditions of the grant. This also requires the determination of the most appropriate valuation model, including the expected life of the option, volatility and dividend yield and related assumptions. The assumptions and models used to estimate the fair value of share-based payments are disclosed in Note 19.

3.3 Taxes

There are uncertainties regarding the interpretation of complex tax regulations, as well as the amount and timing of future taxable profits. Differences between actual results and the assumptions adopted, or future changes in these assumptions, may require future adjustments in tax income and expenses already recorded. The Company recognizes provisions based on applicable estimates, for potential consequences of audits by tax authorities. The amount of these provisions is based on several factors, such as experience of prior tax audits and interpretations diverging from the tax regulations by the taxable entity and by the responsible Tax Authority. These diverging interpretations may arise in a wide variety of matters, depending on the prevailing conditions prevailing at the Company’s domicile. Deferred tax assets are recognized for all temporary differences to the extent that it is probable that sufficient taxable profits will be available to allow their utilization.

Significant judgment by management is required to determine the amount of deferred tax assets that can be recognized, based on the probable term and level of future taxable profits, ith strategies for future tax planning.

3.4 Fair value of financial instruments

When the fair value of financial assets and liabilities, such as stock options, securities and hedging instruments presented in the statement of financial position, cannot be obtained from active markets, it is determined by using valuation techniques, including the discounted cash flow method. Inputs for these methods are based on market inputs, when possible; however, when this is not feasible, a certain level of judgment is required to establish the fair value. Judgment includes considerations on the inputs used, such as liquidity risk, credit risk and volatility. Changes in assumptions on these factors could affect the reported fair value of the financial instruments. Note 4 provides detailed information on the main assumptions used in the determination of the fair value of financial instruments, as well as a sensitivity analysis of these assumptions.

3.5 Allowance for doubtful debts

The Company recognized an allowance for doubtful debts for all its receivables that meet the detailed criteria in Note 2.2 (iii). The need to recognize such allowance involves an analysis of the available evidence as regards the Company's ability to pay customers, including in a manner so as to classify some of them as preferred customers and base others for sending them to legal collection. Significant judgment by Management is required in classifying its customers, in defining the criteria applied, and in assessing its accuracy.

3.6 Provision for tax, civil and labor claims

The Company recognizes a provision for tax, civil and labor risks. The assessment of the likelihood of loss includes examining available evidence, the hierarchy of laws, former court decisions, the most recent court decisions and their relevance in the legal system, and the assessment of the outside legal counsel. The provision is reviewed and adjusted to take into account any changes in circumstances, such as the applicable prescriptive periods, conclusions of tax audits or additional exposures identified based on new matters or court decisions.

3.7 Useful lives of property, plant and equipment

As described in Note 13, the Company reviews the estimated useful lives of its property, plant and equipment annually at the end of each reporting period. During the year the Company assessed the useful lives of its assets and concluded that the ten-year period adopted in prior years reasonably represents the average useful life of the Company's assets and should be maintained for its equipment in 2016.

3.8 Revenue recognition

Service revenue is recognized in profit or loss based on the stage of completion of the services at the end of the reporting period.

4 Financial risk management

4.1 Financial risk factors

The Company's operations are exposed to various financial risks: market risk (including currency risk, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The risk management program concentrates on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to protect certain risk exposures and does not enter into any derivative transactions for speculative purposes.

Risk management is carried out by the Chief Financial Officer, in accordance with policies approved by the Board of Directors, where applicable. The Chief Financial Officer identifies, assesses and protects the Company against potential financial risks in cooperation with the Company's operating units.

The Chief Financial Officer establishes principles for global risk management, as well as for specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, and investment of cash surpluses.

(i) Sensitivity analysis

The following table shows a sensitivity analysis of the financial instruments, including derivatives, describing the risks that could generate material losses to the Company, with the most probable scenario (scenario I) according to management's assessment, considering a one-year time horizon. Additionally, other two scenarios are presented, pursuant to CVM Instruction 475/2008, in order to show a 25% and 50% deterioration in the risk variable considered, respectively (scenarios II and III).

			Effect on profit (loss)		
Cash equivalents	**Indicator**	**Accounting**	**Probable**	**25%**	**50%**
Short-term investments	CDI	330,641	35,413	26,559	17,706
	Total	330,641	35,413	26,559	17,706
			Change	25.00%	50.00%

			Effect on profit (loss)		
Debt	**Indicator**	**Accounting**	**Probable**	**25%**	**50%**
BNDES	TJLP	(11,965)	(1,000)	(1,226)	(1, 453)
2nd issue of debentures					
1st series	CDI	(84,809)	(9,730)	(11,976)	(14,221)
2nd series	IPCA	(151,721)	(16,188)	(18,149)	(20,109)
3rd issue of debentures	CDI	(202,443)	(23,116)	(28,895)	(34,675)
	Total	(450,938)	(50,034)	(60,246)	(70,458)
			Change	20%	41%

The sensitivity analysis presented above takes into account changes in a certain risk, keeping steady the other variables, associated with other risks.

	12/31/2016		
Scenarios	**Probable I**	**Scenario II** 25%	**Scenario III** 50%
Rates			
CDI (%) (i)	10.50%	13.13%	15.75%
TJLP (%) (ii)	7.50%	9.38%	11.25%
IPCA(%) (iii)	4.90%	6.13%	7.35%

(i) As regards the interest rate risk, the Company's management considered as probable assumption (scenario I) for its financial instruments a rate of 10.50%, information extracted from the FOCUIS report released by the Brazilian Central Bank on January 6, 2017, considering an increase in the CDI rate in line with the expected increase in the SELIC rate as there is a direct relation between the rates, and an increase in the rate as the assumption for the other two scenarios, according to the stress scenario.

(ii) For financial liabilities relating to borrowings - BNDES, the Company's management used as probable assumption (scenario I) the maintenance of the TJLP rate since there is no evidence of change in rate in the near term, and an increase in rate as the assumption for the other two scenarios.

(iii) For financial liabilities relating to the 2nd series debentures, the Company's management used as probable assumption (scenario I) the IPCA rate estimated for 2017 according to the FOCUS report released by the Central Bank of Brazil on January 06, 2017 since there is no evidence of change in rate in the near term, and an increase in rate as the assumption for the other two scenarios.

4.2 Market risk

(i) Foreign exchange risk

The Company adopts the policy of reducing the cash risk relating to foreign exchange variation since a large part of the revenues from its operations are denominated in Brazilian reais. As at December 31, 2016, the Company does not have any significant currency exposure or outstanding derivative instrument.

(ii) Interest rate risk and adjustment for inflation

The Company's debt is denominated in Brazilian reais and subject to floating interest rates, especially the CDI, IPCA and TJLP rates. There is the risk of the Company incurring losses due to fluctuations in interest rates, which would increase finance expenses related to borrowings and debentures raised in the market.

As a management policy, the Company does not use any instrument to mitigate its exposure to interest rate fluctuations because it considers this a market risk inherent to all companies operating in Brazil.

The Company analyzes its exposure to interest rates in a dynamic way. Various scenarios are simulated, taking into consideration refinancing, financing and hedging. Based on these scenarios, the Company determines a reasonable change in the interest rate. The scenarios are prepared only for liabilities that represent the main interest positions. See the sensitivity analysis of possible fluctuations in interest rates in Note 4.1. (i).

4.3 Credit risk

Credit risk is the risk of financial loss for the Company should a customer or counterparty in a financial instrument fail to fulfill its contractual obligations arising in its operating (mainly relating to trade receivables) and financing activities, including deposits with banks and financial institutions.

(i) Trade receivables

The Company periodically bills amounts for rentals and services due by its customers, for past due periods normally ranging from 30 to 60 days, the average collection period in 2016 was 73 days. Therefore, the Company is subject to the risk of default on trade receivables. The Company's commercial credit portfolio is mainly concentrated in domestic customers. The Company establishes a provision for impairment when it understands there is the risk of amounts due not being received.

The customer credit risk is managed by the Company's financial management, who evaluates the customers' financial ability to pay. This analysis is performed before the commercial agreement is entered into by the parties, and each customer is analyzed individually taking into consideration mainly the following information: (i) personal data record; (ii) financial information and indicators; (iii) risk ratings (methodology of credit bureau SERASA); (iv) controlling shareholder; and (v) pending issues and protests at Serasa.

(ii) Financial instruments and cash deposits

The credit risk for balances with banks and financial institutions is managed by the Company's treasury in accordance with the policy established by that department. Surplus funds are invested only with approved counterparties.

The Company uses only large financial institutions that are among the ten banks with the largest assets in Brazil. Management does not expect any counterparty to fail to fulfill its obligations.

4.4 Liquidity risk

Liquidity risk is the risk of the Company facing difficulties in fulfilling its obligations associated with its financial liabilities that are settled with cash payments or with another financial asset. The Company's approach to manage liquidity is to ensure, to the maximum extent possible, that it always has sufficient liquidity to fulfill its obligations as they fall due, under normal and stress conditions, without causing unacceptable losses or risk of damaging the Company's reputation.

The financial department monitors rolling forecasts of the Company's liquidity requirements to ensure that it has sufficient cash to meet operating needs. Monthly forecasts take into account the Company's debt financing plans, the fulfillment of contractual clauses, and the achievement of internal targets according to the Company's strategic plan. In addition, the Company maintains credit facilities with the major financial institutions operating in Brazil.

The table below analyzes the main financial liabilities by maturity bracket, corresponding to the remaining period in the balance sheet through the contractual maturity date, when the Company expects to make the payment.

	Up to one month	**More than one month and less than three months**	**More than three months and less than one year**	**Between one and two years**	**Between two and five years**	**Over five years**	**Total**
At December 31, 2016							
Borrowings and financing	337	653	2,896	3,669	5,484	616	13,655
Debentures	-	5,815	183,533	142,405	195,627	-	527,380
Trade payables	13,058	-	-	-	-	-	13,058
At December 31, 2015							
Borrowings and financing	355	700	3,088	3,914	7,150	2,658	17,865
Debentures	-	11,464	226,833	192,054	347,308	-	777,659
Trade payables	6,844	-	-	-	-	-	6,844

4.5 Credit quality of financial assets

(i) Cash and cash equivalents and marketable securities

	12/31/2016	12/31/2015
Bank account		
Bank (1)	41	144
Short-term investments		
Bank (1)	330,641	231,867
Total cash and cash equivalents	330,682	232,011

1. Major financial institutions widely operating in Brazil, among the ten banks with the largest total assets in Brazil.

5 Capital management

The purpose of managing the Company's desirable capital structure is to protect its equity, allow for business continuity, offer good conditions for its employees and stakeholders and a satisfactory return for shareholders. The Company's general strategy has remained unchanged since 2010.

In order to maintain or adjust the capital structure, the Company may, for example, in accordance with its bylaws, increase its capital, issue new shares, and approve the issue of debentures and the buyback of its shares.

In addition, the Company uses as the main performance indicator to assess its gearing ratio the total net debt ratio (total bank debt less total cash and cash equivalents).

	2016	2015
Total bank debt	450,938	622,300
Financing	11,965	15,116
Debentures (see Note 17)	438,973	607,184
Cash and cash equivalents	330,682	232,011
Net debt	120,256	390,289
Equity	997,949	962,231
Net debt to Equity	0.12	0.41

The Company is not subject to any external capital requirement.

Credit lines available	2016	2015
Unsecured bank credit lines, reviewed annually and with payment upon request:		
Not used	113,035	109,584
Secured bank credit lines with varying maturity dates that can be extended by common agreement:		
Used	11,965	15,116

6 Cash and cash equivalents

	12/31/2016	12/31/2015
Cash and banks	41	144
Short-term investments	330,641	231,867
	330,682	232,011

Cash and cash equivalents refer basically to deposits and highly liquid short-term investments, which are readily convertible into a known amount of cash and subject to an insignificant risk of change in value.

As at December 31, 2016, short-term investments refer to repurchase agreements bearing average interest of 101.3% of the interbank deposit certificate (CDI) (100.8% as at December 31, 2015).

7 Trade receivables

	12/31/2016			12/31/2015		
Business unit	**Gross receivables**	**Allowance for doubtful debts**	**Net receivables**	**Gross receivables**	**Allowance for doubtful debts**	**Net receivables**
Real Estate	117,496	(79,385)	38,111	132,357	(75,932)	56,425
Rental	83,640	(55,917)	27,723	91,967	(48,673)	43,294
Industrial Services (*)	3,192	(3,192)	-	3,551	(3,551)	-
Total	204,328	(138,494)	65,834	227,875	(128,156)	99,719
Current	204,328	(138,494)	65,834	227,875	(128,156)	99,719

(*) Remaining amount receivable from customers of the Industrial Services business unit, which was discontinued on November 30, 2013.

The allowance for doubtful debts is calculated based on the amount considered sufficient to cover potential losses on the realization of receivables, considering an individual analysis of the major customers.

Movement in the allowance for doubtful debts:

	12/31/2016	12/31/2015
Balance at the beginning of the year	128,156	91,422
Recognition of allowance for doubtful debts	52,720	77,450
Reversal of allowance for doubtful debts	(31,503)	(39,220)
Write-offs	(10,879)	(1,496)
Balance at the end of the year	138,494	128,156

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated and, therefore, no customer or corporate group accounts for 10% or more of the trade receivables.

Age of trade receivables:

	12/31/2016	**12/31/2015**
Not yet due	41,693	61,741
Not yet due (bills with original due dates extended)	6,554	10,778
1-60 days past due (*)	16,880	28,549
61-120 days past due (*)	11,739	12,913
121-180 days past due (*)	11,591	10,880
Over 180 days past due (*)	115,871	103,014
Total	204,328	227,875

(*) The analysis above was performed considering the extended due dates of the bills.

8 Inventories

	12/31/2016	**12/31/2015**
Raw materials	861	244
Goods for resale	3,761	5,401
Spare parts and supplies	12,732	13,921
Provision for slow-moving inventories (*)	(3,449)	(1,168)
Total	13,905	18,398

(*) Inventory items without movement for more than one year.

Inventories of raw materials refer to toll manufacturing processes to meet the demands of the Company and its customers. Inventories of spare parts refer mainly to access equipment. All inventories are stated at average cost.

9 Inventories - other assets held for sale

On August 6, 2015, the Company's Board of Directors approved the sale of scissor lifts and telescopic handlers of the Rental business unit, until December 31, 2017, the total amount of which represents up to ten (10%) percent of the residual book value of such unit's asset, as verified in the Company's balance sheet as of June 30, 2015.

On August 7, 2015, 307 equipment from the Company's fixed assets were put up for sale and separated from rental equipment, such equipment were transferred to inventories - other assets held for sale. From the date of transfer the depreciation was discontinued. Until the end of the period ended September 30, 2016, 209 equipment had been sold, the gain or loss on the sale transaction is recognized only upon the delivery of the asset.

On September 30, 2016, due to the cancelation of the purchasing schedule by the customer, the Company decided to transfer the balance of 98 equipment recorded in inventories - other assets held for sale, to fixed assets in the amount of R$ 9,889.

10 Taxes recoverable

	12/31/2016	12/31/2015
PIS and COFINS (taxes on revenue) (*)	15,403	34,181
IRPJ (Corporate Income tax) and CSLL (Social Contribution on Profit) (**)	12,376	16,548
ICMS (State VAT) (***)	844	663
Others	383	390
	29,006	51,782
Current	29,006	39,435
Noncurrent	-	12,347

(*) PIS and COFINS credits refer basically to amounts recoverable on acquisitionof property, plant and equipment offset at the rate of 1/48 per month against non-cumulative PIS and COFINS federal tax obligations which are expected to be realized by 2018.

(**) Refers to IRPJ and CSLL balances calculated as at December 31, 2016, which will be adjusted for inflation monthly based on the SELIC rate and offset against taxes of the same nature during 2017.

(***) Refers to ICMS (State VAT) levied on the Company's operations, arising from purchase of parts and equipment for sale.

11 Other receivables - sale of investee

As at December 31, 2016, the amount of R$ 22,558 (R$ 39,556 as at December 31, 2015) refers to the last installment receivable from the sale of the Industrial Services business unit to Fundo de Investimento em Participação (FIP) Leblon Equities Partners V, managed by Leblon Equities Gestão de Recursos Ltda, in November 2013, with maturity on July 10, 2017.

12 Available-for-sale financial asset

a. Non-controlling interest

On February 8, 2011, the Company acquired 25% of the capital of Rohr S.A. Estruturas Tubulares ("Rohr") for R$ 90,000. Rohr is a privately-held company specialized in access engineering and civil construction solutions, which operates mainly in the heavy construction and industrial maintenance sectors.

In the fourth quarter of 2011, there was an increase in the stake in Rohr from 25% to 27.47%, resulting from a buyback by Rohr of 9% of its shares, which are currently in its treasury and will be canceled or proportionally distributed to its shareholders.

The Company assessed that, as at December 31, 2016, it does not have significant influence in conformity with CPC 18 (R2) and there is no change in relation to the assessment as at December 31, 2015.

b. Fair value measurement and impairment

In 2016 the Company reviewed the fair value of the financial instrument related to the investment in Rohr S.A. based on an internal study. The fair value of this asset was determined based on market economic projections to determine its fair value, under the income approach, through projection of the discounted cash flow for a ten-year period for purposes of evidencing the recorded amount considering the long period of maturation of the investments in infrastructure and civil construction. For volume projection, Management considered in this study the expected growth of investments in large construction works, provided by a consulting firm specialized in the segment and the resumption of the growth cycle of investmentts in infrastructure and civil construction in the country. The revenue was projected based on the INCC (National Construction Cost Index) and, for costs and expenses, the indicator considered was the IPCA (Broad Consumer Price Index). The study also considered the need for working capital and investments for maintenance of the asset tested. The related flows were discounted at an average discount rate of 14.20%, including premium for size of 0.30%, obtained through the methodology usually applied by the market, taking into consideration the weighted average cost of capital (WACC). It was not considered any real growth rate in perpetuity.

Based on this study, Management estimates that the fair value of the investment in Rohr as at December 31, 2016 is R$ 75,052, (R$ 61,200 as at December 31, 2015). The change in fair value was recognized in the Company's equity as "equity adjustments", net of deferred income tax and social contribution effects, as at December 31, 2016.

13 Property, plant and equipment

	Equipment for rental and operational use	Rental equipment in progress	Total rental and operational use equipment	Leasehold improvements	Buildings and land	Computers and peripherals	Vehicles	Facilities	Furniture and fixtures	Construction in progress	Total assets in use	Total PP&E
Cost of PP&E, gross												
Balance at December 31, 2014	1,623,268	4,190	1,627,458	27,140	24,274	16,003	3,394	7,058	10,427	1,042	89,338	1,716,796
Acquisition	14,114	-	14,114	4,675	10	494	324	1,126	549	-	7,178	21,292
Write-offs/disposals	(84,798)	(6)	(84,804)	(649)	(73)	(11)	(2,256)	(346)	(10)	-	(3,345)	(88,149)
Adjustment for PIS and COFINS credits	(977)	-	(977)	-	-	-	-	-	-	-	-	(977)
Transfer to inventories	(54,882)	-	(54,882)	-	-	-	-	-	-	-	-	(54,882)
Transfers	2,777	(2,753)	24	131	-	25	(25)	873	-	(1,042)	(38)	(14)
Balance at December 31, 2015	1,499,502	1,431	1,500,933	31,297	24,211	16,511	1,437	8,711	10,966	-	93,133	1,594,066
Acquisition	2,165	115	2,280	107	-	13	180	631	70	27	1,028	3,308
Write-offs/disposals	(102,140)	-	(102,140)	(3,070)	-	(1,333)	(88)	-	(43)	-	(4,534)	(106,674)
Adjustment for PIS and COFINS credits	(276)	-	(276)	-	-	-	-	-	-	-	-	(276)
Transfer to inventories	25,609	-	25,609	-	-	-	-	-	-	-	-	25,609
Transfers	1,479	(1,405)	74	24	(73)	-	-	(25)	-	-	(74)	-
Provision for impairment	-	-	-	(3,926)	-	-	-	-	-	-	(3,926)	(3,926)
Balance at December 31, 2016	1,426,339	141	1,426,480	24,432	24,138	15,191	1,529	9,317	10,993	27	85,627	1,512,107
Accumulated depreciation												
Balance at December 31, 2014	(489,835)	-	(489,835)	(7,545)	(2,196)	(8,937)	(2,406)	(1,590)	(4,139)	-	(26,813)	(516,648)
Depreciation	(154,980)	-	(154,980)	(4,764)	(669)	(2,367)	(338)	(685)	(838)	-	(9,661)	(164,641)
Write-offs/disposals	55,073	-	55,073	265	39	4	1,932	329	8	-	2,577	57,650
Adjustment for PIS and COFINS credits	-	-	-	(485)	-	-	-	(70)	-	-	(555)	(555)
Transfer to inventories	34,195	-	34,195	-	-	-	-	-	-	-	-	34,195
Transfers	-	-	-	1	-	-	-	(1)	-	-	-	-
Balance at December 31, 2015	(555,547)	-	(555,547)	(12,528)	(2,826)	(11,300)	(812)	(2,017)	(4,969)	-	(34,452)	(589,999)
Depreciation	(145,240)	-	(145,240)	(4,134)	(670)	(2,019)	(280)	(772)	(857)	-	(8,732)	(153,972)
Write-offs/disposals	66,187	-	66,187	1,731	-	1,333	12	-	13	-	3,089	69,276
Adjustment for PIS and COFINS credits	-	-	-	(421)	-	-	-	(79)	-	-	(500)	(500)
Transfer to inventories	(15,720)	-	(15,720)	-	-	-	-	-	-	-	-	(15,720)
Transfers	-	(39)	(39)	31	-	-	-	8	-	-	39	-
Balance at December 31, 2016	(650,320)	(39)	(650,359)	(15,321)	(3,496)	(11,986)	(1,080)	(2,860)	(5,813)	-	(40,556)	(690,915)
Annual depreciation rates - %	10	-	-	10 to 25	4	20	20	10	10	-	-	-
Property, plant and equipment, net												
Balance at December 31, 2015	943,955	1,431	945,386	18,769	21,385	5,211	625	6,694	5,997	-	58,681	1,004,067
Balance at December 31, 2016	776,019	102	776,121	9,111	20,642	3,205	449	6,457	5,180	27	45,071	821,192

Rental equipment can be summarized as follows: access scaffolding, formworks, props, scissor lifts and telescopic handlers.

We present below the main acquisition accumulated through December 31, 2016 by group of assets:

Props	389
Lifts and handlers	116
Reusable concrete formworks	793
Suspended scaffolding and access structures	637
Machinery and equipment for operational use	346
Facilities	631
Leasehold improvements	107
Vehicles	180
Others	109
Total of acquisitions	3,308

The depreciation for the year, allocated to cost of services and general and administrative expenses, amounts to R$142,210 and R$11,762 as at December 31, 2016 (R$151,915 and R$12,726 as at December 31, 2015), respectively.

Certain items of property, plant and equipment are pledged as collateral for borrowings (Note 16).

The transactions of purchase and sale of rental equipment are being presented in the statement of cash flows as operating activity.

Review of estimated useful life

There was no change in the remaining estimated useful life of the fixed assets, and, thus, there was no change in the depreciation rate for the year ended December 31, 2016.

Provision for impairment of Cash-Generating Units

Management identified indicators of impairment for the Real Estate and Rental business units (CGUs) during 2016 based on CPC 01 and, accordingly, performed the applicable impairment tests. The recoverable amount of this group of assets was determined based on market economic projections to determine its value, under the income approach, through projection of the discounted cash flow for a ten-year period for purposes of evidencing the recorded amount considering the long period of maturation of the investments in infrastructure and civil construction. For volume projection, Management considered in this study the expected growth of investments in large construction works, provided by a consulting firm specialized in the segment and the resumption of the growth cycle of investmentts in infrastructure and civil construction in the country. The revenue was projected based on the INCC (National Construction Cost Index) and, for costs and expenses, the indicator considered was the IPCA (Broad Consumer Price Index). The study also considered the need for working capital and investments for maintenance of the assets tested. The related flows were discounted at an average discount rate of 13.90%, incluinding a real growth rate of 2% in perpetuity, obtained through the methodology usually applied by the market, taking into consideration the weighted average cost of capital (WACC).

Based on this study, Management concluded that it is not necessary to recognize a provision for impairment of assets of the Real Estate and Rental business units as at December 31, 2016.

14 Intangible assets

	Software	Trademarks and patents	Intangible assets in progress	Goodwill on investments	Total intangible iassets
Cost of intangible assets, gross					
Balance at December 31, 2014	44,915	895	1,079	44,294	91,183
Acquisition	3,086	2,261	1,555	-	6,902
Transfers	1,164	-	(1,150)	-	14
Provision for impairment	-	-	-	(30,918)	(30,918)
Balance at December 31, 2015	49,165	3,156	1,484	13,376	67,181
Acquisition	2,144	-	77	-	2,221
Disposals	(503)	-	-	-	(503)
Transfers	1,561	-	(1,561)	-	-
Balance at December 31, 2016	52,367	3,156	-	13,376	68,899
Accumulated amortization					
Balance at December 31, 2014	(10,344)	(469)	-	(4,232)	(15,045)
Amortization	(4,826)	(174)	-	-	(5,000)
Adjustment for PIS and COFINS credits	(365)				(365)
Balance at December 31, 2015	(15,535)	(643)	-	(4,232)	(20,410)
Amortization	(4,879)	(174)	-	-	(5,053)
Disposals	503	-		-	503
Adjustment for PIS and COFINS credits	(498)	-		-	(498)
Balance at December 31, 2016	(20,409)	(817)	-	(4,232)	(25,458)
Annual amortization rates - %	20	10	-	-	-
Intangible assets, net					
Balance at December 31, 2015	33,630	2,513	1,484	9,144	46,771
Balance at December 31, 2016	31,958	2,339	-	9,144	43,441

Provision for impairment of goodwill

Goodwill arose on the acquisitions of Jahu in 2008 and of GP Sul in 2011, and is being considered as contribution of the Real Estate business unit, which represents a Cash-Generating Unit (CGU) to which the goodwill is allocated.

The recoverable amount of this asset was determined based on the same assumptions described in Note 13.

Based on this study, Management concluded that it is not necessary to recognize a provision for impairment of goodwill as at December 31, 2016.

15 Trade payables

	12/31/2016	12/31/2015
Domestic suppliers	12,635	6,665
Foreign suppliers	423	179
	13,058	6,844

As at December 31, 2016 and 2015, trade payables refer basically to services provided and installment purchase of materials and PP&E.

16 Borrowings and financing

Borrowings were used for financing the expansion of the Company's investments and for its general use and expenses, being indexed to the CDI (Interbank Deposit Certificate) and TJLP (Long-Term Interest Rate).

Rental equipment financing were contracted with charges based on the TJLP plus interest of 0.2% to 0.90% per year, with monthly amortization through June 2021.

Borrowings and financing are as follows:

	12/31/2016	12/31/2015
Borrowings and financing (*)	11,965	15,116
Current	3,173	3,185
Noncurrent	8,792	11,931
	11,965	15,116

The financial institutions with which the Company has borrowings and financing as at December 31, 2016 are as follows:

- Banco do Brasil
- Itaú BBA

The table below shows the contracted guarantees outstanding at the dates:

	12/31/2016	12/31/2015
Guarantees provided:		
Collateral sale (*)	27,103	27,103
Total guarantees	27,103	27,103

(*) Refer to equipment purchased under the Federal Equipment Financing Program (FINAME).

The installments to fall due as at December 31, 2016 are shown below:

2017	3,173
2018 to 2021	8,792
	11,965

The Company's borrowings contain covenants, the requirements of which are in line with those presented in the debenture indenture and are detailed in note 17.

17 Debentures

Description	Series	Issued amount	Beginning	Maturity	Financial charges	12/31/2016	12/31/2015
1st issue	Single	270,000	Apr/2011	Apr/2016	112.5% of CDI	-	92,751
Issue cost						-	(157)
						-	92,594
2nd issue	1st series	160,940	Aug/2012	Aug/2017	100% CDI + 0.88% p.a.	84,809	169,629
2nd issue	2nd series	109,060	Aug/2012	Aug/2020	IPCA + 5.50 p.a.	151,721	142,277
Issue cost						(480)	(787)
						236,050	311,119
3rd issue	Single	200,000	May/2014	May/2019	108.75% of CDI	202,443	202,527
Issue cost						(370)	(521)
						202,073	202,006
Total debentures						438,123	605,719
Current						156,562	186,634
Noncurrent						281,561	419,085

1st issue of debentures

The first issue of Company debentures, of a total of 27,000 simple, nonconvertible registered, unsecured debentures, in a single series, was approved on April 8, 2011, totaling R$270,000 and unit face value of R$10. These debentures mature on April 18, 2016 and pay interest equivalent to 112.5% of the CDI, payable semiannually, and are amortized in three annual, consecutive installments, commencing on April 18, 2014, settled on that date and the second settled on April 20, 2015. The transaction costs associated with this issue, in the amount of R$2,358, are being recognized as borrowing costs, in accordance with the contractual terms of the issue. The first issue of debentures was settled on April 15, 2016.

2nd issue of debentures

The second issue of Company debentures, of a total of 27,000 simple, nonconvertible, registered, unsecured debentures, in two series, was approved on August 3, 2012, totaling R$270,000 and unit face value of R$10. The transaction costs associated with this issue, in the amount of R$1,810, are being recognized as borrowing costs, in accordance with the contractual terms of the issue.

The debentures have their maturities according to the issue of each series, as follows:

- **1st series -** 16,094 first series debentures, totaling R$160,940, with maturity on August 15, 2017, not subject to adjustment for inflation. The face value of the first series debentures will be amortized in two annual installments as from the fourth year of their issue and interest paid semiannually will correspond to a surcharge of 0.88% p.a. levied on 100% of the accumulated variation of the DI rate. The first issue of debentures was settled on August 15, 2016.

- **2nd series -** 10,906 second series debentures, totaling R$109,060, with maturity on August 15, 2020, subject to adjustment for inflation based on the accumulated variation of the IPCA. The face value of the second series debentures will be amortized in three annual installments as from the sixth year of their issue and interest paid semiannually will correspond to 5.50% p.a. of the amount adjusted for inflation as indicated above.

3rd issue of debentures

The third issue of Company debentures, of a total of 20,000 simple, nonconvertible, registered, unsecured debentures, in a single series, was approved on May 30, 2014, totaling R$200,000 and unit face value of R$10. These debentures mature on May 30, 2019 and pay interest equivalent to 108.75% of the CDI, payable semiannually, and amortized in three annual, consecutive installments, commencing on May 30, 2017. The transaction costs associated with this issue, in the amount of R$745, are being recognized as borrowing costs, in accordance with the contractual terms of the issue.

As at December 31, 2016, the balances of debentures including transaction costs are R$156,950 in current liabilities and R$282,022 in noncurrent liabilities and R$156,562 and R$281,561 less transaction costs respectively (as at December 31, 2015, the gross balance of debentures is R$187,251 in current liabilities and R$419,933 in noncurrent liabilities, and R$186,634 and R$419,085 less transaction costs).

Covenants

The debenture indentures require the compliance with debt and interest coverage ratios under preset parameters, as follows:

(1) Net debt-to-EBITDA ratio equal to or lower than three (3).

(2) EBITDA-to-net financial expenses (iii) equal to or higher than two (2).

(i) "Net Debt" means, based on the Company's immediately preceding consolidated financial statements of the Company, (a) the sum of the Company's onerous debts, on a consolidated basis, to companies, including borrowings and financing with third parties and/or related parties and issue of fixed-income securities, convertible or not, in the local and/or international capital market, as well as guarantees provided by the Company, but excluding debts arising from tax installment payments; (b) less the sum of the Company's cash and cash equivalents (cash and short-term investments), on a consolidated basis;

(ii) "EBITDA" means, based on the Company's four immediately preceding consolidated financial statements, profit or loss before income tax and social contribution, less income and plus expenses generated by finance income and costs and nonooperating income and expenses, depreciation and amortization, and nonrecurring income and expenses;

(iii) "Net Finance expense" means, based on the Company's four immediately preceding consolidated financial statements, the balance of the difference between the consolidated gross finance income and the consolidated gross finance expense.

Considering the nonrecurring expenses in the calculation of the adjusted EBITDA, as at December 31, 2016 all covenants have been complied with.

18 Related parties

a. Transactions and balances

There were no loans between the Company and its officers during the years ended December 31, 2016 and 2015.

As at December 31, 2016 and 2015, the Company had no consulting service agreements with members of the Board of Directors.

Management compensation

The amounts relating to compensation paid to members of the Company's management are as follows:

	2016	**2015**
Salaries and payroll charges - officers	4,523	6,092
Fees of the Board of Directors	1,245	1,219
Bonus	983	-
Share-based payments	2,294	3,382
Total	9,045	10,693

19 Employee benefits

a. Profit sharing payable

The provision for profit sharing of employees is recognized on an accrual basis and is accounted for as an expense. The amount, which is paid in the year subsequent to the recognition of the provision, is determined considering the profit sharing agreement negotiated and ratified annually with the labor union, in accordance with Law 10,101/00, amended by Law 12,832/13.

The 2016 Profit Sharing Program is based on the achievement of the EBITDA and of the annual cash flow budgeted, as well as on the productivity for the employees who hold operational positions and attain specific targets for the areas. All Mills employees with at least 180 days worked in 2016 are eligible.

As the targets were not achieved, no profit sharing related to 2016 will be paid.

Professionals who participate in sales commission or similar programs will receive a sharing limited to 10% of the amount to be distributed to their hierarchical level.

b. Stock option plan

The Company has stock option plans approved by the General Meeting aimed at integrating its executives in the Company development process in the medium and long terms. These plans are managed by the Company and the grants are approved by the Board of Directors.

			Shares in thousands		
Plans	**Grant date**	**Final exercise date**	**Shares granted**	**Shares exercised**	**Outstanding shares**
2010 Program	05/31/2010	05/31/2016	1,475	(1,369)	106
2011 Program	04/16/2011	04/16/2017	1,184	(597)	587
2012 Program	06/30/2012	05/31/2018	1,258	(402)	856
2013 Program	04/30/2013	04/30/2019	768	(91)	671
2014 Program	04/30/2014	04/30/2020	260	-	260
2016 Program	04/28/2016	04/28/2024	1,700	-	1,700

In order to price the cost of the Top Mills Special Plan relating to its equity component, the applicable volatilities were determined at the risk-free rates and stock prices based on valuations of 6.6 times the EBITDA, less net debt, and the Company used the Black-Sholes model to calculate the fair value.

On March 31, 2014, the Company approved at the Board of Directors meeting:

(i) the creation of the 1/2014 Stock Option program; (ii) the definition of the criteria to set the strike price of options and their payment terms; (iii) the definition of the terms and conditions of exercise of options; and (iv) the authorization for the Executive Officers to grant the stock options to the beneficiaries eligible under the 2014 Program.

At the Board of Directors' meeting held on May 21, 2015, the Company decided to sell the Company’s shares held in treasury in order to exercise the option to purchase the beneficiary's shares under the 2010, 2011, 2012, 2013 and 2014 Stock Option Programs (see note 19b).

On April 28, 2016, the Company decided at the Board of Directors meeting to approve the Company's new stock option plan, according to the program 1/26.

The plans granted as from 2010 were classified as equity instruments and the weighted average fair value of the options granted was determined based on the Black-Scholes valuation model, considering the following assumptions:

Program	Grant	Weighted average fair value by option - R$	Weighted average price of the share at the grant date - R$	Stike price at the grant date R$	Volatility at the grant date	Dividend yield at the grant date	Annual risk-free interest rate at the grant date	Maximum strike period at the grant date
2010	First	3.86	11.95	11.50	31.00%	1.52%	6.60%	6 years
2010	Second	5.49	14.10	11.50	31.00%	1.28%	6.37%	6 years
2011	Single	6.57	19.15	19.28	35.79%	1.08%	6.53%	6 years
2012	Basic	21.75	27.60	5.86	37.41%	0.81%	3.92%	6 years
2012	Discretionary	12.57	27.60	19.22	37.41%	0.81%	3.92%	6 years
2013	Basic	24.78	31.72	6.81	35.34%	0.82%	3.37%	6 years
2013	Discretionary	11.92	31.72	26.16	35.34%	0.82%	3.37%	6 years
2014	Basic	22.46	28.12	7.98	33.45%	0.75%	12.47%	6 years
2014	Discretionary	11.16	28.12	30.94	33.45%	0.75%	12.47%	6 years
2016	Discretionary	2.63	4.31	2.63	71.45%	1.51%	14.25%	8 years

The strike price of the shares granted under the Plan is set by the Company's Board of Directors.

The table below presents the accumulated balances of the plans in the balance sheet and the effects on the statement of operations.

	12/31/2016	12/31/2015
2002 Plan:		
Capital reserve	1,446	1,446
Number of shares exercised (thousands)	3,920	3,920
Top Mills, Special CEO and EX-CEO Plans:		
Capital reserve	1,148	1,148
Number of shares exercised (thousands)	1,055	1,055
Mills Rental Executives Plan		
Capital reserve	4,007	4,007
Number of shares exercised (thousands)	391	391
2010 Plan:		
Capital reserve	5,693	5,693
Number of exercisable options (thousands)	106	106
Number of shares exercised (thousands)	1,369	1,369
Number of shares canceled (thousands)	73	73
2011 Program (2010 Plan):		
Capital reserve	7,329	7,329
Number of exercisable options (thousands)	587	592
Number of shares exercised (thousands)	597	592
Number of shares canceled (thousands)	157	157
2012 Program (2010 Plan):		
Capital reserve	14,162	13,011
Number of exercisable options (thousands)	856	857
Number of shares exercised (thousands)	402	401
Number of shares canceled (thousands)	345	336
2013 Program (2010 Plan):		
Capital reserve	11,326	9,479
Number of exercisable options (thousands)	677	671
Number of shares exercised (thousands)	91	97
Number of shares canceled (thousands)	139	139
2014 Program (2010 Plan):		
Capital reserve	3,739	2,907
Number of exercisable options (thousands)	260	260
Number of shares canceled (thousands)	53	52
2016 Program:		
Capital reserve	533	-
Number of exercisable options (thousands)	1,700	-
Number of shares canceled (thousands)	-	-
Total recognized as equity (accumulated)	49,383	45,020
Effect on profit (loss)	(4,363)	(9,624)

20 Income tax and social contribution

a. Reconciliation of the income tax and social contribution benefit (expense)

The reconciliation between the income tax and social contribution expense at the statutory and effective rates is as follows:

	2016	2015
Loss for the year before income tax and social Contribution	(144,392)	(128,718)
Statutory income tax and social contribution rate	34%	34%
Income tax and social contribution at statutory rate	49,093	43,764
Nondeductible provisions (*) and permanent differences	(4,109)	(13,076)
Others	-	229
Total deferred income tax and social contribution	44,984	30,917
Effective rate	31%	24%

(*) Non-deductible expenses comprise expenses on provision for cancelations, gifts, debt waivers, and non-compensatory fines.

b. Movement in the deferred income tax and social contribution during the year, not considering the offset of balances:

Description	December 31, 2015	Additions	Write-offs	December 31, 2016
Stock options	6,092	1, 483	-	7,575
Discount to present value	15	-	(9)	6
Property, plant and equipment hedge	(811)	(443)	572	(682)
Provision for costs and expenses	62	1,882	(1,198)	746
Provision for slow-moving inventories	397	793	(18)	1,172
Allowance for doubtful debts	17,273	7,214	(9,330)	15,157
Provision for impairment - Rohr	8,906	-	-	8,906
Fair value adjustment - Rohr	-	(4,710)	-	(4,710)
Provision for impairment - Leasehold improvements	-	1,335	-	1,335
Finance leases	(3,141)	-	1,450	(1,691)
Provision for tax, civil and labor risks	5,650	2,722	(1,529)	6,843
Provision for loss on lawsuit Murilo Pessoa	42	-	-	42
Provision for discounts and cancelations	2,229	2,369	(3,638)	960
Tax losses	17,290	41,851	-	59,141
Provision for realization of tax credit	30	-	-	30
Taxes with required payment suspended	456	177	-	633
Accelerated depreciation	(2,259)	(752)	-	(3,011)
GP Andaimes Sul Locadora goodwill	(593)	-	(79)	(672)
Jahu goodwill	(2,437)	-	-	(2,437)
Adjustment for inflation of judicial deposits	(1,473)	409	(412)	(1,476)
Exchange loss	-	(185)	-	(185)
Exchange gain	-	(52)	-	(52)
Bonus payable	-	643	-	643
Debentures	(498)	-	209	(289)
	47,230	54,736	(13,982)	87,984

c. Deferred taxes that are recognized directly in shareholders' agreement.

The balance of deferred taxes recognized in equity at December 31, 2016 is R$ 4,710, related to the fair value adjustment of the available-for-sale financial assets - Rohr Investment. As at December 31, 2015, the increase of R$ 8,906 was recognized in profit or loss, due to the impairment - Rohr.

d. The bases and expectations for realization of the deferred income tax and social contribution are presented below:

Nature	Bases for realization
Stock option	Exercise of options
Discount to present value	Tax realization of the loss/gain
Property, plant and equipment hedge	Depreciation of the asset
Provision for slow-moving inventories	Write-off or sale of the asset
Provision for impairment	Realization of the provision
Fair value adjustment - Rohr	Sale of stake in the investment
Provision for costs and expenses	Payment
Provision for loss on lawsuit Murilo Pessoa	Receipt of the amount
Allowance for doubtful debts	Filing of lawsuits and past-due receivables
Finance leases	Realization of the asset over the straight-line depreciation period
Provision for tax, civil and labor risks	Tax realization of the loss or settlement of the lawsuit
Provision for loss on tax credit	Realization of tax credit
Provision for discounts and cancelations	Reversal/realization of the provision
Taxes with required payment suspended	Payment or reversal of the provision
Accelerated depreciation	Tax depreciation over fiveyears
GP Andaimes Sul Locadora goodwill	Disposal/impairment of the asset
Jahu goodwill	Disposal/impairment of the asset
Adjustment for inflation of judicial deposits	Withdrawal of the deposit
Exchange differences	Payment of the borrowing
Tax losses	Expectation of future taxable profits (i)
Bonus payable	Payment
Debentures	Amortization of the borrowing cost

(i) The Company prepared the impairment analysis of the deferred tax asset recognized as at December 31, 2016 and concluded that there are sufficient evidences that taxable profits will be generated against which the recognized tax losses can be utilized. The determination of the amount of future taxable profits is based on projections of revenues, costs and finance income and costs, which reflect the Company's economic and operational environments, according to the same assumptions described in Notes13 and 14.

21 Provison for tax, civil and labor risks and judicial deposits

The Company is a party to tax, civil and labor lawsuits that have arisen in the normal course of business and is discussing the related matters both at the administrative and legal levels. These lawsuits are backed by judicial deposits, when applicable.

Based on the opinion of its outside legal counsel, management understands that the appropriate legal measures already taken in each situation are sufficient to cover potential losses and preserve the Company's equity, being reassessed periodically.

The Company does not have any contingent assets recognized.

a. Breakdown of the provision for tax, civil and labor risks

	12/31/2016	12/31/2015
Tax (i)	4,428	4,272
Civil (ii)	3,502	2,419
Labor (iii)	8,392	6,235
Success fees (iv)	2,795	2,309
Legal fees and costs (v)	1,008	1,377
Total	20,125	16,612

Movement in the provision for tax, civil and labor risks:

	12/31/2016	12/31/2015
Balance at January 1	16,612	12,580
Provision	5,186	5,161
Adjustment for inflation	2,830	1,618
Reversals	(4,503)	(1,607)
Write-offs	-	(1,140)
Balance for the period	20,125	16,612

(i) Refers basically to a writ of mandamus filed by the Company challenging the increase in the PIS and COFINS rates (established by the noncumulative regime of these contributions, with the enactment of Laws 10,637/2002 and 10,833/2003). The Company maintains a judicial deposit for this provision, relating to the differences in rates.

(ii) The Company has lawsuits filed against it relating to civil liability and compensation claims. The main event that caused the increase in the civil contingencies in comparison with the amount provided for as at December 31, 2015 was the change in the external lawyer's risk assessment from possible to probable for one case where pain and suffering and property damages is demanded as a result of a labor accident, occurred in 1991.

(iii) The Company is a defendant in various labor lawsuits. Most of the lawsuits involve claims for compensation due to occupational diseases, overtime, hazardous duty premium and salary equalization.

(iv) Contingent fees are generally set at up to 10% of the amount of the claim, payable to outside legal counsel according to the success achieved in each claim. Payment is contingent upon a favorable outcome of the lawsuits.

(v) Refers to the provision for legal fees and costs incurred in lawsuits, with probable risk of unfavorable outcome to the Company.

b. Breakdown of judicial deposits

	12/31/2016	12/31/2015
Tax (i)	7,496	7,947
Labor (ii)	3,324	3,076
	10,820	11,023

(i) As at December 31, 2016, judicial deposits for tax lawsuits totaled R$ 7,496. The reconciliation of this amount refers basically to the challenge of the increase in the PIS and COFINS rates, in the total amount of R$ 3,979, as informed in note 22, item “a”, subitem “i”, and, also, judicial deposits made on behalf of certain municipalities due to the understanding of our legal counsel as regards the levy of the ISS (service tax) on asset rental income. The balance recognized in this line items is R$ 2,961. Since 2003, with the enactment of the Supplementary Law 116 and based on the opinion of its legal counsel, the Company has not made judicial deposits of this nature.

(ii) The judicial deposits are linked to various labor lawsuits in which the Company is the defendant. Most of the lawsuits involve claims for compensation due to occupational diseases, overtime, hazardous duty premium and salary equalization.

The Company is a party to tax, civil and labor lawsuits involving risks of loss classified by management as possible based on the assessment of its legal counsel, for which no provision was recognized as estimated below:

	12/31/2016	12/31/2015
Tax (i)	35,203	40,461
Civil (ii)	8,477	5,198
Labor (ii)	17,230	18,006
Total	60,910	63,665

(i) Tax (main items):

(a) Disallowance of allegedly nondeductible expenses by the Brazilian Federal Revenue, involving former Mills Formas, due to agreements entered into with various customers, under which Mills Formas was responsible for carrying out the services that were previously carried out by the employees of the former Mills do Brasil;

(b) Requirement of the Finance Department of the State of Rio de Janeiro relating to ICMS and fine allegedly due arising from transfers of goods without the payment of the related tax.

(c) Non-recognition by the INSS (National Institute of Social Security) of the possibility of offsetting payments improperly made as social security contribution, based on the method established by Law 9,711/98;

(d) Requirement by the Brazilian Federal Revenue of fine allegedly due on installment payment of credits derived from voluntary reporting;

(e) Requirement by the Brazilian Federal Revenue of alleged debts of Tax on Profit (ILL), judged unconstitutional by the STF (Federal Supreme Court).

(ii) Civil
Lawsuits filed against the Company relating to compensation for pain and suffering and property damages.

(iii) Labor
The Company is a defendant in various labor lawsuits. Most of the lawsuits involve collection of termination amounts, compensation for pain and suffering, inclusion of premium in the compensation, reinstatement and salary adjustments, and related effects.

22 Tax Debt Refinancing Program (REFIS)

In November 2009 the Company enrolled in the Special Installment Payment Plan established by Law 11,941/2009 and Provisional Act 470/2009, with the purpose of equalizing and regularizing the tax liabilities under this special plan for installment payment of tax and social security obligations.

The general conditions of this installment payment can be summarized as follow:

(a) The installment payment period was 180 months.

(b) 60% reduction of voluntary and late payment fines, and 25% reduction of late payment interest.

(c) Debts included in the installment payment plan were:

(i) PIS and COFINS (for the period from April 2002 to May 2004).

(ii) IRPJ (for December 2003, January 2004 and April 2004).

(iii) CSLL (for November 2003, January 2004 and April 2004).

(iv) INSS - Additional Occupational Accident Insurance (SAT) contribution.

The amounts relating to PIS/COFINS, IRPJ and CSLL had been offset against PIS and COFINS credits on rental (from September 1993 to January 1999), referring to rental and assembly of Company-owned leased assets. The origin of these credits was based on a decision by the Federal Supreme Court that does not consider the rental of chattel as provision of services.

In light of the new case law set by the Superior Court of Justice (STJ) (1st Panel of the STJ - trial in September 2009 of Special Appeal No. 929.521), which set the understanding of the levy of COFINS on asset rental income, the Company decided to pay in installments the amount relating to the aforementioned debts.

The debts were consolidated on June 29, 2011, in accordance with Joint Administrative Rule PGFN/RFB 2/2011.

As a result of the enrollment in this special installment payment plan, the Company undertook to pay the installments without late payment exceeding three months, and has paid the REFIS installments of the debt consolidated in June 2011.

(a) At the peliminary stage of consolidation of debts for installment payment, on June 30, 2010, the Company decided to include an INSS debt considering the change of the likelihood of a favorable outcome from probable to remote, according to the opinion of its outside legal counsel.

Also at the preliminary stage of consolidation of debts for installment payment, PIS and COFINS debts considered expired by the outside legal counsel were excluded.

(b) Still in the stage of consolidation of debts in June 2011, the Company identified that five debts, two relating to COFINS and three to CSLL, had not been made available at the RFB website for consolidation purposes.

	Balance at December 31, 2015	**Write-offs**	**Additions**	**Inflation adjustment SELIC**	**Balance at December 31, 2016**
PIS	1,720	(176)	-	91	1,636
COFINS	5,508	(784)	-	279	5,003
IRPJ	2,139	(231)	-	113	2,020
CSLL	193	(11)	-	11	192
INSS (Social Security Contribution)	808	(82)	-	43	770
	10,368	(1,284)	-	537	9,621
Current	1,174	-	-	-	1,271
Noncurrent	9,194	-	-	-	8,350

23 Taxes payable

	12/31/2016	**12/31/2015**
PIS and COFINS (taxes on revenue)	1,002	2,188
INSS (Social Security Contribution)	137	61
ISS (Service Tax)	198	46
Others	411	392
	1,748	2,687

24 Equity

a. Subscribed capital

The Company's fully subscribed and paid-in capital as at December 31, 2016 is R$688,319 (R$563,319 as at December 31, 2015), comprising 175,586,000 (128,057,000 thousand as at December 31, 2015) registered common shares without par value. Each common share entitles to one vote in the shareholders resolutions.

Under the bylaws, the Board of Directors can increase the capital up to a ceiling of 200,000 thousand shares.

a.1 Capital contribution - issue of new shares

On April 19, 2016, the Board of Directors decided to approve the Company capital increase, through private subscription of new shares, approved at the Company's Board of Directors Meeting held on February 5, 2016 ("Capital Increase").

a.2 Share issue

The Company's share issue has been made as approved by the Company's Board of Directors due to the exercise of stock options by beneficiaries.

The table below shows the shareholding structure at the reporting dates:

	12/31/2016		12/31/2015	
Shareholders	**Number of shares (in thousands)**	**Percentage**	**Number of shares (in thousands)**	**Percentage**
Andres Cristian Nacht	20,704	11,79%	14,185	11.08%
Snow Petrel S.L.	23,677	13,48%	17,728	13.84%
Fundo de Investimento em participações Axxon Brazil Private Equity Fund II[4]	12,294	7,00%	-	-
HSBC Bank Brasil S.A.	-	-	6,323	5.00%
Brandes Investment Partners1	-	-	6,711	5.24%
Fama Investimentos Ltda.[2]	7,705	6,02%	-	-
BTG Pactual WM Gestão de Recursos Ltda.[3]	7,039	5,50%	-	-
Other signatories of the Company Shareholders Agreement1	16,157	9,20%	13,415	10.48%
Others	88,010	47,01%	69,695	54.36%
	175,586	100,00 %	128,057	100.00 %

1. Signatories of the Company's Shareholders Agreement, excluding Andres Cristian Nacht and Snow Petrel S.L., considers the position related to December 31, 2016, already reported to CVM, pursuant to CVM Instruction No. 358/02.

2. On March 4, 2016, it became the holder of a material ownership interest according to information officially received by the Company and disclosed to CVM.

3. On April 13, 2016, it became the holder of a material ownership interest according to information officially received by the Company and disclosed to CVM.

4. On July 20, 2016, it became the holder of a material ownership interest according to information officially received by the Company and disclosed to CVM.

b. Earnings reserves

b.1 Legal reserve

The legal reserve is set up annually by allocating 5% of the profit for the year until it reaches a ceiling of 20% of the capital. The purpose of the legal reserve is to ensure the integrity of the capital and it can be used only to offset losses and increase capital.

b.2 Expansion reserve

The purpose of the expansion reserve is to provide funds to finance additional investments in fixed and working capital and expand corporate activities. Under the Company's bylaws, the ceiling of the expansion reserve is 80% of the Company's subscribed capital.

b.3 Earnings retention reserve

Refers to the retention of the remaining balance of retained earnings in order to fund the business growth project set out in the Company's investment plan, according to the capital budget proposed by the Company's management, to be submitted for approval at the General Meeting, pursuant to Article 196 of the Brazilian Corporation Law.

c. Capital reserve

The capital reserve includes the transaction costs incurred in capital funding amounting to R$15,069, net of taxes, relating to the primary public offering of shares, the stock option premium reserve amounting to R$49,383, related to the stock option plans for employees, and the cost of issue of shares in May 2016 of R$3,379 totaling a capital reserve of R$30,935 as at December 31, 2016 (R$9,664 as at December 31, 2015).

d. Treasury shares

The balance of Treasury shares as at December 31, 2016 and 2015 is 2,278,422 shares totaling R$ 20,287 and includes the cost of the canceled shares amounting to R$ 557, the amount of the buyback of shares in 2015 of R$ 19,777, and the amount of the sale of shares of R$ 47.

e. Equity adjustments

Refers to the fair value adjustment of the financial instrument relating to the investment in Rohr, as detailed in Note 12.

f. Minimum mandatory dividends

The Company's bylaws provide for the payment of minimum mandatory dividends equivalent to 25% of the profit for the year, after the respective allocations, pursuant to art. 202 of the Brazilian Corporation Law (Law 6,404/76).

25 Dividends and interest on capital

Under the Company's bylaws, shareholders are entitled to minimum mandatory dividends corresponding to 25% of the profit for the year, calculated in accordance with the Brazilian Corporation Law. The Company can make other distributions, as long as profits and reserves are available. All distributions referred to above can be made in the form of dividends or interest on capital, deductible from income tax.

In view of the results for 2016 and 2015, no dividends or interest on capital were paid.

26 Earnings (loss) per share

a. Basic

Basic earnings (loss) per share are calculated by dividing the profit (loss) attributable to owners of the Company by the weighted average number of common shares issued during the year.

	2016	**2015**
Profit (loss) attributable to owners of the Company	(99,408)	(97,801)
Weighted average number of common shares issued (thousands)	160,540	126,686
Diluted earnings (loss) per share from continuing operations	(0.62)	(0.77)

b. Diluted

Diluted earnings (loss) per share are calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has one category of dilutive potential common shares: stock options. For stock options, a calculation is made to determine the number of shares that would be acquired at fair value (determined as the average annual market price of the Company's share), based on the monetary value of the subscription rights linked to the outstanding stock options. The number of shares calculated as described above is compared with the number of shares issued, assuming the exercise of the stock options.

	2016	2015
Profit (loss) used to determine earnings (loss) per share	(99,408)	(97,801)
Weighted average number of common shares for diluted earnings per share (thousands)	160,540	126,686
Diluted earnings (loss) per share from continuing operations	(0.62)	(0.77)

The zero effect as at December 31, 2016 is due to the potential anti-dilution commons shares.

27 Net revenue from rental, sales and services

The information on net revenue from sales and services below refers only to the nature of the revenue per type of service:

	2016	2015
Rentals	399,063	608,142
Sales of new products	13,794	43,375
Sale of seminew products	45,514	32,670
Healthcare	15,418	16,502
Indemnities	22,976	25,370
Recovery of expenses	8,741	8,610
Total gross revenue	505,506	734,669
Taxes on sales and services	(36,106)	(56,778)
Cancelations and discounts	(72,783)	(101,785)
Total net revenue	396,617	576,106

28 Cost of sales and services and general and administrative expenses (by nature)

Costs refer mainly to personnel expenses, payroll taxes and social security contributions, equipment sublet from third parties when the Company's inventory is insufficient to meet the demand, freight for equipment transportation between branches and occasionally to customers, and expenses on materials consumed in the projects, from personal protective equipment (PPE) to wood, paint and thermal insulation.

General and administrative expenses refer to the management of each Company contract, encompassing project teams and sales function engineers, which correspond basically to salaries, payroll taxes and benefits, and other expenses on travels, representations and Communications, as well as expenses of the administrative function.

	2016			2015		
Nature	**Direct project and Rental costs**	**General and administrative expenses and others**	**Total**	**Direct project and tental costs**	**General and administrative expenses and others**	**Total**
Personnel	(64,152)	(71,040)	(135,192)	(74,203)	(97,628)	(171,831)
Third parties	(5,954)	(25,473)	(31,427)	(4,914)	(20,500)	(25,414)
Freight	(8,556)	(4,582)	(13,138)	(12,093)	(3,315)	(15,408)
Construction/maintenance and repair materials	(37,537)	(4,036)	(41,573)	(42,326)	(5,846)	(48,172)
Equipment rental and others	(4,850)	(16,256)	(21,106)	(5,829)	(19,548)	(25,377)
Travel	(1,737)	(4,203)	(5,940)	(2,362)	(6,433)	(8,795)
Cost of Sales	(5,692)	-	(5,692)	(18,273)	-	(18,273)
Depreciation and amortization	(142,210)	(16,815)	(159,025)	(151,915)	(17,726)	(169,641)
Write-off of assets	(41,076)	-	(41,076)	(29,244)	-	(29,244)
Allowance for Doubtful Debts	-	(21,217)	(21,217)	-	(38,230)	(38,230)
Stock option plan	-	(4,363)	(4,363)	-	(9,624)	(9,624)
Provisions	-	(3,107)	(3,107)	-	-	-
Adjustment of provisions	-	-	-	-	(4,353)	(4,353)
Provision for impairment	-	(3,926)	(3,926)	-	(57,110)	(57,110)
Others	(1,859)	(26,098)	(27,957)	(2,620)	(17,592)	(20,212)
Total	(313,623)	(201,116)	(514,739)	(343,779)	(297,905)	(641,684)

29 Provision for impairment

The Company recognized a provision for impairment, as shown the table below:

	2016	2015
Real Estate Business Unit (i)	-	**30,918**
Investment in Rohr (i)	-	**26,192**
Leasehold improvements (ii)	**3,926**	-
	3,926	57,110

(i) The recoverable amounts of the Cash-Generating Units and the investment in Rohr are described in notes 12-b, 13 and 14.

(ii) In view of the asset retirement project of the Real Estate business units' branches in Campinas and Ribeirão Preto, and of the moving of the Osasco branch, Management identified that the leasehold improvements will not occur within the term initially expected, thus recognizing a provision for impairment.

30 Finance income and costs

a. Finance income

	2016	2015
Dividend income (investment Rohr)	1,819	1,818
Interest income	8,013	8,556
Investment income	44,329	22,877
Discounts obtained	189	248
Foreign exchange and inflation gains	1,154	3,296
Others	36	116
	55,540	36,911

b. Finance expenses

	2016	2015
Interest on borrowings	(1,852)	(2,380)
Foreign exchange and inflation losses	(5,049)	(2,567)
Interest on debentures	(70,053)	(87,607)
Commissions and bank fees	(1,260)	(2,547)
IOF (tax on financial transactions)	(17)	-
Others	(3,579)	(4,950)
	(81,810)	(100,051)

31 Segment information

Information by operating segment is being presented in accordance with CPC 22 Operating Segments (IFRS 8).

The Company's reportable segments are business units that offer different products and services and are managed separately since each business requires different technologies and market strategies. The main information used by management to assess the performance of each segment is as follows: total property, plant and equipment since these are the assets that generate the Company's revenue and profit of each segment to evaluate the return on these investments. The information on liabilities by segment is not being reported since it is not used by the Company's chief decision makers to manage the segments. Management does not use analyses by geographic area to manage its businesses.

The Company's segments have completely different activities, as described below, and therefore their assets are specific for each segment. The assets were allocated to each reportable segment according to the nature of each item.

On September 28, 2015, aimed at obtaining synergy gains and greater productivity, the Company consolidated the commercial management of the Heavy Construction and Real Estate business units. The result of such consolidation was the creation of the new business unit Real Estate. From that date, segment information is presented according to this new structure, including as regards the comparative information relating to the same period of 2014, which is being restated.

Real Estate business unit

The Real Estate business unit operates in the heavy construction market and provides formworks, props, nonmechanized access equipment, mast climbing platforms and scaffolds for the residential and office building construction sector, using cutting edge technology in formworks, props and special equipment systems to perform construction works, and it has the largest product and service portfolio with customized solutions that meet the specific needs of each project and generate efficiency and cut costs. With presence in several states, this business unit draws on a team of engineers and specialized technicians who play advisory and support role to meet deadlines and optimize costs and safety, providing technical assistance and helping planning works, detailing projects, and overseeing the assembly.

Rental business unit

The Rental business unit operates in the scissor lifts and telescopic handlers lease and sale market, for height works in all sectors of the construction, trade, and manufacturing markets. The BU ensures productivity, profitability and safety, has the most advanced product line for lifting people and cargo, and offers its customers operation training certified by the IPAF (world areal access authority). Its presence in several Brazilian cities not only reinforces the agility of its commercial service but it also broadens the technical assistance with certified professionals.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Company assesses the performance by segment based on pretax profit or loss as well as on other operating and financial indicators.

.

Statement of profit or loss by business segment

	Real Estate		Rental		Others(*)		Tol	
	2016	2015	2016	2015	2016	2015	2016	2015
Net revenue	182,313	282,953	214,304	293,153	-	-	396,617	576,106
(-) Costs	(89,441)	(106,833)	(81,972)	(85,029)	-	-	(171,413)	(191,862)
(-) Expenses	(98,993)	(149,156)	(60,926)	(62,781)	(3,165)	(30,014)	(163,084)	(241,951)
(-)Allowance for doubtful debts	(9,735)	(25,633)	(11,557)	(12,763)	75	166	(21,217)	(38,230)
Profit (loss) - depreciation and amortization	(84,817)	(88,917)	(74,208)	(80,724)	-	-	(159,025)	(169,641)
Profit (loss) before finance income (costs) and taxes	(100,673)	(87,586)	(14,359)	51,856	(3,090)	(29,848)	(118,122)	(65,578)
Finance income	26,124	15,519	25,165	13,780	4,250	7,612	55,540	36,911
Finance expenses	(41,087)	(51,772)	(39,053)	(47,692)	(1,670)	(587)	(81,810)	(100,051)
Profit (loss) before IRPJ/CSLL	(115,636)	(123,839)	(28,247)	17,944	(510)	(22,823)	(144,392)	(128,718)
(-) IRPJ/CSLL	36,026	29,745	8,801	(4,310)	159	5,482	44,984	30,917
Profit (loss) for the year	(79,610)	(94,094)	(19,447)	13,634	(351)	(17,341)	(99,408)	(97,801)

Assets by business segment

	Real Estate		Rental		Others(*)		Tol	
	2016	2015	2016	2015	2016	2015	2016	2015
Property, plant and equipment								
Acquisition cost	787,095	860,592	725,012	733,474	-	-	1,512,107	1,594,066
(-) Accumulated depreciation	(390,716)	(353,541)	(300,199)	(236,458)	-	-	(690,915)	(589,999)
	396,379	507,051	424,813	497,016	-	-	821,192	1,004,067
Other assets	326,766	299,324	264,115	231,880	98,674	102,686	689,555	633,890
Total assets	723,145	806,375	688,928	728,896	98,674	102,686	1,510,747	1,637,957

(*) Refer to the remaining operations of the former business unit Serviços Industriais - SI, from the amount of Rohr investment on sale of investees.

32 Financial instruments

32.1 Category of financial instruments

The classification of financial instruments, by category, can be summarized as follows:

	Carrying amount	
	12/31/2016	**12/31/2015**
Financial assets at fair value through profit or loss		
Cash and cash equivalents	330,682	232,011
Available-for-sale financial assets		
Available-for-sale asset -Roh Investment	75,052	61,200
Loans and receivables		
Trade receivables	65,834	99,719
Other receivables - Sale of investee	22,558	39,556
Financial liabilities measured at amortized cost		
Borrowings and financing	11,965	15,116
Debentures	438,123	605,719
Trade payables	13,058	6,844
Stock option plans	49,383	45,020

32.2 Fair value of financial instruments

Several Company accounting policies and disclosures require the determination of the fair value both for financial assets and liabilities and for nonfinancial assets and liabilities. Fair value for measurement and/or disclosure purposes is determined based on the methods below. When applicable, additional information on the assumptions used to calculate the fair values is disclosed in specific notes applicable to such asset or liability.

The Company applies CPC 40/IFRS 7 for financial instruments measured in the balance sheet at fair value, which requires disclosure of fair value measurements at the level of the following fair value measurement hierarchy:

- Quoted (unadjusted) prices in active markets for identical assets and liabilities (Level 1).

- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (e.g. as prices) or indirectly (e.g. derived from prices) (Level 2).

- The Company does not have financial instruments measured at fair value that are classified as Level 3, i.e., obtained based on valuation techniques that include variables for the asset or liability, but which are not based on observable market inputs.

a. Fair value

Cash and cash equivalents refer to short-term investments with first-tier financial institutions and are indexed to the variation of the Interbank Deposit Certificates (CDI). Considering that the CDI rate already reflects the interbank market position, it is assumed that the carrying amounts of the investments approximate their fair values.

b. *Fair value of trade receivables and payables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market interest rate determined at the end of the reporting period.

The fair values of trade receivables and trade payables, considering for calculating the discounted cash flow method, are substantially similar to their carrying amounts.

c. *Fair value of borrowings and financing*

The fair value, which is determined for disclosure purposes, is calculated based on the present value of the principal and future cash flows, discounted at the market interest rate determined at the end of the reporting period. For finance leases, the interest rate is determined by reference to similar lease agreements.

The fair value of borrowings from BNDES was not calculated since this type of borrowing does not have observable fair value calculation since BNDES adopts different rates for borrowers.

Borrowing, financing and debentures

		Fair value		Carrying amount	
Debt	**Indicator**	**12/31/2016**	**12/31/2015**	**12/31/2016**	**12/31/2015**
1st issue of debentures	CDI	c	87,898	-	92,751
2nd issue of debentures					
1st series	CDI	76,925	144,426	84,809	169,629
2nd series	IPCA	137,371	121,736	151,721	142,277
3rd issue of debentures	CDI	165,260	151,410	202,443	202,527

d. *Fair value of stock options*

The fair values of employee stock options and rights to share appreciation are measured using the Black-Scholes model. Changes in measurement include share prices at measurement date, the strike price of the related instrument, the expected volatility (based on the historical weighted average volatility adjusted for expected changes based on publicly available information), the average weighted life of the instruments (based on historical experience and the overall behavior of option holders), expected dividends and risk-free interest rate (based on government bonds). Nonmarket service conditions and performance conditions inherent in the transactions are not taken into account in determining the fair value.

e. *Available-for-sale asset -Investment Roh*

As at December 31, 2016, the Company has an investment measured at fair value recorded as available-for-sale asset - Investment Rohr in the amount of R$ 75,052 (R$ 61,200 as at December 31, 2015), as presented in note 12. This financial instrument is classified in level 3.

33 Insurance

As at December 31, 2016, the Company’s total insurance against operational risks is R$ 1,357,960, R$ 554,453 for property damages and R$ 110,000 for civil liability.

34 Events after the reporting period

On January 17, 2017 - Mills Estruturas e Serviços de Engenharia S.A. ("Company"), pursuant to CVM Instruction 358 and further to the significant events disclosed on April 7, 2016 and July 20, 2016, informs that Fundo de Investimento em Participações Axxon Brazil Private Equity Fund II ("Axxon") and Andres Cristian Nacht, Jytte Kjellerup Nacht, Tomas Richard Nacht, Antonia Kjellerup Nacht, Pedro Kaj Kjellerup Nacht, Snow Petrel, S.L. and Francisca Kjellerup Nacht informed the Company that (i) Axxon did not become the holder of shares representing thirteen percent (13%) of the Company’s capital, not meeting therefore the conditions set out in Clause 3.2.2 of the shareholders’s agreement entered into on April 7 2016 between Axxon and the Company’s controlling shareholders ("Shareholders’ Agreement") within the term set out in such clause, which ended on January 16, 2017; and (ii) consequently, Axxon definitively is no longer entiled to the political righs set out in Clauses 4.4, 4.5, 11.3.2 and 11.5 of the Shareholders’ Agreement.

On March 7, 2017, the Company called the holders of simple, nonconvertible, first and second series of the second issue and single series of the third issue debentures for the General Meeting of Debenture Holders (“AGD”) to be held on March 22, 2017, in order to resolve, among other points, on the following agenda and that are pending approval of the Company’s Board of Directors:

(i) Proposal for amendment to the issue indenture for change of financial indexes;

(ii) Proposal for temporary waiver of compliance, by the Company, with financial indexes;

(iii) Restrictions as to the payment of dividends and granting of loans by the Company and related parties;

(iv) Pledge of real guarantee of fiduciary assignment of credit rights;

(v) Compensation due by the Company to Pentagono S.A distribuidora de títulos e valores imobiliários;

(vi) Possibility of payment for premium due to temporary waiver.

Board of Directors

Andres Cristian Nacht
Chairman

Elio Demier
Vice chairman

Francisca Kjellerup Nacht
Director

Jorge M.T.Camargo
Independent Director

Aymar Ferreira de Almeida Júnior
Independent Director

Roberto Pedote
Independent Director

Supervisory Board

Eduardo Botelho Kiralyhegy
Chairman

Marcus Vinícius Dias Severini
Board Member

Isabella Saboya de Albuquerque
Board Member

Statutory Directors

Sérgio Karya
Chairman

Avelino Pinto da Silva Garzoni
Director

Ricardo de Araújo Gusmão
Director

Gustavo Artur Ciocca Zeno
Administrative and finance and HR director

***

Sebastião Dantas Ramos
Accountat CRC RJ-050305/O-3

* * *