Financial statements

Electro Aço Altona S/A

December 31, 2017
with Independent Auditor’s Report
on financial statements

Electro Aço Altona S/A

Financial statements

December 31, 2017

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A free translation from Portuguese into English of Independent Auditor's Report on financial statements prepared in United States currency (dollar) in accordance with accounting practices adopted in Brazil

Independent Auditor's Report on Financial Statements

To Shareholders, Board Members and Managers
Electro Aço Altona S/A
Blumenau - SC

Opinion

We have audited the financial statements of Electro Aço Altona S/A ("Company"), which comprise the balance sheet as of December 31, 2017 and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows, for the year then ended, as well as a summary of the main accounting practices and other notes.

In our opinion, the financial statement referred above presents fairly, in all material respects, the financial position of Electro Aço Altona S/A as of December 31, 2017, the performance of its operations and its cash flow to the Company, the performance of its operations and its cash flow for the year then ended, in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Base for Opinion

Our audit work was conducted in accordance with Brazilian and international auditing standards. Our responsibilities, in accordance with such standards, are described in the following section entitled "Responsibilities of the auditor for the audit of the financial statement". We are independent in relation to the Company, in accordance with the relevant ethical principles set forth in the Professional Code of Ethics of the Accountant and the professional standards issued by the Federal Accounting Council, and we comply with the other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to substantiate our opinion.

Main audit subjects

The main audit subjects are those that, in our professional judgment, were the most significant in our current audit work. These matters were dealt with in the context of our audit of the financial statement and the disclosure of our opinion on this financial statement, so we do not express a separate opinion about those matters.

a) Recoverable amount ("impairment") of Fixed Assets (Note 9)

As the explanatory note 9, the principal asset of the company is the fixed asset valued in U$ 46,835. The management valuated at least per year the impairment risk of these asset, based on the use value method the discounted cash flow financial model, which requires that the management adopt some assumptions based on information gendered by their internal reports, which involves relevant about the future business results, in which any change in the assumptions used may generate significant effects on the evaluation and impacts on the Company's financial statements. Based on the budget readjustment measures carried out by the Company in recent years, and since this is the account with the most significant balance in the Company's financial statements, then we decided to address the main audit issues.

How does our audit work conducted these subject?

Our audit procedures included: review of future cash flow forecasts prepared by management and the process used to prepare them; questioning of the main assumptions and criteria adopted by management regarding growth rates; analysis and operational implementation of the internal controls related to the preparation and review of the business plan, budgets and analysis of the recoverable value made available by the Company.

We also assessed the reasonableness of the mathematical calculations and the adequacy of the disclosures made by the Company.

b) Special tax regularization program (Note 15)

According to Note 15, the Company migrated from the REFIS Federal - Tax Recovery Program to the PERT - Special Program for tax regularization, established by Federal Law Nº. 13.496/2017. The Company had recorded on December 31, 2017 the amount of U$ 8,039 related to PERT. This program was one of the main impacts on the Company's results and the amount recorded is one of the main balances of Liabilities, in this way we understand it as a "PAA" (Main Audit Matters).

How did our audit address this issue?

With the help of tax specialists, we reviewed the entire composition of the federal debts included in the PERT program. We evaluated the measures implemented by the Company to carry out the reversal of taxes, by evaluating the legal basis, recalculating surplus value and analyzing the opinion of the legal representative of Company, obtain confirmation letter from the Company's legal counsel regarding the process. We also re-read all PERT's arithmetic calculations of control and computation at the Company's controls.

Other matters

Demonstration of added value

The statement of value added (DVA) for the year ended December 31, 2017, prepared under the responsibility of the Company's management, and presented as supplementary information for IFRS purposes, were subject to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluate whether this statement is reconciled with the financial statements and accounting records, as applicable, and whether their form and content comply with the criteria set forth in Technical Pronouncement CPC 09 - Statement of Added Value. In our opinion, this statement of value added has been properly prepared, in all material respects, in accordance with the criteria set forth in this Technical Pronouncement and is consistent with the financial statement taken as a whole.

Other information accompanying the financial statement and the auditor's report

The Company's management is responsible for such other information that includes the Management Report.

Our opinion on the financial statement does not cover the Management Report and we do not express any form of audit conclusion about this report.

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

Responsibilities of management and governance by the financial statement

Management is responsible for the preparation and adequate presentation of the financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the internal controls it has determined as necessary to enable the preparation of financial statements free of material misstatement, whether caused by fraud or error.

In preparing the financial statements, management is responsible for evaluating the Company's ability to continue operating, disclosing, when applicable, matters related to its operational continuity and the use of this accounting basis in the preparation of the financial statements, unless management intends to liquidate the Company or cease its operations, or has no realistic alternative to avoid closing the operations.

Those responsible for the Company's governance are those responsible for supervising the process of preparing the financial statements.

Responsibilities of the auditor for the audit of the financial statement

Our goals are to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error, and issue an audit report containing our opinion. Reasonable safety is a high level of security, but not a guarantee that the audit conducted in accordance with Brazilian and international auditing standards will always detect any relevant distortions. Distortions may be due to fraud or error and are considered relevant when, individually or jointly, they can influence, from a reasonable perspective, the economic decisions of the users taken based on said financial statement.

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

- We identify and evaluate the risks of material misstatement in the financial statement, whether caused by fraud or error, we design and perform audit procedures in response to such risks, and we obtain audit evidence that is appropriate and sufficient to substantiate our opinion. The risk of not detecting material misstatement resulting from fraud is greater than that arising from error, since fraud may involve the act of circumventing internal controls, collusion, forgery, omission, or false intentional representations.

- We obtain an understanding of the internal controls relevant to the audit to audit plan procedures appropriate to the circumstances, but not, in order to express an opinion on the effectiveness of the Company's internal controls.

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- We evaluate the adequacy of the accounting policies used and the reasonableness of accounting estimates and respective disclosures made by management.

- We conclude on the adequacy of the management's use of the accounting basis for operational continuity and, based on the audit evidence obtained, whether there is a material uncertainty regarding events or conditions that may raise a significant doubt regarding the Company's operational continuity Company. If we conclude that there is material uncertainty, we should draw attention in our audit report to the respective disclosures in the financial statement or include modification in our opinion if the disclosures are inadequate. Our findings are based on audit evidence obtained as of the date of our report. However, future events or conditions may cause the Company to no longer be in operational continuity.

- We evaluate the overall presentation, structure and content of the financial statement, including disclosures, and whether the financial statement represents the corresponding transactions and events in a manner consistent with the appropriate presentation objective.

We communicate with those responsible for governance regarding, inter alia, the planned scope, timing of the audit, and significant audit findings, including any significant deficiencies in internal controls that we have identified during our work.

We also provide those responsible for governance with a statement that we have complied with the relevant ethical requirements, including the applicable independence requirements, and communicate any relationships or matters that could significantly affect our independence, including, where applicable, respective safeguards.

Of the matters that were the subject of communication with those responsible for governance, we determined those that were considered most significant in auditing the financial statements for the current year and that, therefore, constitute the main auditing matters. We describe these matters in our audit report unless the law or regulation has prohibited public disclosure of the matter, or when in extremely rare circumstances we determine that the matter should not be reported in our report because the adverse consequences of such disclosure may, within a reasonable perspective, overcome the benefits of communication to the public interest.

Blumenau (SC), March 15, 2018.

Berkan Auditores Independentes S.S.
CRC SC-009075/O-7

Bradlei Ricardo Moretti
Accountant CRC SC-023618/O-6

Electro Aço Altona S/A
Statements of financial position
December 31, 2017 and 2016
(In thousands of dollars)

Assets	**Note**	**12/31/2017**	**12/31/2016**
Current assets			
Cash and cash equivalents	4	**422**	1,770
Trade accounts receivable	5	**11,130**	9,637
Inventories	6	**11,681**	9,745
Taxes recoverable	7	**3,532**	2,693
Other receivables		**1,098**	440
Prepaid expenses		**296**	110
		28,159	24,395
Noncurrent assets			
Judicial deposits	12.b	**725**	529
Taxes recoverable	7	**426**	305
Post-employment benefit		**-**	226
Other accounts receivable		**37**	114
Investments	8	**463**	456
Property, plant and equipment	9	**46,835**	49,034
Intangible assets	10	**144**	192
		48,630	50,856
Total assets		**76,789**	75,251

Electro Aço Altona S/A
Statements of financial position
December 31, 2017 and 2016
(In thousands of dollars)

Liabilities	**Note**	**12/31/2017**	**12/31/2016**
Current liabilities			
Loans and financing	11	**15,108**	9,068
Trade accounts payable		**4,149**	1,260
Tax Recovery Program (REFIS)	15	**1,743**	442
Tax incentive – PRODEC	14	**103**	147
Tax obligations		**1,712**	538
Labor and social obligations		**748**	901
Labor provisions		**2,767**	1,357
Dividends and interest on equity payable		**13**	43
Other accounts payable		**2,774**	630
		29,117	14,386
Noncurrent liabilities			
Loans and financing	11	**1,392**	3,903
Tax Recovery Program (REFIS)	15	**6,296**	29,042
Income and social contribution taxes – deferred	18.a	**9,188**	5,583
Tax incentive - PRODEC	14	**6**	106
Provision for litigation and lawsuits	12.a	**1,094**	937
		17,976	39,571
Total liabilities		**47,093**	53,957
Equity			
Capital	16.a	**5,232**	5,312
Legal reserve	16.b	**730**	317
Income reserve		**11,992**	2,199
Profit to be allocated	16.b	**-**	-
Equity adjustment	16.b	**-**	62
Other comprehensive income		**11,742**	13,404
Total equity		**29,696**	21,294
Total liabilities and equity		**76,789**	75,251

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

Electro Aço Altona S/A
Statements of profit or loss
Years ended December 31, 2017 and 2016
(In thousands of dollars, except earnings per share)

	Note	12/31/2017	12/31/2016
Net operating income	20	**52,792**	33,818
Cost of sales	21	**(43,229)**	(28,741)
Gross Profit		**9,563**	5,077
Operating income (expenses)			
Selling expenses	21	**(3,727)**	(2,999)
General and administrative expenses	21	**(4,545)**	(4,080)
Other operating income	22	**19,962**	4,267
Other operating expenses	22	**(6,171)**	(1,390)
Income before financial income (expenses)		**15,081**	875
Financial expenses	23	**(2,615)**	(2,448)
Financial income	23	**939**	713
Financial income (expenses), net		**(1,676)**	(1,735)
Income before income taxes		**13,405**	(859)
Income and social contribution taxes	18.b	**(3,798)**	385
Net income for the year		**9,607**	(475)
Earnings per common shares	25	**0.48**	-0.02
Earnings per preferred shares	25	**0.53**	-0.02

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

Electro Aço Altona S/A
Statements of comprehensive income
Years ended December 31, 2017 and 2016
(In thousands of dollars, except earnings per share)

	Note	12/31/2017	12/31/2016
Net income for the period		**9,607**	**(475)**
Other net comprehensive income to be reclassified to profit or loss in subsequent periods:			
Losts with Pro-employment benefit plan		-	-
Other comprehensive income		-	-
Tax deferred under others comprehensive income		-	-
Comprehensive income		**9,607**	**(475)**

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

Electro Aço Altona S/A
Statements of changes in equity
Years ended December 31, 2017 and 2016
(In thousands of dollars)

				Income reserve			
	Capital	Legal Reserve	Investment Reserve	Profit Sharing	Accumulated profits (losses)	Other comprehensive income	Total
Balances at December 31, 2015	5,138	308	2,430	93	-	13,787	21,756
Net income	-	-	-	-	(500)	-	(500)
Recognition of revaluation reserve	-	-	-	-	587	(587)	-
Legal Reserve	-	4	-	-	(4)	-	-
Profit distribution	94	-	(264)	(93)	(21)	-	(284)
Balances at December 31, 2016	5,232	312	2,166	-	62	13,200	20,972
Net income of the year	-	-	-	-	9,287	-	9,287
Recognition of revaluation reserve	-	-	-	-	1,391	(1,458)	(67)
Participation of the Administrators	-	-	-	929	(929)		-
Dividends proposed	-	-	-	1,861	(1,861)		-
Legal Reserve	-	418	-	-	(418)	-	-
Dividends Reserve Constitution	-	-	-	-	-	-	-
Interest on equity paid	-	-	-	-	(495)	-	(495)
Profits established	-	-	-	7,037	(7,037)		-
Balances at December 31, 2017	**5,232**	**730**	**2,166**	**9,827**	**-**	**11,742**	**29,696**

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

Electro Aço Altona S/A
Statements of cash flows
Years ended December 31, 2017 and 2016
(In thousands of dollars)

Cash Flows	**12/31/2017**	**12/31/2016**
Operating Activities		
Income before taxes	**12,959**	(920)
Income and social contribution taxes	**(3,672)**	412
Net income of the period	**9,287**	(508)
Adjustments without cash outlay	**12,745**	4,005
Just value of contingencies	**528**	85
Provision for losses on realization of credits	**182**	-
Other Provisions	**2,398**	-
Charges on loans and financing	**995**	1,238
Depreciation and amortization	**2,900**	2,998
Eletrobrás shares	**55**	(191)
Disposal of property, plant and equipment	**1,998**	209
Income and social contribution deferred taxes	**3,689**	(334)
Working Capital adjustments	**(22,275)**	70
(Increase) Decrease in assets		
(Increase) Decrease in trade accounts receivable	**(1,821)**	3,947
(Increase) Decrease in inventories	**(2,083)**	(131)
(Increase) Decrease in Taxes recoverable	**(1,005)**	(108)
(Increase) Decrease in judicial deposits	**(204)**	(74)
(Increase) Decrease in other assets	**(707)**	(273)
Increase (decrease) in liabilities		
Increase (decrease) in trade accounts payable	**2,908**	102
Increase (decrease) in tax obligations	**(19,957)**	(246)
Increase (decrease) in labor and social charges	**1,064**	(2,319)
Increase (decrease) in other liabilities	**(470)**	(828)
Net cash from operating activities	**(243)**	3,483
Net cash used in investment activities		
Adds in property, plant, requirement and intangible	**(3,255)**	(975)
Net cash used in investment activities	**(3,255)**	(975)
Net cash used in investment activities		
Loans and financing taken out (paid)	**(12,461)**	(9,814)
Capitation of loans and financing	**15,191**	5,173
Payment of dividends	**(563)**	(268)
Net cash from (used in) financing activities	**2,167**	(4,909)
Increase (decrease) in cash and cash equivalents	**(1,330)**	(2,401)
At the beginning of period	**1,743**	4,171
At end of period	**413**	1,770

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

Electro Aço Altona S/A
Added Value Statement
Years ended December 31, 2017 and 2016
(In thousands of dollars)

	12/31/2017	12/31/2016
Revenues	**75,484**	45,527
Sales of goods, products and services	**56,188**	40,958
Other operating income	**19,297**	4,569
Input acquired from third parties (including taxes)		
Direct materials	**(17,272)**	(9,380)
Indirect materials and third-party services	**(16,632)**	(11,409)
Energy	**(2,460)**	(1,603)
Gross value added	**39,121**	23,135
Depreciation and amortization	**(2,900)**	(2,998)
Net value added produced by the Company	**36,221**	20,137
Financial income	**907**	764
Total value added to be distributed	**37,128**	20,901
Distribution of value added		
Employees	**17,186**	15,330
Direct compensation	**13,348**	11,483
Benefits	**2,247**	1,996
Unemployment Compensation Fund (FGTS)	**1,592**	1,850
Taxes	**8,127**	3,458
Federal	**7,175**	2,918
State	**861**	442
Local	**92**	97
Debt remuneration	**2,527**	2,621
Interest and exchange variations	**2,527**	2,621
Retained	**9,287**	(508)
Retained profits for the year	**9,287**	(508)

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

1. Operations

The ELECTRO AÇO ALTONA S/A is a publicly-held company headquartered in Blumenau - SC, Brazil, and its main activity and corporate purpose is: production, industrialization in the sectors of casting and machining and supply of castings in carbon steel, alloy (low, medium and high alloy) and irons connected for special applications. The Company is a subsidiary of the Companhia Werner S/A.

Working in two groups of supplied parts titled as "repetitive", when made in series, making products or parts and pieces and even sets of parts for companies manufacturers of self-propelled equipment, or "Custom" when made non-serially to the client, whether alone or as part of subsets of entire equipment constituents. Whether "repetitive" or "Custom", all parts are produced in accordance with specifications, technical projects and rules of international use and customers.

2. Summary of significant accounting practices

The Company's Board of Directors approved these financial statements on March 22, 2018.

Significant accounting practices adopted in the preparation of these financial statements are defined below. These practices were consistently applied for all years herein presented.

The financial statements were prepared under historical cost convention, except for certain assets and liabilities classified as financial instruments, which are measured at fair value.

These financial statements were prepared considering various measurement bases used in accounting estimates. The accounting estimates involved in the preparation of these financial statements were based on objective and subjective factors, considering management's judgment for determining the adequate amounts to be recorded in the financial statements. Significant items subject to estimates include: estimate of customer and inventory losses; deferred income and social contribution taxes; provision for contingencies; measurement of fair value of financial instruments; and post-employment healthcare plan.

Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statement due to the probabilistic treatment inherent in the estimation process. The Company reviews its estimates and assumptions at least quarterly.

The financial statements were prepared in accordance with the accounting practices adopted in Brazil, which comprise the provisions of Brazilian Corporate Law, enacted in Law 6.404/76 with amendments to Law 11.638/07 and Law 11.941/09, and the accounting pronouncements, interpretations and guidelines issued by the Brazilian Securities Commission ("CPC"), approved by the Brazilian Securities and Exchange Commission ("CVM") and in compliance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

2.1 Current versus non-current classification

The Company presents assets and liabilities in the balance sheet based on current / noncurrent classification.

An asset is classified as current when:
• it is expected to be realized or if it is intended to be sold or consumed in the normal operating cycle;
• held mainly for trading;
• it is expected to be carried out within 12 months after the disclosure period; or
• cash or cash equivalents, unless there are restrictions when they are exchanged or used to settle a liability for at least 12 months after the disclosure period.
All other assets are classified as non-current.

A liability is classified as current when:
• it is expected to settle in the normal operating cycle;
• held mainly for trading;
• it is expected to be carried out within 12 months after the disclosure period; or
• there is no unconditional right to defer settlement of the liability for at least 12 months after the disclosure period.
The Company classifies all other liabilities in noncurrent assets.

Deferred tax assets and liabilities are classified in non-current assets and liabilities.

2.2 Foreign currency conversion

The functional currency of the Company is the Real (R$), however, for presentation purposes, this financial statement was translated into the Dollar currency, with the balance sheet (assets and liabilities) and its notes converted by the closing rate as of December 31, 2017, and the Income Statement and its notes converted by the annual average of the exchange variation, from January to December. The translation differences of the income statement conversion against the translated income in Equity, are shown in the line "Other comprehensive income".

2.3 Revenue recognition

Revenue from sale of products is recognized when the significant risks and benefits of ownership of the products are transferred to the buyer, which usually occurs in their delivery, when it is probable that economic benefits will be generated for the Company and when it can be reliably measured. Revenue is measured based on the fair value of the consideration received or receivable, excluding discounts, rebates and taxes or sales charges. The Company assesses revenue transactions in accordance with specific criteria to determine whether it is the agent or principal and, in the end, has reached the conclusion that it has been performing as the principal in all its revenue contracts.

2.4 Taxes

Income and social contribution taxes – current

Current tax assets and liabilities of the last fiscal year and of previous fiscal years are measured at the recoverable amount expected or payable to the tax authorities. The tax rates and tax laws used to calculate the amount are those that are in effect at the balance sheet date.

Income and social contribution taxes – deferred

Deferred tax is generated by temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts and are measured based on tax rates (and tax law) enacted at the balance sheet date, are presented net, when applicable. Deferred tax liabilities are recognized for all temporary tax differences. Deferred tax assets are recognized for all deductible temporary differences, unused tax losses are reviewed annually to test their recoverability.

Sales Taxes

Revenues, expenses and assets are recognized net of sales taxes, except when sales taxes incurred on the purchase of goods or services cannot be recovered from the tax authorities, in which case the sales tax is recognized as part of the acquisition cost of the asset or expense item. The net amount of sales tax, recoverable or payable, is included as a component of the amounts receivable or payable in the balance sheet. Sales revenues are subject to the following taxes and contributions at the following rates:

- Social Integration Program - PIS: 1.65%
- Contribution to Social Security Financing - COFINS: 7.6%
- Tax on the Circulation of Goods and Provision of Services - ICMS: 7% to 18%
- Tax on Services of Any Nature - ISS: 2% to 5%
- Tax on Industrialized Products - IPI: 8% to 15%
- National Social Security Institute (INSS): 1 - 2.5%

2.5 Financial instruments

2.4.1 Financial assets

Initial recognition and measurement

When they become part of the Company's contractual provisions, they are initially recognized at fair value through profit or loss, plus transaction costs that are directly attributable to the acquisition of financial assets, when applicable. The Company's financial assets include cash and cash equivalents, trade accounts receivable and other accounts receivable.

Subsequent measurement
Subsequent measurement of financial assets depends on their classification, which can be as follows:

- Financial assets at fair value through profit or loss: These include financial assets held for trading and financial assets designated at initial recognition at fair value through profit or loss. They are classified as held for trading if they are acquired with the purpose of selling in the short term and are presented in the balance sheet at fair value, with the corresponding gains or losses recognized in the statement of income.

- Loans granted and receivables: These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After the initial measurement, they are recorded at amortized cost using the effective interest method (effective interest rate), less impairment loss. The amortized cost is calculated considering any discount or "premium" on the acquisition and fees or costs incurred. The amortization of the effective interest method is included in the financial income statement in the statement of income. Impairment losses are recognized as a financial expense in the statement of income.

Derecognition (write-off)
A financial asset or, where applicable, a portion of a financial asset is written off when the rights to receive cash flows from the asset expire, or when the Company transfers its rights to receive cash flows or assumes an obligation to pay in full the cash flows received to a third party by contractual force, substantially transferring the risks and benefits of the asset or the control over the asset.

Impairment of financial assets
The Company evaluates quarterly, at the balance sheet date, whether there is any evidence that determines whether the financial asset is not recoverable.

2.4.2 Financial liabilities

Initial recognition and measurement
They are initially recognized at fair value and, in the case of loans and financing, are added to the cost of the transaction directly related. The Company's financial liabilities include the accounts of suppliers and other accounts payable, loans and financing.

Subsequent measurement of loans and financing
After initial recognition, interest-bearing loans and financing are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are written off, as well as during the amortization process using the effective interest rate method.

Derecognition (write-off)
A financial liability is written off when the obligation is revoked, canceled or expires.

2.6 Inventories

Inventories are valued at cost of acquisition or production, or net realizable value, of the two lowest. The costs incurred to take each product to its current location and condition are accounted for as follows:

(i) Raw material: acquisition cost by the average cost; and
(ii) Finished and ready-made products: cost of direct materials, labor, and a proportional share of overhead manufacturing expenses based on normal operating capacity, excluding borrowing costs and idle capacity when applicable.

The net realizable value corresponds to the selling price in the normal course of business, less the estimated costs of completion and the estimated costs necessary to realize the sale.

2.7 Present value adjustment of assets and liabilities

Long-term monetary assets and liabilities are monetarily restated and therefore adjusted for their present value.

The adjustment to present value of short-term monetary assets and liabilities is calculated, and only recorded, if it is considered relevant in relation to the financial statements taken. For purposes of recording and determining relevance, the present value adjustment is calculated considering the contractual cash flows and the implicit and, in some cases, implicit interest rates of the respective assets and liabilities.

2.8 Property and equipment

Property and equipment are presented at cost, net of accumulated depreciation and accumulated impairment losses, when applicable. This cost includes the cost of replacing fixed assets and borrowing costs for long-term construction projects when the recognition criteria are met. When significant portions of property, plant and equipment are replaced, the Company recognizes these parts as individual assets with specific and separate useful lives and depreciation. All costs of repairs and maintenance are recognized in the income statement when incurred.

The present value of the expected cost for discontinuation of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

An item of property, plant and equipment is written off when sold or when no future economic benefit is expected from its use or sale. Any gain or loss resulting from the write-off of the asset (calculated as the difference between the net sale value and the carrying amount of the asset) is included in the income statement in the year in which the asset is written off.

Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, as follows:

Fixed Asset Class	Average Life
Land	-
Buildings and Improvements	25 years
Machinery and equipment	18 years
Vehicles, Models, Molds and Facilities	10 years
Furniture and fixtures	9 years
Other Fixed Assets	4 years

The residual value and useful life of the assets and the depreciation methods are reviewed at the end of each year and adjusted prospectively, when applicable.

2.9 Intangible assets

They are measured at cost at the time of their initial recognition. After initial recognition, intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. The useful life of the Company's intangible asset is assessed as defined and amortized over its economic useful life.

The residual value and useful life of the assets and the amortization methods are reviewed at the end of each year and adjusted prospectively, when applicable. Amortization of intangible assets with a defined life is recognized in the statement of income in the expense category consistent with the use of the intangible asset.

There are no intangible assets generated internally.

2.10 Leases

Financial leases that transfer to the Company the risks and benefits related to the ownership of the leased item are capitalized by the lower of the fair value of the leased asset or by the present value of the payments. The initial direct costs incurred in the transaction are added to the cost, where applicable. In addition, financial charges are allocated as a reduction of financial lease liabilities to present the constant interest rate on the remaining balance of the liability. Financial charges are recognized in the statement of income as they are incurred. Capitalized financial leases are depreciated over their useful lives. However, when there is no reasonable certainty that the Company will obtain ownership at the end of the lease term, the asset is depreciated over its estimated useful life or in the lease term, whichever is less.

Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

2.11 Cost of loans

Borrowing costs directly related to the acquisition, construction or production of an asset that necessarily requires significant time to be completed for use or sale purposes are capitalized as part of the cost of the corresponding asset. All other borrowing costs are recorded as an expense in the year in which they are incurred. Loan costs comprise interest and other costs incurred by an entity relating to the loan.

2.12 Government Grants

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

The loan or assistance is initially recognized or measured at fair value. The government grant is measured as the difference between the initial book value of the loan and the results received. The loan is subsequently measured in accordance with the accounting policy.

2.13 Impairment of non-financial assets

Management annually reviews the net book value of assets for evaluating events or changes in economic, operational or technological circumstances that may indicate impairment or loss of their recoverable value. When such evidence is identified and when the net book value exceeds the recoverable amount, a provision for devaluation is recorded, adjusting the net book value to the recoverable value.

The recoverable value of an asset or a specific cash-generating unit is defined as the higher of the value in use and the net sale value. In estimating the value in use of the asset, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. The net sale value is determined, whenever possible, based on a firm sale agreement in a transaction on a commutative basis, between knowledgeable and interested parties, adjusted by expenses attributable to the sale of the asset, or, when there is no firm sales contract, based on the market price of an active market, or the price of the most recent transaction with similar assets.

At the balance sheet dates, no factors were identified that indicate the need to establish a provision for the recoverable value of assets.

2.14 Post-employment benefit

The Company maintains medical assistance benefits for employees at the executive level. These benefits are funded on a cash basis.

The contributions owed by the Company to health care plans, in some cases, remain after the employee's retirement. Accordingly, the Company's obligations in relation to retired members are valued at the present actuarial value of the contributions that will be made during the expected fiscal year of the associates and beneficiaries being linked to the plan. Such obligations are assessed and recognized using the same criteria as defined benefit plans.

The actuarial commitments with the plan are accrued, according to the procedures established by CPC 33 (R1), based on actuarial calculations. In addition, other actuarial assumptions are used, such as estimates of the evolution of healthcare costs, biological and economic hypotheses, as well as historical data on expenses incurred and employee contributions.

Under the defined benefit plan, the actuarial risk and the risk of the investments fall partially or wholly on the sponsoring entity. Accordingly, cost accounting requires the measurement of the plan's obligations and expenses, and there is the possibility of actuarial gains and losses, which may lead to the recording of a liability when the amount of the actuarial obligations exceeds the value of the assets of the benefit plan, or, of an asset when the amount of the assets exceeds the amount of the plan's obligations. In this last hypothesis, the asset should only be registered when there is evidence that it may effectively reduce the sponsor's contributions or that it will be repayable in the future.

The actuarial asset recognized in the balance sheet (Note 12) refers to the amount deposited in a guaranteed account to face the fair value of the plan's liabilities and its realization will occur until the end of the plan.

2.15 Cash and cash equivalents

Cash equivalents are held for meeting short-term cash commitments, not for investment or other purposes. The Company considers cash equivalents a financial application of immediate convertibility in a known amount of cash and subject to an insignificant risk of change in value. Therefore, an investment typically qualifies as cash equivalent when it has a short-term maturity, for example three months or less, from the date of the engagement.

2.16 Provisions

Provisions are recognized when the Company has a present obligation (legal or non-formalized) because of a past event, it is probable that economic benefits are required to settle the obligation and a reliable estimate of the value of the obligation can be made. When the Company expects the value of a provision to be repaid in whole or in part, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is practically certain. The expense related to any provision is presented in the statement of income, net of any reimbursement.

Provision for restructuring cost
A provision for restructuring costs is only recognized when the general criteria for recognition of provisions are met. A non-formalized restructuring obligation arises only when the entity: (a) has a detailed formal plan for the restructuring, identifying at least: (i) the business or part of the business in question, (ii) the main affected sites, (iii)) the location, functions and approximate number of employees who will be financially encouraged to resign, (iv) the disbursements to be made; and (v) when the plan will be implemented; and (b) has created a valid expectation on those who will be affected by the restructuring, either by starting the implementation of this plan or by announcing its main characteristics for those affected by the restructuring.

Provision for tax, civil and labor risks
The Company is part of several legal and administrative proceedings, arising in the normal course of its activities. Provisions are recorded for all contingencies related to legal proceedings for which it is probable that an outflow of resources will be made to settle the contingency / obligation and a reasonable estimate can be made. The assessment of likelihood of loss includes assessing the available evidence, the hierarchy of laws, available case law, the most recent court decisions and their relevance to the legal system, as well as the evaluation of outside lawyers. Provisions are reviewed and adjusted to consider changes in circumstances, such as applicable limitation period, findings of tax inspections or additional exposures identified based on new matters or court decisions. Also, when assessing possible risk, the Company carries out the process disclosure to the market.

2.17 Distribution of profits

The Company recognizes a liability to distribute profits when the distribution is authorized and is no longer an option of the company. Under current corporate law, a distribution is authorized when approved by the shareholders.

2.18 CPC pronouncements not yet effective at December 31, 2017

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

IFRS 9 – Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 - Financial Instruments, which replaces IAS 39 - Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of accounting for financial instruments of the project: classification and measurement, impairment loss and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, and early application is permitted. Except for hedge accounting, retrospective application is required, but comparative information is not required. The Company plans to adopt the new standard on the effective date of entry into force.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15, issued in May 2014, establishes a new five-step constant model that will be applied to revenues from customer contracts. Under IFRS 15, revenues are recognized in an amount that reflects the consideration an entity expects to be entitled in exchange for the transfer of goods or services to a customer. The new revenue standard will replace all current revenue recognition requirements under IFRS. Full retrospective adoption or modified retroactive adoption is required for annual periods beginning on or after January 1, 2018, and early adoption is permitted. The Company plans to adopt the new standard on the effective date of its entry into force.

3. Significant accounting judgments, estimates and assumptions

Judgments
The preparation of the Company's financial statements requires management to make judgments and estimates and to adopt assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, as well as the disclosures of contingent liabilities, at the reporting date. However, the uncertainty regarding these assumptions and estimates could lead to results that require a significant adjustment to the book value of the affected asset or liability in future years.

Estimates and assumptions
The main assumptions regarding sources of uncertainty in future estimates and other significant sources of uncertainty in estimates at the balance sheet date, which involves a significant risk of causing a significant adjustment in the book value of the assets and liabilities in the next fiscal year, are discussed below.

Loss on impairment of non-financial assets
An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of fair value less costs to sell and value in use. The calculation of fair value less costs to sell is based on available information from sales transactions of similar assets or market prices less additional costs to dispose of the asset. The calculation of the value in use is based on the discounted cash flow model. The recoverable amount is sensitive to the discount rate used in the discounted cash flow method, as well as the expected future cash receipts and the growth rate used for extrapolation purposes.

Taxes
There are uncertainties regarding the interpretation of complex tax regulations and the value and timing of future taxable income. Given the broad aspect of tax legislation as well as the long-term nature and complexity of existing contractual instruments, differences between actual results and assumptions adopted, or future changes in these assumptions, could require future adjustments to tax revenue and expense already recorded. The Company in the

(In thousands of dollars)

current period did not identify any matter that requires the constitution of provisions for tax matters, except for provisions in liabilities and there are currently no audits by the tax authorities in progress. Differences of interpretation may arise on a wide variety of subjects, depending on the conditions prevailing in the respective domicile of the company.

Deferred tax asset is recognized for all unused tax losses and temporary differences, to the extent that it is probable that there is taxable profit available to allow the use of such losses. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the probable term and level of future taxable income, along with future fiscal planning strategies.

Benefits of Medical Assistance
The costs of post-employment medical care plans are determined using actuarial valuation methods. Actuarial valuation involves the use of assumptions about discount rates, expected asset return rates, future salary increases, mortality rates, and future increases in pension and pension benefits. The defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at least annually.

Fair value of financial instruments
When the fair value of financial assets and liabilities presented in the balance sheet cannot be obtained from active markets, it is determined using valuation techniques, including the discounted cash flow method. Data for these methods are based on those practiced in the market where possible, however, where this is not feasible, a given level of judgment is required to establish fair value. The judgment includes considerations on the data used, such as liquidity risk, credit risk and volatility. Changes in the assumptions about these factors could affect the fair value of financial instruments.

Provisions for contingences
The Company recognizes provision for tax and labor claims. The assessment of likelihood of loss includes assessing the available evidence, the hierarchy of laws, available case law, the most recent court decisions and their relevance to the legal system, as well as the evaluation of outside lawyers.

Provisions are reviewed and adjusted to consider changes in circumstances, such as applicable limitation period, findings of tax inspections or additional exposures identified based on new matters or court decisions.

Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statement due to the probabilistic treatment inherent in the estimation process. The Company reviews its estimates and assumptions at least annually.

4. Cash and cash equivalents

	12/31/2017	12/31/2016
Cash and cash equivalents	132	782
Financial investments	290	988
Total	**422**	**1,770**

At December 31, 2017 and 2016, financial investments consist of short-term investment funds, backed by income between 97% and 99.5% of the CDI, redeemable at any time. In all cases, the investments have immediate liquidity.

5. Trade accounts receivable

	12/31/2017	12/31/2016
Internal Market	4,203	4,943

(In thousands of dollars)

External Market	7,236	5,180
	11,439	10,123
(-) Present value adjustment	(83)	(73)
(-) Allowance for doubtful accounts	(226)	(413)
Total	**11,130**	**9,637**
Current	11,130	9,637
Noncurrent	-	-

The analysis of the maturity of trade accounts receivable balances is as follows:

	12/31/2017	12/31/2016
Duplicates due up to 30 days	3,245	3,272
Duplicates due after 30 days	5,022	4,903
Duplicates expired up to 30 days	1,253	1,051
Duplicates expired for more than 30 days	1,919	897
Total	**11,439**	**10,123**

The changes in the allowance for doubtful accounts are shown below:

	12/31/2017	12/31/2016
Balance at beginning of year	(407)	(414)
Constitution	-	-
Recovery / reversal	182	-
Balance at year end	**(225)**	**(414)**

6. Inventories

	12/31/2017	12/31/2016
Finished products	774	1,310
Products in preparation	8,959	7,202
Feedstock	590	309
Auxiliary materials	980	706
Other materials	707	532
Consignment Goods	34	55
(-) Provision for inventory losses	(363)	(369)
Total	**11,681**	**9,745**

Provision for loss is recorded for operations in the oil and gas market where inventories are expected to be realized at a loss. In this exercise, because it is understood that the loss of these inventories is more than probable, the company decided to carry out the write-off of this provision. The drive follows below:

	12/31/2017	12/31/2016
Balance at beginning of year	(364)	(369)
Constitution	-	-
Writ-off	364	-
Balance at year end	**-**	**(369)**

(In thousands of dollars)

7. Taxes recoverable

	12/31/2017	12/31/2016
State VAT (ICMS, PIS, COFINS) recoverable	3,642	2,792
ICMS, PIS, COFINS recoverable on property and equipment	316	206
Total	**3,958**	**2,998**
Current	**3,532**	**2,693**
Noncurrent	**426**	**305**

The credits will be realized by the Company through restitution and / or compensation with taxes and contributions. Management does not expect losses on the realization of these credits.

8. Eletrobrás litigation

The Company is the plaintiff in a lawsuit filed on Nº. 99.20.05382-1 against Eletrobrás, through which it has discussed the monetary restatement applied on the compulsory loans paid by the Company, which was not respected by Eletrobrás when it returned the amounts collected.

The proceeding was judged, with a final and unappealable decision on January 23, 2014, determining that the amounts of compulsory loans collected by the Company from January 1987 to January 1994 were corrected in accordance with the law. After performing the calculations, the Company filed Execution of Judgment (Nº. 5014451-55.2013.404.7205) on November 18, 2013 in the amount of U$ 4,437.

Eletrobrás recognized as due in March 2014 only the amount of U$ 1,304, having deposited in court the amount of U$ 1,185, and assigned 17,433 (Seventeen thousand, four hundred and thirty-three) nominative preferred class B shares of its issuance. The 57,528 nominative preferred shares of class B of Eletrobrás are already held by the Company and were therefore recognized as a gain in the year ended March 31, 2014, net of the brokerage fee. As of December 31, 2017, these 57,528 shares amount to U$ 394 (U$ 456 on December 31, 2016).

For the party deposited in court, the Company filed a claim for the amount deposited in its favor, but the judiciary did not determine the issuance of a license of the amount judicially deposited in favor of the Company because there is a demand of a third party claiming that the credit is his property and not from Electro Aço Altona S/A. Regarding the remaining balance of U$ 3,133, Eletrobrás challenged the proceeding and granted CEMAR shares in guarantee of execution. The Company will only recognize the gain related to this process when the right in its favor is fully assured and the assets made available are realizable.

The Company has provisioned as an obligation to pay legal fees the amount of U$ 118, related to the recognition in Investments of Eletrobrás shares. Under the remaining balance, regarding the ongoing discussion, the Company has outstanding attorneys' fees, which will be due at the time of termination of the case, if the outcome is favorable to the Company.

(In thousands of dollars)

9. Property and equipment

Changes in fixed assets 2017:

	Land	Buildings	Machinery and equipment	Vehicles, Models, Molds and Facilities	Furniture and utensils	Fixed Assets in Progress	Lease	Other Fixed Assets	**Total**
Cost:									
In December 31, 2016	19,417	19,721	49,149	5,765	1,675	182	-	943	**96,852**
Additions	4	230	1,661	131	46	982	142	31	**3,227**
Transfers	-	11	552	(467)	-	(96)	-	-	**-**
Write-off	(726)	(1,040)	(182)	(39)	(6)	-	-	(5)	**(1,998)**
In December 31, 2017	**18,695**	**18,921**	**51,180**	**5,390**	**1,715**	**1,069**	**142**	**968**	**98,081**
Depreciation:									
In 31 December, 2016	-	(9,219)	(32,358)	(4,940)	(1,329)	-	-	(714)	**(48,561)**
Depreciation	-	(593)	(1,915)	(166)	(70)	-	(6)	(78)	**(2,827)**
Transfers	-	-	(495)	495	-	-	-	-	**-**
Write-off	-	-	98	33	5	-	-	5	**141**
In December 31, 2017	**-**	**(9,812)**	**(34,669)**	**(4,578)**	**(1,394)**	**-**	**(6)**	**(786)**	**(51,246)**
Net value									
In December 31, 2016	19,417	10,502	16,790	825	346	182	-	229	**48,291**
In December 31, 2017	**18,695**	**9,109**	**16,511**	**812**	**321**	**1,069**	**136**	**182**	**46,835**

Fixed Assets in the amount of U$ 17 million (U$ 17 million at December 31, 2016) relating to Refis are collateralized. With the adhesion to PERT, the balance of the tax liability is lower, consequently the guarantees/certificates of assets tend to be lower as well. Therefore, the Company will request a review and/or the release of the encumbrances in several properties that are guaranteeing the previous installment, REFIS. This will happen during the 2018 financial year.

(In thousands of dollars)

Changes in fixed assets 2016:

	Land	Buildings	Machinery and equipment	Vehicles, Models, Molds and Facilities	Furniture and utensils	Fixed Assets in Progress	Lease	Other Fixed Assets	**Total**
Cost:									
In December 31, 2015	19,697	19,863	49,630	5,753	1,666	52	130	847	**97,637**
Additions	18	66	425	118	35	238	-	15	**914**
Transfers	-	96	30	125	-	(105)	(129)	107	**124**
Write-off	-	-	(179)	(142)	(1)	-	(1)	(11)	**(334)**
In December 31, 2016	**19,715**	**20,024**	**49,905**	**5,854**	**1,701**	**185**	**-**	**957**	**98,342**
Depreciation:									
In 31 December, 2015	-	(8,726)	(31,049)	(4,799)	(1,261)	-	(43)	(614)	**(46,492)**
Depreciation	-	(603)	(1,949)	(171)	(90)	-	(13)	(75)	**(2,901)**
Transfers	-	(32)	-	(102)	-	-	56	(46)	**(124)**
Write-off	-	-	142	56	1	-	0	10	**209**
In December 31, 2016	**-**	**(9,361)**	**(32,856)**	**(5,016)**	**(1,350)**	**-**	**-**	**(725)**	**(49,308)**
Net value									
In December 31, 2015	19,697	11,136	18,581	954	406	52	86	233	**51,146**
In December 31, 2016	**19,715**	**10,663**	**17,049**	**838**	**351**	**185**	**-**	**233**	**49,034**

(In thousands of dollars)

10. Intangible

	12/31/2015	Costs (Amortization)	12/31/2016	Costs (Amortization)	12/31/2017
Software					
Costs	1,233	60	1,293	28	1,321
Amortization	(1,008)	(96)	(1,104)	(73)	(1,177)
Total	**225**	**(36)**	**189**	**(45)**	**144**

The Company uses the defined useful life of 5 years for the items of its intangible asset.

11. Loans and financing

Type	12/31/2017	12/31/2016
ACC	5,979	3,058
National revolving capital (Exim)	3,980	3,333
Foreign exchange capital	2,098	1,281
Working capital / discount	2,819	1,118
Finame/BNDES	132	278
Consortium Letters	53	-
Leasing	47	-
Current	**15,108**	**9,068**
National revolving capital (Exim)	971	2,490
Foreign exchange capital	239	1,270
Finame/BNDES	9	143
Consortium Letters	102	-
Leasing	71	-
Noncurrent	**1,392**	**3,903**
Total	**16,500**	**12,972**
National coin	**8,184**	**6,244**
Current	7,032	3,611
Noncurrent	1,152	2,633
Foreign currency	**8,316**	**6,728**
Current	8,077	5,458
Noncurrent	239	1,270
Total	**16,500**	**12,972**

(In thousands of dollars)

Maturity of loans according to contractual clauses:

	12/31/2017
Next 12 months	15,108
13 to 24 months	1,352
from 25 to 36 months	40
Total	**16,500**

Projection of settlement of the loans according to cash flow forecast:

	12/31/2017
2018	15,108
2019	812
2020	541
2021	13
2022	13
2023	13
Total	**16,500**

The Company's bank loans are being guaranteed by guarantees from Companhia Werner (Company's shareholder) and Bellevue as per Note 17.a and attachment of machinery and equipment, as per Note 09. In addition, these loans do not have covenants.

12. Provision for litigation and judicial claims

a) Provision for litigation and judicial claims

The Company is involved in administrative and legal discussions of a labor and tax nature. For those cases whose probability was considered as probable loss, a provision for contingencies was recorded, as shown below:

	12/31/2017	Additions	Write-off	12/31/2016
Labor	511	455	(356)	412
Tributary	583	73	-	510
Total	**1,094**	**528**	**(356)**	**922**

Labor: The Company is engaged in labor claims involving mainly discussions about health, hazardousness, among others. Based on the payment history and legal advisors' opinion, the provision of U$ 510 as of December 31, 2017 (U$ 412 in 2016) is deemed sufficient to cover probable losses. In addition, labor proceedings in the amount of approximately U$ 156 are in progress, for which no provision has been recorded because the Company's legal counsel understands that the prospect of loss of the Company in these lawsuits is possible.

Tax: The provision consists mainly of amounts provisioned under the INSS on salary amounts. The Company judicially discusses the non-incidence of INSS on sickness and SEBRAE. The amounts due are calculated monthly and accrued, and the amount accrued as of December 31, 2017, for this case, amounts to U$ 460 (U$ 393 in 2016). The remaining provisioned balance, in the amount of U$ 124, refers to several causes of values that are not individually relevant.

b) Judicial deposits:

The Company records in the asset, amounts related to judicial deposits thus constituted:

	12/31/2017	**Additions**	**Write-off**	**12/31/2016**
Judicial / Labor Deposit	725	204	-	521

From the balance on December 31, 2017 of U$ 725, the amount of U$ 615 corresponds to lawsuits filed to recognize the non-inclusion of INSS in the salary amounts related to SEBRAE, as advised by the Company's legal counsel.

(In thousands of dollars)

13. Post-employee benefits

The Post-Employment Benefit Balance in 2017 was only corrected for the former director who continues in the plan after its extinction as determined by the Board of Directors of the Company in 2016. The variation can be seen in the table below:

	12/31/2017	**12/31/2016**
Present value of actuarial liabilities	**(89)**	**(90)**
Restatement	**(5)**	**-**
Total actuarial liabilities	**(94)**	**(90)**

14. Tax incentive – PRODEC

The Company obtained, together with the State of Santa Catarina, the incentive of the Catarinense Development Program - PRODEC, a program created with the objective of promoting the growth of the industry in Santa Catarina, according to the contract 003/06 published in the Official Gazette of the State of Santa Catarina on April 7, 2006. Such incentive is characterized by the concession to the Company of an ICMS credit, which is used as the Company presents an increase in ICMS debit amounts calculated in its operations. This credit is used to offset up to 60% of the tax increase presented by the Company, and a term of 120 months is granted to enjoy credit from the concession. This term of fruition ended in the second half of 2016, and the Company can no longer use the benefit, only honoring the ICMS already incentivized according to the table below. The credits used monthly are returned after 48 months, and the total term of the benefit can be extended to 168 months. The form of amortization of the benefit is the payment of the credit used, plus interest of 4% per year and monetary restatement by UFIR.

It was released in the first phase the credit of U$ 2,576. In 2008, there was an addendum to the initial agreement related to the monetary release of the first phase, with an increase of U$ 2,078, with the total credit released to U$ 4,634, of which the Company used U$ 2,005.

The balance of credit still used to pay is shown below:

	12/31/2017	Amortization	Updates	Extensions	**12/31/2016**
PRODEC	**109**	(151)	10	-	250
Total	**109**	(151)	10	-	250
Current	**103**				145
Noncurrent	**6**				105

The schedule for the realization of the parcels is shown below:

	12/31/2017
2018	103
2019	6
Total	**109**

15. Tax recovery program

As disclosed to the market on November 20, 2017 through a material fact, the Company migrated from REFIS - Tax Recovery Program, established by Federal Law 9.964/2000, to the PERT - Special Tax Regularization Program created by Federal Law No. 13.496/2017 since this new government installment program provides better benefits to its opting agents.

This modality guaranteed the Company reduction of interest by 80%, fines of 50% and legal charges reduced in its entirety. The amortization of the remaining debt of PERT is occurring through an initial adhesion of U$ 4,530, with the remaining balance being paid in 145 monthly installments adjusted by SELIC + 1% (on the installment).

The migrated flows from REFIS to PERT are from the Federal Revenue Service (IPI, PIS/Cofins and INSS) and debts registered with the Attorney General of the National Treasury - PGFN (IPI, INSS, IRPJ and PIS). The IRS has already ratified such migration to the PERT chosen by the Company.

On the last disclosure of the Company on September 30, 2017, the amount due to REFIS amounted to U$ 29,276 (U$ 692 in current and U$ 28,584 in noncurrent). After the withdrawal of REFIS and entry into PERT through i) payment of the initial amount of adhesion and ii) amortization of the monthly installments, the amount owed by the Company to the Federal Revenue on December 31, 2017 is U$ 8,039 (U$ 1,743 in current and U$ 6,296 noncurrent).

16. Equity

a) Capital
The capital stock consists of 2,250 thousand shares, of which 975 thousand are common shares and 1,275 thousand are book-entry shares with no par value, totaling U$ 5,232 (2,250 thousand shares, of which 975 thousand are common shares and 1,275 thousand preferred shares, with no par value, and U$ 5,232 as of December 31, 2016).

The capital stock may be increased pursuant to Article 168 of Law 6.404/76, by resolution of the Board of Directors, up to the limit of U$ 15,152 or up to a limit of 2,925 thousand shares and may issue up to 675 thousand shares of the same existing class.

b) Profit destination
The by-laws determine the distribution of a minimum dividend of 25% of net income for the year, adjusted in accordance with art. 202 of Law 6.404/76.

Profit to be distributed: The balance of the profit account to be allocated on December 31, 2016, in the amount of U$ 86, was allocated U$ 4 to the legal reserve, U$ 20 was established to retain the mandatory dividends and U$ 62 to the profit reserve account. The final allocation of such amount was decided at the Shareholders' Meeting on April 27, 2017.

The remaining profit will be attributed a 10% stake, calculated in the manner provided for in article 190 of Law 6.404, which will only be paid if the mandatory minimum dividend is paid. For financial statement purposes, this amount is already deducted from the income for the year as "Investments" after the Income Tax line.

The Legal Reserve is constituted at the rate of 5% of the net profit calculated at the end of the year after the deduction of the participations, pursuant to art. 193 of Law 6.404/76, up to the limit of 20% of the capital stock.

c) Other comprehensive income
It is the change that occurs in equity during an exercise that results from transactions and other events that are not derived from transactions with owners as owners, which is at that time composed of variations in the post-employment benefit plan that do not affect the result of the Company (see note 12).

17. Related parties

The commercial transactions and contracting of services, as well as the financial transactions of loans, raising of resources between related parties and remuneration of the Administration were realized as below.

a) Warranties

(In thousands of dollars)

As collateral for bank loans entered by the Company on December 31, 2017 and in 2016, which are being amortized regularly at maturity, machinery, equipment and sureties were given. The Company maintains with the Company Werner S/A and the company Bellevue Participações Societárias Ltda the remunerated payment of guarantee, guarantee and other covenants up to the limit of U$ 18 million. On December 31, 2017, the amount of operations contracted by the Company, guaranteed by the guarantors / guarantors, is U$ 16 million. In 2017, the Company paid the guarantors / guarantors, as compensation, the amount of U$ 117 (U$ 103 in 2016), recorded in the statement of income under "Other operating expenses".

b) Management remuneration

The Company's management is composed of the Board of Directors, with a Chairman, a Vice-Chairman and three Directors and a Statutory Board composed of one Chief Executive Officer and Investor Relations Officer and one other Officer. The members of the Administration were entitled to compensation of U$ 864, and their respective social security charges of U$ 74 for their services, corresponding to the total amount with charges of U$ 937 for 2017 (U$ 1,130 for 2016).

Directors receive additional corporate benefits such as: medical and dental care, life insurance, supplementary pension benefits (private pension plan), among others. The Company did not pay its key management personnel, compensation in other categories of: a) long-term benefits; b) benefits of termination of employment contract.

18. Income and social contribution taxes

a) Deferred taxes

The Company records deferred income tax and social contribution as shown below:

	12/31/2017	12/31/2016
Active tax credit		
Temporary differences	**1,539**	**886**
Tax loss and negative basis	**1,094**	**536**
	2,633	**1,422**
Passive Tax Credit		
PERT temporary exclusion	**(5,673)**	**-**
Fair value of property, plant and equipment (attributed cost - CPC 27)	**(6,148)**	**(7,005)**
	(11,821)	**(7,005)**
Noncurrent Liabilities	**(9,188)**	**(5,583)**

Deferred income tax on temporary additions and tax losses: Deferred tax credits and deferrals of Income Tax and Social Contribution were calculated and are presented at their net amount in liabilities.

The results obtained with the adhesion to the "Special Tax Regularization Installment" (PERT) were temporarily excluded in the Calculation of Real Profit supported by an understanding of the Company's legal counsel.

The effects arising from the "appreciation" of the Company's property, plant and equipment in 2010, as permitted by the initial adoption of Law 11.638 and CPC 27 - Property, Plant and Equipment are being taxed according to their realization through depreciation.

(In thousands of dollars)

Estimated realization term: On December 31, 2017, the Company accumulated tax losses and a negative basis totaling U$ 3,076 (U$ 1,431 as of 12/31/2016) and a negative social contribution base totaling U$ 3,616 (U$ 1,979 at 12/31/2016), which generated deferred income tax credits of U$ 769 (U$ 358 on 12/31/2016) and deferred income tax of U$ 325 (U$ 178 as of 12/31/2016). The realization of these credits is supported by studies prepared by the Administration. These studies are based on the expectation of generation of future taxable income, based on a 10-year budget and business plan, examined and approved by the Company's Management, in compliance with that required by CVM Instruction 371. Management's expectation is that these deferred tax credits are carried out on the following schedule:

Year	**Compensation estimate**
2018	309
2019	325
2020	341
5º year and onwards	120
Total	**1,095**

b) Reconciliation of income tax and social contribution expense

The reconciliation of income tax and social contribution expense recorded in the statement of income is shown below:

	12/31/2017	**12/31/2016**
Profit (loss) before taxes	**13,406**	**(859)**
IR / CS at a nominal rate of 34%	(4,558)	292
(Exclusions) / Additions		
Permanent differences	-	-
Tax breaks	390	-
Gifts / fines	34	-
Other differences	337	93
Risky IR / CS	**(3,798)**	**385**
Current taxes	**-**	**(79)**
Deferred taxes	**(3,798)**	**464**
	(3,798)	**385**
Effective tax rate:	**28%**	**45%**

19. Financial instruments

The Company carried out an evaluation of its financial instruments recorded in the Information on December 31, 2017 and on December 31, 2016, presenting the following accounting and market values:

	Accounting Value		**Market Value**	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Cash and cash equivalents	422	1,770	422	1,770
Accounts receivable from customers	11,130	9,637	11,130	9,637
Other accounts receivable	1,098	440	1,098	440
Providers	4,149	1,260	4,149	1,260
Financing and loans	16,500	12,972	16,500	12,972
Other bills to pay	2,774	630	2,774	630

The risk factors of financial instruments are basically related to:

a) Financial Risks

Foreign currency risks: To mitigate foreign exchange risks, the Company monitors financial exposure, seeking to balance its financial assets and liabilities within limits established by Management.

Debt burden risks: These risks arise from the possibility of the Company incurring losses due to fluctuations in interest rates or other debt indexes, which increase financial expenses related to loans and financing raised in the market, or decrease revenues relating to financial investments. The Company continuously monitors market interest rates to assess the possible need to hedge against the risk of volatility of these rates.

Derivative financial instruments: The Company has no derivative financial instruments outstanding as of December 31, 2017 and December 31, 2016.

b) Operational risks

Credit risk: This is due to the possibility of the Company not receiving amounts arising from sales or loans held with financial institutions generated by financial investments. To mitigate the risk arising from the sales operations, the Company adopts as a practice the analysis of the financial and patrimonial situation of its clients, establishes a credit limit and permanently monitors its debit balance. About financial investments, the Company only makes investments in institutions with low credit risk.

c) Analysis of interest rate and exchange rate changes sensibility

With the purpose of verifying the sensitivity of the indexes in the loans that the Company had exposure on the base date of December 31, 2017, 03 different scenarios were defined, and a sensitivity analysis was prepared for the oscillations of the indicators of these instruments. Based on the projection of the index of each contract for the year 2018 (probable scenario), from which it was calculated an increase of 25% and 50%, respectively, for such loans. The scenarios are elaborated disregarding the probable cash flow of loan payments. The Company used official external sources and internal sensitivity to determine the indexes used in the index.

(In thousands of dollars)

c.1) Analysis of the sensitivity of variations in the interest and exchange rate of Financing and Loans

Operation	Risk	12/31/2017 Value (R$)	12/31/2017 Value U$D	Reduction 50%	Reduction 25%	Probable Scenario	Increase 25%	Increase 50%
Excim	Excim	(16,336)	-	(1,797)	(1,797)	(1,797)	(1,797)	(1,797)
ACC	ACC + USD	(19,732)	(5,961)	9,836	4,948	(119)	(4,933)	(9,866)
Working Capital USD	USD + CDI	(7,712)	(2,330)	3,844	1,934	(47)	(1,928)	(3,856)
Working capital	USD + NCE	(9,302)	-	(2,084)	(2,084)	(2,084)	(2,084)	(2,084)
Finame / BNDES	Fixo	(1,368)	-	(77)	(77)	(77)	(77)	(77)
		(54,450)	**(8,291)**	**9,722**	**2,924**	**(4,124)**	**(10,819)**	**(17,680)**
Indexer	CDI			3.50	5.25	6.64	8.75	10,50
	USD			1.66	2.48	3.23	4.14	4,97
	ACC			7.05	7.05	7.05	7.05	7,05
	Working Capital			22.40	22.40	22.40	22.40	22,40
	Fixed Finame			5,60	5.60	5.60	5.60	5.60
	Excim			11,00	11.00	11.00	11.00	11.00

c.2) Sensitivity analysis of changes in the interest rate of the applications.

The same assumptions of loans are also used for financial investments.

Operation	Risk	12/31/2017	Reduction 50%	Reduction 25%	Probable Scenario	Increase 25%	Increase 50%
Financial investments	CDI	132	5	7	9	12	14
Cash and Cash Equivalents	-	290	-	-	-	-	-
		422	**5**	**7**	**9**	**12**	**14**
Indexer	CDI		3.5	5.25	6.64	8.75	10.05

c.3) Sensitivity analysis of foreign exchange variations on accounts receivable.

Currency	Risk	12/31/2017 Value R$	12/31/2017 Value U$D	Reduction 50%	Reduction 25%	Probable Scenario	Increase 25%	Increase 50%
Dolar	Variation	17,904	5,413	(8,973)	(4,480)	121	4,452	8,944
Euro	Variation	5,975	1,506	(2,993)	(1,494)	200	1,495	2,986
		23,879	**-**	**(11,966)**	**(5,974)**	**321**	**5,947**	**11,930**
	USD			1.65	2.48	3.33	4.13	4.96
	Euro			1.98	2.98	4.10	4.96	5.95

20. Net Revenue

	12/31/2017	12/31/2016
Gross Revenue	**60,725**	**41,103**
Taxes	(5,571)	(4,623)
Returns and rebates	(1,655)	(2,197)
Present value adjustment - AVP	(708)	(464)
Net operating revenue	**52,792**	**33,818**

(In thousands of dollars)

21. Expenses by nature

Cost	12/31/2017		12/31/2016	
Direct inputs	(14,629)	33.80%	(8,760)	30.50%
Indirect materials	(2,658)	6.20%	(1,368)	4.80%
Cost with staff	(15,189)	35.10%	(11,992)	41.70%
Third Party Services	(2,859)	6.60%	(1,853)	6.40%
Other expenses	(7,895)	18.30%	(5,732)	20.00%
Transfer ref. restructuring plan (Note 22)	-	-	965	(3.40)%
Total expenses	**(43,229)**	**100%**	**(28,741)**	**100%**

	12/31/2017		12/31/2016	
Selling expenses	(1,342)	36.00%	(1,400)	46.70%
Commissions	(1,161)	31.20%	(595)	19.80%
Freights	(14)	0.40%	(9)	0.30%
Materials	(550)	14.70%	(442)	14.70%
Labor	(135)	3.60%	(119)	4.00%
Third Party Services	(525)	14.10%	(434)	14.50%
Transfer ref. restructuring plan (Note 22)	**(3,727)**	**100%**	**(2,999)**	**100%**

Administrative costs	12/31/2017		12/31/2016	
Materials	(107)	2.40%	(68)	1.70%
Labor	(1,368)	30.10%	(1,408)	34.50%
Equipment leasing	(11)	0.20%	(16)	0.40%
Fees with charges	(967)	21.30%	(1,055)	25.90%
Third Party Services	(925)	20.40%	(833)	20.40%
Other expenses	(1,167)	25.60%	(879)	21.50%
Transfer ref. restructuring plan (Note 22)	-	-	178	(4.40)%
Total expenses	**(4,545)**	**100%**	**(4,080)**	**100%**

22. Other operating income (expenses), net

	12/31/2017	12/31/2016
Other income		
Extraordinary income [(a)]	17,554	3,915
Other income [(b)]	2,408	352
	19,962	**4,267**
Other expenses		
Extraordinary expenses [(a)]	(4,125)	(149)
Other expenses [(b)]	(1,950)	-
Securities and guarantees contracts	(97)	(98)
Occupational restructuring	-	(1,143)
	(6,171)	**(1,390)**
Other operating income, net	**13,791**	**2,877**

(a) The item on extraordinary income/expenses records the cumulative effects with the adhesion of the PERT referring to the reductions of interest/fines/charges.

(In thousands of dollars)

(b) Other revenues / expenses are mainly comprised of the net effects (sale - attributed cost) of the sale of land, related to the sale of part of the land in Barra Velha.

23. Financial income and (expenses)

	12/31/2017	12/31/2016
Financial income		
Income from financial investments	**30**	**251**
Adjustments to present value - AVP	**576**	**386**
Active exchange variation*	**64**	**-**
Other income	**269**	**76**
Total	**939**	**713**
Financial expenses		
Charges	**(1,435)**	**(1,157)**
Interest incurred - REFIS	**(883)**	**(1,057)**
Passive exchange variation*	**(297)**	**(234)**
Total	**(2,615)**	**(2,448)**
Financial expenses, net	**(1,676)**	**(1,734)**

* The changes in foreign exchange rates are recognized by the net changes in financial expenses and revenues.

24. Segment information

The Company operates in only one operational segment defined as metallurgical, producing and trading steel castings. The tools we use to evaluate the performance of the sole activity that we perform for operational, managerial, commercial or administrative purposes are subject to the following assumptions:

a) Our production lines operate separately in the categories of products we manufacture, namely (Repetitive and On-Demand Products); and
b) In the manufacturing plant, there are some divisions that separate these categories in the production lines and others not, and for this the administration manages the result of the business in a unique way and;

We segregate for analysis the revenue of two clients of the segment denominated repetitive individually represent more than 10% of the total net revenue, located in the national and international market, more specifically in North America.

Net revenue information - geographical distribution:

	Castings of Steel – 2017			Castings of Steel – 2016		
	Repetitive	Under order	**Total**	Repetitive	Under order	Total
National	24,133	8,552	**32,684**	11,098	11,270	**22,369**
Latin America	76	1,688	**1,764**	334	1,645	**1,979**
North America	12,450	1,579	**14,029**	7,916	1,455	**9,370**
Europe and Asia	110	2,445	**2,555**	206	2,287	**2,493**
Total	**36,769**	**14,264**	**51,032**	**19,554**	**16,657**	**36,211**

25. Earnings per share

The following table sets forth the calculation of earnings per share for the year ended December 31, 2017 and 2016:

(In thousands of dollars)

	12/31/2017	12/31/2016
Net income (loss) for the year attributed to the Company's shareholders		
Profit (loss) available to preferred shareholders	5,667	(280)
Profit (loss) available to common shareholders	3,940	(195)
	9,607	**(475)**
Weighted average of preferred shares	399,687	366,379
Weighted average ordinary shares	305,643	280,172
	705,329	**646,552**
Basic and diluted earnings per share		
Preferred share	**4.4451**	**(0.2195)**
Ordinary share	**4.0410**	**(0.1995)**

The preferred shares will not have voting rights, however, respecting the provisions of law. The preferred shares will have: a) the right to receive dividends, per preferred share, at least 10% (ten percent) higher than that attributed to each common share; b) preference, in case of liquidation of the company, in the reimbursement of share capital; c) if the Company allows three consecutive fiscal years without the distribution of the above dividends, the preferred shares will acquire the right to vote, which will be lost when dividends are distributed.

(In thousands of dollars)

26. Insurance coverage

The Company has insurance coverage for monetary amounts relevant to various risks, such as civil liability, loss of earnings and other coverage, as shown below:

Assets, liabilities or interests covered	Modality	Insured amount	Duration until
Civil liability managers - D & O	Involuntary financial damage caused by administrators	1,515	04/16/2018
Various risks to portable machines and equipment	Theft / breakage of machines and portable equipment	76	05/20/2018
Life collaborators	Indemnifies death, accident or disability of employees	Up to 61 per employee	10/01/2018
International transport import	Insurance of transport ref. import of goods	According to NFs / Invoices / Invs.	08/31/2018
General liability	Physical involuntary damages to persons and / or material and moral damages caused to third parties	2,091	08/20/2018
Manufacturing, administrative and distribution centers	Fire, property damage to buildings, plant, machinery and equipment	21,379	05/20/2018
Loss of profits	Loss of income due to accidents	28,485	05/20/2018
Vehicles	Theft, collision, death / disability of passengers	182	09/20/2018
Environmental liability	Involuntary Damage to the Environment	909	08/03/2018

Insurance coverage was determined by the Company's Management, which considers it sufficient to cover eventual claims, therefore, was not a scope of evaluation by our auditors.

OPINION OF THE BOARD OF DIRECTORS

In compliance with Article 9, paragraph 4, of the Bylaws, the members of the Board of Directors of ELECTRO AÇO ALTONA SA met for evaluating the reports of the Board of Executive Officers' Accounts, expressed in the Balance Sheet and other Financial Statements, relating to year ended December 31, 2017. After having analyzed and discussed all the details, they approved in their entirety and expressed their approval on March 22, 2018.

Members of the Board of Directors

Carmen Vetter Werner
President

Valmir Osni de Espindola
Vice President

Eduardo Vetter
Counselor

Débora de Souza Morsch
Counselor

Marco Antonio Werner
Counselor