

Paranapanema S.A.

Quarterly Financial Report

June 30, 2017

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Company information/Capital composition

Quantity of shares (Units)	Current quarter 06/30/2017
Paid-in capital	
Common	319,176,942
Preferred	0
Total	319,176,942
Treasury shares	
Common	24,505
Preferred	0
Total	24,505

Individual financial statements / Balance sheet – Assets
(In thousands of Reais)

Code of account	Account description	Current quarter 06/30/2017	Prior year 12/31/2016
1	Total assets	3.467.393	3.601.241
1.01	Total current assets	1.749.517	1.897.792
1.01.01	Cash and cash equivalents	84.677	139.492
1.01.02	Financial investments	67.676	87.636
1.01.03	Accounts receivable	425.548	558.965
1.01.04	Inventory	1.031.568	923.995
1.01.06	Tax recoverables	72.370	70.927
1.01.07	Prepaid expenses	16.291	12.332
1.01.08	Other current assets	51.387	104.445
1.01.08.03	Others	51.387	104.445
1.01.08.03.01	Derivative financial instruments	40.931	32.934
1.01.08.03.02	Other current assets	8.414	50.646
1.01.08.03.03	Linked account deposits/guarantees	2.042	20.865
1.02	Total non-current assets	1.717.876	1.703.449
1.02.01	Long term assets	438.215	390.192
1.02.01.01	Financial investments	10.106	6.062
1.02.01.03	Accounts receivable	830	1.845
1.02.01.06	Taxes	145.164	144.340
1.02.01.06.02	Tax recoverable	145.164	144.340
1.02.01.07	Prepaid expenses	9.588	11.201
1.02.01.09	Other non-current assets	272.527	226.744
1.02.01.09.01	Maintained assets for sale	110.879	110.568
1.02.01.09.03	Legal deposits	32.451	33.801
1.02.01.09.05	Other non-current assets	129.197	82.375
1.02.02	Investments	15.283	9.429
1.02.02.01	Equity interest	15.283	9.429
1.02.02.01.02	Investments	13.033	7.179
1.02.02.01.04	Other investments	2.250	2.250
1.02.03	Property, plant and equipment	1.256.523	1.294.487
1.02.03.01	Fixed assets in operation	1.293.452	1.206.437
1.02.03.03	Property, plant and equipment in progress	-36.929	88.050
1.02.04	Intangible assets	7.855	9.341

Individual financial statements / Balance sheet – Liabilities
(In thousands of Reais)

Code of account	Account description	Current quarter 06/30/2017	Prior year 12/31/2016
2	Total liabilities	3.467.393	3.601.241
2.01	Total current liabilities	2.909.413	2.946.933
2.01.01	Payroll and related charges	43.306	42.008
2.01.02	Suppliers	222.819	212.373
2.01.02.01	Domestic suppliers	74.979	102.107
2.01.02.02	Foreign suppliers	147.840	110.266
2.01.03	Tax payable	20.638	16.208
2.01.03.01	Federal tax liabilities	10.814	7.768
2.01.03.01.02	Excise tax	2.075	1.790
2.01.03.01.03	Withholding income tax–IRRF	1.771	3.007
2.01.03.01.04	PIS and COFINS	6.523	2.350
2.01.03.01.05	Withholding social contribution tax	407	588
2.01.03.01.07	Others	38	33
2.01.03.02	State tax liabilities	6.596	7.829
2.01.03.02.01	Value-Added Tax on Sales and Services	6.596	7.829
2.01.03.03	Municipal tax liabilities	3.228	611
2.01.03.03.01	Service tax	3.228	611
2.01.04	Loans and financing	1.992.679	1.845.131
2.01.05	Other liabilities	629.971	831.213
2.01.05.02	Others	629.971	831.213
2.01.05.02.02	Cash and cash equivalents	24.077	24.560
2.01.05.02.04	Derivative financial instruments	50.296	154.072
2.01.05.02.05	Advances from clients	8.385	9.332
2.01.05.02.06	Other current liabilities	44.282	47.416
2.01.05.02.07	Forfeiting and letter of credit operations	502.931	595.833
2.02	Total non-current liabilities	415.147	397.298
2.02.02	Other liabilities	335	493
2.02.02.02	Other non - current liabilities	335	493
2.02.02.02.03	Tax payable	322	465
2.02.02.02.06	Suppliers	13	28
2.02.03	Deferred Taxes	193.177	207.351
2.02.03.01	Deferred income tax and social contribution	193.177	207.351
2.02.04	Provisions	221.635	189.454
2.02.04.01	Legal deposits	221.635	189.454
2.02.04.01.01	Tax Provision	8.145	7.635
2.02.04.01.02	Social security and labor provisions	208.129	178.136
2.02.04.01.04	Civil provisions	5.361	3.683
2.03	Shareholders' equity	142.833	257.010
2.03.01	Paid-in capital	1.382.990	1.382.990
2.03.02	Capital reserves	-741	-741
2.03.02.05	Treasury shares	-741	-741
2.03.03	Revaluation reserves	223.220	226.827
2.03.05	Retained earnings	-399.198	-286.496
2.03.06	Equity valuation adjustments	-1.063.438	-1.065.570

Individual financial statements / Statement of income
(In thousands of Reais)

Code of account	Account description	2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
3.01	Net sales	753,519	1,655,195	1,394,006	2,861,283
3.02	Cost of goods sold	-709,347	-1,525,482	-1,290,506	-2,672,851
3.03	Gross income	44,172	129,713	103,500	188,432
3.04	Operating expenses	-103,284	-223,143	-89,735	-162,150
3.04.01	Sales expenses	-6,483	-12,790	-7,891	-15,576
3.04.02	General and administrative expenses	-25,693	-52,986	-25,943	-50,042
3.04.02.01	General and administrative	-17,789	-36,944	-17,852	-35,115
3.04.02.02	Management fees	-1,857	-3,618	-1,614	-3,224
3.04.02.03	General and administrative	-6,047	-12,424	-6,477	-11,703
3.04.04	Other operating income	4,781	10,091	7,619	12,391
3.04.05	Other operating expenses	-78,974	-173,311	-61,892	-107,284
3.04.06	Equity income (loss)	3,085	5,853	-1,628	-1,639
3.05	(Loss) operating profit before financial result	-59,112	-93,430	13,765	26,282
3.06	Financial income (loss)	-32,827	-37,054	-50,712	-64,822
3.06.01	Financial income	70,248	238,480	642,217	1,112,968
3.06.02	Financial expenses	-103,075	-275,534	-692,929	-1,177,790
3.07	(Loss) before income and social contribution taxes	-91,939	-130,484	-36,947	-38,540
3.08	Income and social contribution tax	18,778	14,175	-243,583	-239,310
3.08.02	Deferred income and social contribution taxes	18,778	14,175	-243,583	-239,310
3.09	Net income (loss) from continuing operations	-73,161	-116,309	-280,530	-277,850
3.11	Loss for the period	-73,161	-116,309	-280,530	-277,850
3.99	Earning per share - (Reais / Shares)	-	-	-	-
3.99.01	Basic earnings per share	-	-	-	-
3.99.01.01	Earnings (loss) per share - common	-0.22923	-0.36441	-0.87893	-0.87053
3.99.02	Diluted earning per share	-	-	-	-
3.99.02.01	Earnings (loss) per share - common	-0.22923	-0.36441	-0.22923	-0.36441

Individual financial statements / Statement of comprehensive income
(In thousands of Reais)

Code of account	Account description	2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
4.01	Loss for the period	-73,161	-116,309	-280,530	-277,850
4.02	Other comprehensive income	-25,701	2,132	110,632	390,277
4.02.01	Hedge cash flow – Export income ACC/PPE	-31,116	-11,039	95,528	222,375
4.02.02	Hedge cash flow – NDF sales income	7,234	15,054	-2,296	78,910
4.02.04	Hedge cash flow – Other debts	-2,154	-2,194	17,622	90,038
4.02.05	Hedge cash flow – Cost metal x Future stock exchange	327	309	194	58
4.02.07	Earnings from foreign exchange on foreign investment	8	2	-167	-335
4.02.08	Hedge cash flow - NDF - Capex	0	0	-249	-769
4.03	Comprehensive income for the year	-98,862	-114,177	-169,898	112,427

Individual financial statements / Statement of cash flow - Indirect method
(In thousands of Reais)

Code of account	Account description	Year to date 2017	Year to date 2016
6.01	Net cash provided by (used in) operating activities	9,240	-43,538
6.01.01	Cash generated from operations	101,566	91,127
6.01.01.01	(Loss) before income and social contribution taxes	-130,484	-38,540
6.01.01.02	Residual value of written-off fixed assets	651	2
6.01.01.03	Depreciation and amortization	62,475	70,661
6.01.01.04	Equity in net income	-5,853	-1,178
6.01.01.06	Provision for judicial losses	54,124	37,057
6.01.01.07	Reversions of others estimated losses	0	-7,065
6.01.01.08	Gains on financial charges	124,290	12,332
6.01.01.09	Present value adjustment - receivables and suppliers	-664	-497
6.01.01.10	Shareholder's equity provision	0	2,817
6.01.01.12	Reversion for recoverable value estimated loss	-2,973	15,538
6.01.02	Changes in assets and liabilities	-92,326	-134,665
6.01.02.02	Accounts receivable	123,391	76,200
6.01.02.04	Inventory	-112,864	526,486
6.01.02.05	Tax recoverable	-2,267	38,807
6.01.02.06	Prepaid expenses	-2,346	-10,942
6.01.02.07	Legal deposits	1,350	4,721
6.01.02.08	Derivatives	7,365	551,428
6.01.02.09	Assets held for sale	-311	1,955
6.01.02.10	Other current and non-current liabilities	-4,590	-15,629
6.01.02.11	Suppliers	-13,601	-12,963
6.01.02.12	Forfaiting and Credit letter operations	35,576	-886,876
6.01.02.14	Taxes payable	4,287	13,675
6.01.02.15	Write-offs for judicial demands	-21,943	-46,579
6.01.02.16	Payroll and social charges	1,298	-6,353
6.01.02.18	Advances from clients	-761	-177,877
6.01.02.19	Derivatives	-103,776	-145,270
6.01.02.20	Other current and non-current liabilities	-3,134	-45,448
6.02	Net cash used in investment activities	11,003	36,657
6.02.04	Other investments	0	34
6.02.06	Variance of subsidiaries	0	-5,000
6.02.07	Fixed assets and intangible additions	-23,736	-36,226
6.02.08	Financial investments	-116,873	-817,361
6.02.09	Redemption of financial investments	132,789	895,210
6.02.10	Release linked bank account	18,823	0
6.03	Net cash generated (consumed) in financing activities	-75,058	-8,096
6.03.01	Loans and financing	0	678,208
6.03.02	Amortization of loans and financing	-47,748	-642,726
6.03.04	Amortization of financial charges	-27,310	-43,578
6.05	Reduction in cash and cash equivalents	-54,815	-14,977
6.05.01	Cash and cash equivalents at the beginning of the year	139,492	248,151
6.05.02	Cash and cash equivalents at the end of the year	84,677	233,174

Individual financial statements / Statement of changes in equity – 2nd Quarter 2017

(In thousands of Reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Equity
5.01	Opening balances	1,382,990	-741	0	-286,496	-838,743	257,010
5.03	Adjusted opening balances	1,382,990	-741	0	-286,496	-838,743	257,010
5.04	Capital transactions with partners	0	0	0	0	0	0
5.04.06	Dividends	0	0	0	0	0	0
5.05	Total comprehensive income	0	0	0	-116,309	2,132	-114,177
5.05.01	Net income for the period	0	0	0	-116,309	0	-116,309
5.05.02	Other comprehensive income	0	0	0	0	2,132	2,132
5.05.02.01	Financial instruments - adjustments	0	0	0	0	2,130	2,130
5.05.02.03	Equity income (loss) on compreh. income-subsiaries ar	0	0	0	0	2	2
5.06	Internal changes in equity	0	0	0	3,607	-3,607	0
5.06.02	Realization of revaluation reserve	0	0	0	4,595	-4,595	0
5.06.03	Taxes on the realization of the revaluation reserve	0	0	0	-988	988	0
5.06.04	Taxe incentive reserve	0	0	0	0	0	0
5.06.05	Legal reserve	0	0	0	0	0	0
5.07	Closing balances	1,382,990	-741	0	-399,198	-840,218	142,833

Individual financial statements / Statement of changes in equity – 2nd Quarter 2016
(In thousands of Reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Equity
5.01	Opening balances	1,382,990	-741	77,650	0	-1,115,423	344,476
5.03	Adjusted opening balances	1,382,990	-741	77,650	0	-1,115,423	344,476
5.04	Capital transactions with partners	0	0	0	0	0	0
5.04.06	Dividends	0	0	0	0	0	0
5.05	Total comprehensive income	0	0	0	-277,849	390,277	112,428
5.05.01	Net income for the period	0	0	0	-277,849	0	-277,849
5.05.02	Other comprehensive income	0	0	0	0	390,277	390,277
5.05.02.01	Financial instruments - adjustments	0	0	0	0	390,612	390,612
5.05.02.03	Equity income (loss) on compreh. income-subsiidiaries ar	0	0	0	0	-335	-335
5.06	Internal changes in equity	0	0	0	4,527	-4,527	0
5.06.02	Realization of revaluation reserve	0	0	0	5,778	-5,778	0
5.06.03	Taxes on the realization of the revaluation reserve	0	0	0	-1,251	1,251	0
5.06.04	Taxe incentive reserve	0	0	0	0	0	0
5.06.05	Legal reserve	0	0	0	0	0	0
5.07	Closing balances	1,382,990	-741	77,650	-273,322	-729,673	456,904

Individual financial statements or Statement of value added
(In thousands of Reais)

Code of account	Account description	Year to date 2017	Year to date 2016
7.01	Income	1,869,232	3,091,510
7.01.01	Sale of goods and services	1,862,991	3,099,557
7.01.02	Other income	9,382	7,650
7.01.04	Provision of credits for doubtful accounts	-3,141	-15,697
7.02	Inputs acquired from third parties	-1,695,991	-2,784,677
7.02.01	Cost of goods and services sold	-1,433,081	-2,491,497
7.02.02	Materials, energy, third party services and other	-262,910	-293,180
7.03	Gross added value	173,241	306,833
7.04	Retentions	-62,475	-70,661
7.04.01	Depreciation and amortization	-62,475	-70,661
7.05	Net added value	110,766	236,172
7.06	Added value received through transfers	244,333	1,114,146
7.06.01	Equity equivalence result	5,853	1,178
7.06.02	Financial income	238,480	1,112,968
7.07	Total net added value payable	355,099	1,350,318
7.08	Net added value payable	355,099	1,350,318
7.08.01	Personnel and charges	113,111	114,620
7.08.02	Taxes, duties and contributions	72,038	325,549
7.08.03	Third-party capital remuneration	286,259	1,187,999
7.08.04	Remuneration of own capital	-116,309	-277,850
7.08.04.03	Loss for the period	-116,309	-277,850

Consolidated financial statements / Balance sheet – Assets

(In thousands of Reais)

Code of account	Account description	Current quarter 06/30/2017	Prior year 12/31/2016
1	Total assets	3,433,602	3,544,412
1.01	Total current assets	1,686,121	1,813,036
1.01.01	Cash and cash equivalents	103,627	142,824
1.01.02	Financial investments	92,752	87,936
1.01.03	Accounts receivable	292,936	452,593
1.01.04	Inventory	1,050,525	937,369
1.01.06	Tax recoverables	78,031	72,742
1.01.07	Prepaid expenses	16,649	12,829
1.01.08	Other current assets	51,601	106,743
1.01.08.03	Others	51,601	106,743
1.01.08.03.01	Derivative financial instruments	40,958	32,958
1.01.08.03.02	Other current assets	8,601	50,657
1.01.08.03.03	Linked account deposits/guarantees	2,042	23,128
1.02	Total non-current assets	1,747,481	1,731,376
1.02.01	Long term assets	479,757	424,152
1.02.01.01	Financial investments	75,390	6,062
1.02.01.03	Accounts receivable	10,349	21,497
1.02.01.06	Taxes	159,696	158,647
1.02.01.06.01	Deferred income tax and social contribution	14,511	14,208
1.02.01.06.02	Tax recoverable	145,185	144,439
1.02.01.07	Prepaid expenses	9,589	11,201
1.02.01.09	Other non-current assets	224,733	226,745
1.02.01.09.01	Maintained assets for sale	110,879	110,568
1.02.01.09.03	Legal deposits	32,451	33,801
1.02.01.09.04	Other non-current assets	81,403	82,376
1.02.02	Investments	2,250	2,250
1.02.02.01	Equity interest	2,250	2,250
1.02.02.01.04	Other investments	2,250	2,250
1.02.03	Property, plant and equipment	1,257,619	1,295,633
1.02.03.01	Fixed assets in operation	1,182,829	1,207,583
1.02.03.03	Property, plant and equipment in progress	74,790	88,050
1.02.04	Intangible assets	7,855	9,341

Consolidated financial statements / Balance sheet – Liabilities

(In thousands of Reais)

Code of account	Account description	Current quarter 06/30/2017	Prior year 12/31/2016
2	Total liabilities	3,433,602	3,544,412
2.01	Total current liabilities	2,875,622	2,890,104
2.01.01	Payroll and related charges	43,428	42,306
2.01.02	Suppliers	184,390	153,743
2.01.02.01	Domestic suppliers	36,550	43,477
2.01.02.02	Foreign suppliers	147,840	110,266
2.01.03	Tax payable	22,660	16,470
2.01.03.01	Federal tax liabilities	12,831	8,026
2.01.03.01.01	Income tax and social contribution	1,819	0
2.01.03.01.02	Excise tax	2,075	1,790
2.01.03.01.03	Withholding income tax–IRRF	1,772	3,009
2.01.03.01.04	PIS and COFINS	6,719	2,606
2.01.03.01.05	Withholding social contribution tax	408	588
2.01.03.01.07	Others	38	33
2.01.03.02	State tax liabilities	6,601	7,832
2.01.03.02.01	Value-Added Tax on Sales and Services	6,601	7,832
2.01.03.03	Municipal tax liabilities	3,228	612
2.01.03.03.01	Service tax	3,228	612
2.01.04	Loans and financing	1,992,685	1,845,140
2.01.05	Other liabilities	632,459	832,445
2.01.05.02	Others	632,459	832,445
2.01.05.02.02	Cash and cash equivalents	24,077	24,560
2.01.05.02.04	Derivative financial instruments	50,296	154,084
2.01.05.02.05	Advances from clients	10,456	9,704
2.01.05.02.06	Other current liabilities	44,699	48,264
2.01.05.02.07	Forfeiting and letter of credit operations	502,931	595,833
2.02	Total non-current liabilities	415,147	397,298
2.02.02	Other liabilities	335	493
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2.02.02.02.03	Tax payable	322	465
2.02.02.02.06	Suppliers	13	28
2.02.03	Deferred Taxes	193,177	207,351
2.02.03.01	Deferred income tax and social contribution	193,177	207,351
2.02.04	Provisions	221,635	189,454
2.02.04.01	Legal deposits	221,635	189,454
2.02.04.01.01	Tax Provision	8,145	7,635
2.02.04.01.02	Social security and labor provisions	208,129	178,136
2.02.04.01.04	Civil provisions	5,361	3,683
2.03	Shareholders' equity	142,833	257,010
2.03.01	Paid-in capital	1,382,990	1,382,990
2.03.02	Capital reserves	-741	-741
2.03.02.05	Treasury shares	-741	-741
2.03.03	Revaluation reserves	223,220	226,827
2.03.05	Retained earnings	-399,198	-286,496
2.03.06	Equity valuation adjustments	-1,063,438	-1,065,570

Consolidated financial statements / Statement of income
(In thousands of Reais)

Code of account	Account description	2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
3.01	Net sales	643,897	1,418,721	1,288,331	2,610,042
3.02	Cost of goods sold	-594,071	-1,281,586	-1,181,609	-2,413,571
3.03	Gross income	49,826	137,135	106,722	196,471
3.04	Operating expenses	-107,917	-232,483	-78,932	-153,131
3.04.01	Sales expenses	-6,986	-13,671	-8,557	-17,312
3.04.02	General and administrative expenses	-26,383	-54,434	-26,784	-51,539
3.04.02.01	General and administrative	-18,547	-38,450	-18,621	-36,663
3.04.02.02	Management fees	-1,857	-3,618	-1,614	-3,224
3.04.02.03	General and administrative	-5,979	-12,366	-6,549	-11,652
3.04.04	Other operating income	4,781	10,121	18,556	23,510
3.04.05	Other operating expenses	-79,329	-174,499	-62,147	-107,790
3.05	(Loss) operating profit before financial result	-58,091	-95,348	27,790	43,340
3.06	Financial income (loss)	-31,283	-33,620	-63,338	-80,582
3.06.01	Financial income	77,642	255,220	637,089	1,112,172
3.06.02	Financial expenses	-108,925	-288,840	-700,427	-1,192,754
3.07	(Loss) before income and social contribution taxes	-89,374	-128,968	-35,548	-37,242
3.08	Income and social contribution tax	16,213	12,659	-244,982	-240,608
3.08.01	Income and social contribution tax for the current year	-1,405	-1,819	130	0
3.08.02	Deferred income and social contribution taxes	17,618	14,478	-245,112	-240,608
3.09	Net income (loss) from continuing operations	-73,161	-116,309	-280,530	-277,850
3.11	Loss for the period	-73,161	-116,309	-280,530	-277,850
3.11.01	Attributed to Parent Company Share Holders	-73,161	-116,309	-280,530	-277,850
3.99	Earning per share - (Reais / Shares)	-	-	-	-
3.99.01	Basic earnings per share	-	-	-	-
3.99.01.01	Earnings (loss) per share - common	-0.22923	-0.36441	-0.87893	-0.87053
3.99.02	Diluted earning per share	-	-	-	-
3.99.02.01	Earnings (loss) per share - common	-0.22923	-0.36441	-0.87893	-0.87053

Consolidated financial statements / Statement of comprehensive income
(In thousands of Reais)

Code of account	Account description	2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
4.01	Loss for the period	-73,161	-116,309	-280,530	-277,850
4.02	Other comprehensive income	-25,701	2,132	110,632	390,277
4.02.01	Hedge cash flow – Export income ACC/PPE	-31,116	-11,039	95,528	222,375
4.02.02	Hedge cash flow – NDF sales income	7,234	15,054	-2,296	78,910
4.02.04	Hedge cash flow – Other debts	-2,154	-2,194	17,622	90,038
4.02.05	Hedge cash flow – Cost metal x Future stock exchange	327	309	194	58
4.02.07	Earnings from foreign exchange on foreign investment	8	2	-167	-335
4.02.08	Hedge cash flow - NDF - Capex	0	0	-249	-769
4.03	Comprehensive income for the year	-98,862	-114,177	-169,898	112,427
4.03.01	Attributed to Parent Company Share Holders	-98,862	-114,177	-169,898	112,427

Consolidated financial statements / Statement of cash flow - Indirect method

(In thousands of Reais)

Code of account	Account description	Year to date 2017	Year to date 2016
6.01	Net cash provided by (used in) operating activities	112,651	-51,767
6.01.01	Cash generated from operations	105,567	87,633
6.01.01.01	(Loss) before income and social contribution taxes	-128,968	-37,242
6.01.01.02	Residual value of written-off fixed assets	651	2
6.01.01.03	Depreciation and amortization	62,521	70,667
6.01.01.06	Provision for judicial losses	54,124	37,057
6.01.01.07	Reversions of others estimated losses	0	-4,384
6.01.01.08	Gains on financial charges	124,287	12,331
6.01.01.09	Present value adjustment - receivables and suppliers	-3,814	9,073
6.01.01.12	Reversion for recoverable value estimated loss	-3,234	129
6.01.02	Changes in assets and liabilities	7,084	-139,400
6.01.02.02	Accounts receivable	163,249	80,485
6.01.02.04	Inventory	-118,447	528,754
6.01.02.05	Tax recoverable	-6,035	41,673
6.01.02.06	Prepaid expenses	-2,208	-11,541
6.01.02.07	Legal deposits	1,350	4,857
6.01.02.08	Derivatives	7,362	551,404
6.01.02.09	Assets held for sale	-311	1,955
6.01.02.10	Other current and non-current liabilities	43,029	-14,802
6.01.02.11	Suppliers	6,526	-26,366
6.01.02.12	Forfeiting and Credit letter operations	35,576	-886,876
6.01.02.14	Taxes payable	4,228	13,833
6.01.02.15	Write-offs for judicial demands	-21,943	-46,579
6.01.02.16	Payroll and social charges	1,122	-6,575
6.01.02.18	Advances from clients	938	-178,234
6.01.02.19	Derivatives	-103,788	-145,565
6.01.02.20	Other current and non-current liabilities	-3,564	-45,823
6.02	Net cash used in investment activities	-76,790	40,945
6.02.04	Other investments	0	34
6.02.06	Variance of subsidiaries	0	-336
6.02.07	Fixed assets and intangible additions	-23,732	-36,602
6.02.08	Financial investments	-704,751	-817,361
6.02.09	Redemption of financial investments	630,607	895,210
6.02.10	Release linked bank account	21,086	0
6.03	Net cash generated (consumed) in financing activities	-75,058	-8,098
6.03.01	Loans and financing	0	678,208
6.03.02	Amortization of loans and financing	-47,748	-642,728
6.03.03	Dividends	0	0
6.03.04	Amortization of financial charges	-27,310	-43,578
6.05	Reduction in cash and cash equivalents	-39,197	-18,920
6.05.01	Cash and cash equivalents at the beginning of the year	142,824	253,713
6.05.02	Cash and cash equivalents at the end of the year	103,627	234,793

Consolidated financial statements / Statement of changes in equity – 2nd Quarter 2017
(In thousands of Reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Equity	Consolidated Equity
5.01	Opening balances	1,382,990	-741	0	-286,496	-838,743	257,010	257,010
5.03	Adjusted opening balances	1,382,990	-741	0	-286,496	-838,743	257,010	257,010
5.04	Capital transactions with partners	0	0	0	0	0	0	0
5.04.06	Dividends	0	0	0	0	0	0	0
5.05	Total comprehensive income	0	0	0	-116,309	2,132	-114,177	-114,177
5.05.01	Net income for the period	0	0	0	-116,309	0	-116,309	-116,309
5.05.02	Other comprehensive income	0	0	0	0	2,132	2,132	2,132
5.05.02.01	Financial instruments - adjustments	0	0	0	0	2,130	2,130	2,130
5.05.02.03	Equity income (loss) on compreh. income-subsiaries an	0	0	0	0	2	2	2
5.06	Internal changes in equity	0	0	0	3,607	-3,607	0	0
5.06.02	Realization of revaluation reserve	0	0	0	4,595	-4,595	0	0
5.06.03	Taxes on the realization of the revaluation reserve	0	0	0	-988	988	0	0
5.06.04	Taxe incentive reserve	0	0	0	0	0	0	0
5.06.05	Legal reserve	0	0	0	0	0	0	0
5.07	Closing balances	1,382,990	-741	0	-399,198	-840,218	142,833	142,833

Consolidated financial statements / Statement of changes in equity – 2nd Quarter 2016
(In thousands of Reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Equity	Consolidated Equity
5.01	Opening balances	1,382,990	-741	77,650	0	-1,115,423	344,476	344,476
5.03	Adjusted opening balances	1,382,990	-741	77,650	0	-1,115,423	344,476	344,476
5.04	Capital transactions with partners	0	0	0	0	0	0	0
5.04.06	Dividends	0	0	0	0	0	0	0
5.05	Total comprehensive income	0	0	0	-277,849	390,277	112,428	112,428
5.05.01	Net income for the period	0	0	0	-277,849	0	-277,849	-277,849
5.05.02	Other comprehensive income	0	0	0	0	390,277	390,277	390,277
5.05.02.01	Financial instruments - adjustments	0	0	0	0	390,612	390,612	390,612
5.05.02.03	Equity income (loss) on compreh. income-subidiaries an	0	0	0	0	-335	-335	-335
5.06	Internal changes in equity	0	0	0	4,527	-4,527	0	0
5.06.02	Realization of revaluation reserve	0	0	0	5,778	-5,778	0	0
5.06.03	Taxes on the realization of the revaluation reserve	0	0	0	-1,251	1,251	0	0
5.06.04	Taxe incentive reserve	0	0	0	0	0	0	0
5.06.05	Legal reserve	0	0	0	0	0	0	0
5.07	Closing balances	1,382,990	-741	77,650	-273,322	-729,673	456,904	456,904

Consolidated financial statements or Statement of value added

(In thousands of Reais)

Code of account	Account description	Year to date 2017	Year to date 2016
7.01	Income	1,572,651	2,790,080
7.01.01	Sale of goods and services	1,566,685	2,784,221
7.01.02	Other income	9,411	6,147
7.01.04	Provision of credits for doubtful accounts	-3,445	-288
7.02	Inputs acquired from third parties	-1,457,257	-2,530,433
7.02.01	Cost of goods and services sold	-1,189,214	-2,233,106
7.02.02	Materials, energy, third party services and other	-268,043	-297,327
7.03	Gross added value	115,394	259,647
7.04	Retentions	-62,521	-70,667
7.04.01	Depreciation and amortization	-62,521	-70,667
7.05	Net added value	52,873	188,980
7.06	Added value received through transfers	255,220	1,112,172
7.06.02	Financial income	255,220	1,112,172
7.07	Total net added value payable	308,093	1,301,152
7.08	Net added value payable	308,093	1,301,152
7.08.01	Personnel and charges	114,676	116,485
7.08.02	Taxes, duties and contributions	9,751	258,858
7.08.03	Third-party capital remuneration	299,975	1,203,659
7.08.04	Remuneration of own capital	-116,309	-277,850
7.08.04.03	Loss for the period	-116,309	-277,850

UPDATE ON THE FINANCIAL RESTRUCTURING PROCESS

We are pleased to inform that important and decisive steps have been taken in connection with Paranapanema's capital restructuring and the debt reprofiling processes.

On July 21, 2017, Paranapanema disclosed to the Market that it has signed an Investment Commitment with Glencore, where Glencore commits to purchase R\$66 million in Company's new shares in an eventual Follow-on offer. The Investment Agreement is subject to market standard precedent conditions which are common to this type of transaction and includes: the conclusion to the debt restructuring agreement and Company's Board approval for the capital raise.

Glencore is one of the largest companies in the world and operates in more than 90 commodities markets. It is present in more than 50 countries with approximately 155 thousand employees and annual revenue of US\$177 billion. It is one of the largest copper players in the world with annual production of 1.4 million tonnes of copper. Thus, in addition to the capital raise, Glencore may support Paranapanema to enhance its understanding of the copper global markets dynamics, including mining, smelting, and trading markets. On the other hand, Glencore will become a shareholder of Brazil's sole primary copper producer and market leader in copper products and its alloys.

The Investment Agreement negotiated by the Company and Glencore is key part of the process of Paranapanema's financial restructuring. Within this process, there are also negotiations with some of the Company's key shareholders in the context of an eventual capital raise. Negotiations with its main creditors to refinance its debts continue to progress satisfactorily and the Company believes it may be concluded in the near future.

The Standstill Agreement expired on July 20, 2017 and the addendum to renew its effectiveness, until August 20, 2017, is going through the signing process with the Consenting Creditors. The Company expects to have the addendum signed within the week of July 24, 2017. Under this Standstill Agreement, the Consenting Creditors commit not to take measures to collect their credits, including abstaining from accelerating obligation due dates to pay principal or interest, to not execute guarantees, and to not make voluntary appointments at credit protection agencies as a result of the financial instruments and/or bank debt listed in the Standstill Agreement. Additionally, the Company confirms that on July 21, 2017, no consenting creditors formalized new collection procedures, executed guarantees, and /or has taken any actions towards their overdue credits.

MANAGEMENT COMMENTS

During the second quarter of 2017, total volume produced fell 44% in relation to 2Q16, reaching 59.3 thousand tonnes, due to the reduction in purchases of raw material for primary copper production. The Company recorded average utilization of 48% of its primary copper plant capacity compared to 95% in 2Q16. On the other hand, the plant capacity utilization in copper products in São Paulo and Bahia reached 73% and 46% respectively, compared to 55% and 39% in 2Q16.

In order to reverse the high idle capacity at Dias d'Ávila plant, the Company signed an agreement with Glencore in which Paranapanema will purchase 180,000 tonnes of copper concentrate until January 2018, and will sell the equivalent volume of refined copper to Glencore matching their financial liquidation terms. This agreement structure was subject to a bidding process with several copper tradings, and its commercial terms are compatible to market terms and conditions for other deals of similar nature. Such agreement allows production levels to increase during the next six months without the need to employ cash.

As a result, there was a 35% net increase in Inventory balance partially offset by a 22% reduction in Accounts Receivable and an increase in Suppliers by 14% compared to 1Q17. Thus, working capital showed a significant increase when compared to 1Q17 and this positive impact shall last until the end of this agreement with Glencore.

In 2Q17, the Company posted a Net Loss of R\$73.2 million, which represents a negative Net Margin of 11.4%. Compared to 2Q16, which was impacted by the write-off of R\$252.3 million in income tax loss carryforwards, net margin improved by 10.4p.p.. It is worth mentioning that the negative result in the quarter was strongly impacted by production idleness expenses of R\$48.5 million. In case of full capacity utilization if there were no cash restrictions, it would be possible to operate a higher production volume with the potential reversal of the idleness cost, and operating results compatible with this higher volume.

Company's management remains committed and dedicated to resume the Company's full operational activity and create value to shareholders. The focus remains on completing our financial restructuring, keep the daily cash management discipline, and increase the overall operational efficiency.

MACRO SCENARIO

In 2Q17, Brazilian industrial production grew 4% in May 17 compared to May 16 according to IBGE, registering the highest rate since 2010, and the second consecutive month of improvements in economic activity. Despite good recent figures, expectations for industrial production growth in 2017 are still modest and fell to 0.66% in 2017 and to 2.30% in 2018, according to a recent Central Bank survey. GDP is expected to grow only 0.4% in 2017.

Regarding foreign market, the slowdown in China seems to be less severe than expected and as a consequence, copper prices on the London stock exchange remains reasonably stable. Meanwhile, the world's top central banks have signaled that they should cut back on financial stimulus and this has limited further appreciation of the metal. Copper continues to trade in the range of US\$5,500 and US\$6,000 per tonne.

In the long term, the expectation is that international demand for copper will continue to grow due to the new applications in telecommunications and power generation, specially in the automotive sector. This view corroborates with the Company strategy to continue to develop foreign markets in order to optimize the balance between exports and local sales while keeping production levels at full capacity.

Thus, the Company expects to achieve a moderate growth on production and sales volumes in the second half of the year, assuming it would be possible to conclude its financial restructuring over the next two months approximately.

COMMENTS ON THE CONSOLIDATED ECONOMIC AND FINANCIAL PERFORMANCE

Production Volume

<i>in tonnes</i>	2Q16	2Q17	Δ %
Primary Copper	65,963	27,455	-58%
Copper Products	39,512	31,816	-19%
Rods, Wires and Others	29,843	22,653	-24%
Bars/Profiles/Rolled/Tubes/Fittings	9,669	9,163	-5%
Total Production	105,475	59,271	-44%
Internal Consumption	21,278	19,971	-6%
Production for Sale	84,197	39,300	-53%
Byproducts	254,454	157,606	-38%

% of availability utilization			
<i>Primary Copper</i>	92.5%	48.2%	-44.3 p.p.
Copper Products			
<i>Rods, Wires and Others</i>	38.6%	46.0%	7.5 p.p.
<i>Bars/Profiles/Rolled/Tubes/Fittings</i>	55.1%	73.3%	18.2 p.p.

During 2Q17, we produced 27.5 thousand tonnes of Primary Copper, which represented a decrease of 58% over the same period of the previous year. In Copper Products, production was 31.8 thousand tonnes, down 19% compared to 2Q16, mainly due to a 24% reduction in sales volume of electrolytic copper rods, Wire and others. Total production in 2Q17 was 59.3 thousand tonnes, 46.2 thousand tonnes less than in the same period of 2016. As a consequence, the available-for-sale volumes decreased 53% compared to the same period in 2016.

In byproducts, basically sulfuric acid and anodic slimes, production achieved 157.6 thousand tonnes, a reduction of 38% in relation to 2Q16.

The reduction in credit lines and a conservative cash strategy have reduced the availability of raw material and explains most of the drop in production volumes in 2Q17 compared to the same period in 2016.

Δ % - The changes are presented considering the monetary benefit of the movements between the comparative periods.

Sales Volume

<i>in tonnes</i>	2Q16	2Q17	Δ %
Primary Copper	36,377	8,377	-77%
Domestic Market	2,612	3,262	25%
Export Market	33,744	5,045	-85%
Toll	21	70	233%
Copper Products	29,406	22,824	-22%
Rods, Wires and Others	19,572	13,853	-29%
Domestic Market	11,084	7,713	-30%
Export Market	7,582	5,196	-31%
Toll	906	944	4%
Bars/Profiles/Rolled/Tubes/Fittings	9,834	8,971	-9%
Domestic Market	4,194	4,060	-3%
Export Market	2,492	2,542	2%
Toll	3,148	2,369	-25%
Total Sales Volume	65,783	31,201	-53%
<i>% of Total Production</i>	<i>78.1%</i>	<i>79.4%</i>	<i>1.3 p.p.</i>
Byproducts	253,484	150,047	-41%
Domestic Market	253,293	149,913	-41%
Export Market	191	134	-30%

Considering the lower availability of raw materials for production, the Company have rebalanced its sales mix of products in order to optimize its results. Thus, there was an increase in the domestic market sales, which was responsible for 53% of total net sales (33% in 2Q16) and 59% of sales volume (33% in 2Q16).

Total Sales Volume in 2Q17 reached 31.2 thousand tonnes, representing a reduction of 53% compared to 2Q16. Most of such decrease in volume reflects reductions in volumes of exports of Copper, which currently delivers lower margins, and a decrease in the volume of byproducts. As explained, Company is focused in higher value-added products in the domestic market given its limitations to increase volumes. Additionally, there were an increase in demand for local content cathodes by local copper processing companies due to tax reasons.

NET REVENUE

<i>In R\$ thd, except otherwise stated</i>	2Q16	2Q17	Δ %
Primary Copper	660,734	160,566	-76%
% of Revenue	51.3%	24.9%	-26.3 p.p.
Copper Products	500,592	398,476	-20%
% of Revenue	38.9%	61.9%	23.0 p.p.
Rods, Wires and Others	356,154	245,925	-31%
Bars/Profiles/Rolled/Tubes/Fittings	144,438	152,551	6%
Byproducts	127,005	84,855	-33%
% of Revenue	9.9%	13.2%	3.3 p.p.
Total Net Revenue	1,288,331	643,897	-50%
Domestic Market [%]	32.5%	51.7%	58.8%
Export Market [%]	66.5%	46.7%	-29.8%
Toll [%]	0.9%	1.6%	76.8%
REINTEGRA¹ Contribution	933	4,594	392%

¹ **REINTEGRA** Special Regime to Reimburse the Taxation Amounts for exporting companies. A fiscal incentive that makes it possible, within specific conditions, for some Brazilian exporting companies to recover between 0.1% and 3% of export revenue.

Since 2015, with the resurgence of the economic crisis in Brazil and consequent reduction in credit lines, the Company has focused its sales on products with higher added value. In 2017, with the reduction of the volume produced to protect the cash level, the Company prioritized the maintenance of sales in the domestic market to the detriment of exports, whose revenues fell 65% compared to 2Q16. This effect resulted in an increase in the domestic market share from 32.5% to 51.7%.

In Primary Copper, and in line with the Company's strategy mentioned in the previous paragraph, Net Revenue reached R\$160.6 million in 2Q17, 76% lower than in 2Q16. In this quarter, only 48% of primary copper installed capacity was used, compared to 95% in the same quarter of the previous year, and most of it was consumed in the Copper Products production lines. Revenue from the domestic market increased by 4% due to the increase in demand for local content, and export revenue fell by 85% compared to 2Q16.

In Copper Products, Net Revenue reached R\$398.5 million in 2Q17, down 20% compared to 2Q16 explained mainly by the reduction of 31% (to R\$245.9 million) in Rebar and Rod markets that faces an over supply in the domestic market putting pressure on prices.

On the other hand, there was an increase of 6% (to R\$152.6 million) in Bars, Profiles, Wires, Laminates, Tubes and Fittings as a result of commercial actions in the domestic and export markets.

Seeking to optimize its resources, the Company focused in copper products segment, and increased the capacity utilization of copper products plants in São Paulo and Bahia reaching, respectively, 73% and 46%, against 55% and 39% in 2Q16. Of the total revenues from this segment, 62% came from the domestic market and 38% from the export market.

In byproducts, Net Revenue totaled R\$84.9 million in 2Q17, 33% lower than 2Q16 due to the reduction in production volume of sulfuric acid. Of the total revenues from this segment, 28% came from the domestic market and 72% from the export market.

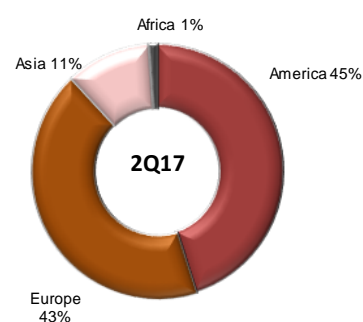
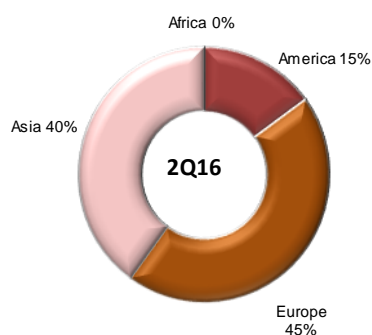
As shown below, despite the reduction of export volumes to Asia and Europe given the restriction in production volumes, and the consequent reduction of % share over export revenues, these regions will continue to be the main destinations in export market, while in the domestic market sales keep concentrated in the consumer electronics and civil construction sectors.

Revenue per product - DM and EM

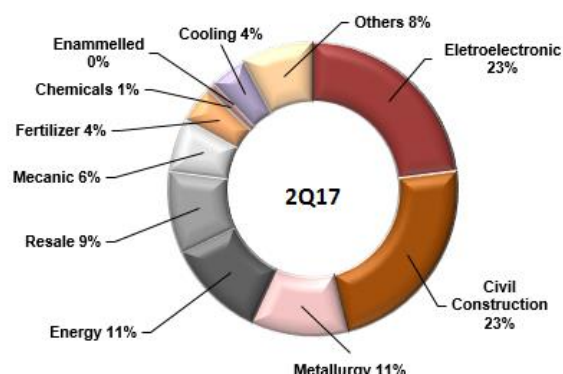
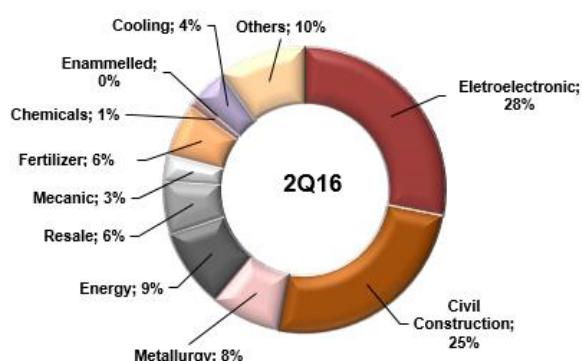
<i>Percentage of net revenue per product on the market</i>	2Q16	2Q17
Primary Copper		
Domestic Market	10%	45%
Export Market	90%	55%
Toll	0%	0%
Copper Products		
Rods, Wires and Others		
Domestic Market	45%	37%
Export Market	26%	25%
Bars/Profiles/Rolled/Tubes/Fittings		
Domestic Market	20%	25%
Export Market	9%	13%
Byproducts		
Domestic Market	31%	28%
Export Market	69%	72%

Net Revenue Breakdown

EM Revenue by Continent



DM Revenue by product segment



COSTS OF GOODS SOLD (COGS)

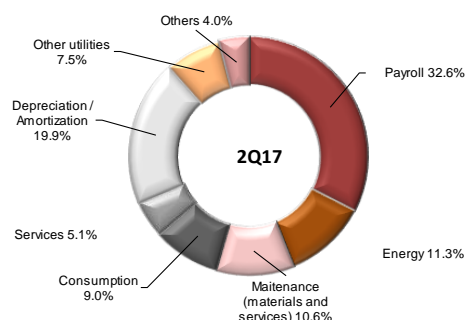
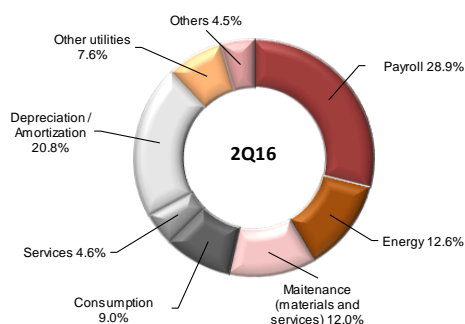
<i>In R\$ thd, except otherwise stated</i>	2Q16	2Q17	Δ %
Metal Cost	(1,034,858)	(498,976)	52%
Transformation Cost	(146,751)	(95,095)	35%
Total COGS	(1,181,609)	(594,071)	50%
<i>COGS Total/ton sold</i>	17,962	19,040	6%
<i>Metal Cost/ton sold</i>	15,731	15,992	2%
<i>Transformation Cost/ton sold</i>	2,231	3,048	37%

The 2Q17 COGS reached R\$594.1 million, down 50% compared to the same quarter of the previous year, following the reduction in the production volumes.

The Cost of Metal in Reais fell 52% in the period, totaling R\$499.0 million, as a result of a 53% decrease in sales volume in the period.

Transformation costs totaled R\$95.1 million, a decreased 35% in 2Q17 compared to the same quarter of the previous year. Such reduction reflects a 58% reduction in primary copper production volumes and a 19% decrease in the volume of copper products. The reduction in the overall production volumes causes a temporary loss of scale in the production costs, once the Company expects to raise its production volumes after its financial restructuring. Therefore, transformation cost per tonne sold increased 37% in the quarter compared to the same period of 2016, reflecting the lower production scale in the period.

Transformation Cost Breakdown - Annual



GROSS PROFIT

<i>In R\$ thd, except otherwise stated</i>	2Q16	2Q17	Δ %
Net Revenue	1,288,331	643,897	-50%
Total COGS	(1,181,609)	(594,071)	50%
(-) Metal Cost	(1,034,858)	(498,976)	52%
(-) Transformation Cost	(146,751)	(95,095)	35%
Gross Profit	106,722	49,826	-53%
% of Revenue	8.3%	7.7%	-0.5 p.p.
TC/RC (reduces metal cost)	96,570	47,277	-51%
Premiums	253,473	144,921	-43%
Premium/Net Revenue [%]	19.7%	22.5%	2.8 p.p.
Premium/ton sold	3.85	4.64	21%

Gross Profit reached R\$49.8 million in 2Q17, down 53% compared to 2Q16. Gross Margin reach 7.7%, a drop of 0.5p.p. compared to the same quarter of 2016, mainly because of the reduction in the operational efficiency and the fact that only 48% of the installed capacity has been used. In case of full capacity utilization if there were no cash restrictions, it would be possible to operate a higher production volume with the potential reversal of the idleness cost, and operating results compatible with this higher volume.

It is worth to mention that the premium per tonne sold improved 21% when compared to 2Q16.

The TC/RC result, which represents the costs associated to convert raw material to copper cathode, dropped approximately 50% due to the reduction in volume processed.

OPERATING EXPENSES

<i>In R\$ thd, except otherwise stated</i>	2Q16	2Q17	Δ %
Total Operating Expenses	(78,932)	(107,917)	-37%
Sales Expenses	(8,557)	(6,986)	18%
G&A Expenses and Management Compensation	(20,235)	(20,404)	-1%
Employee Profit Sharing	(6,549)	(5,979)	9%
Other Operating, net	(43,591)	(74,548)	-71%
<i>Total Expenses/Net Revenue [%]</i>	6.1%	8.4%	2.3 p.p.
<i>Recurring Expenses*/Gross Profit [%]</i>	35.9%	31.5%	-4.4 p.p.
<i>Recurring Expenses*/ton sold</i>	0.58	0.51	-12%
Non-recurring items:			
Provisions for contingencies *	(16,963)	(25,614)	-51%
Other provisions*	(3,072)	(198)	94%
Idle capacity	(20,576)	(48,532)	-136%
Total Non-recurring Items:	(40,611)	(74,344)	-83%
Total Recurring Items:	(38,321)	(33,573)	12%

** No cash impact during the period*

Total Expenses reached R\$107.9 million in 2Q17, an increase of 37% compared to 2Q16. This growth can be explained by the Other Net Operating Expenses, which totaled R\$74.5 million in 2Q17, a 71% increase compared to 2Q16. Idleness increased R\$28.0 million in relation to 2Q16 and totaled R\$48.5 million in 2Q17. Also, the Company posted a R\$25.6 million provisions for legal contingencies.

SG&A Expenses in 2Q17 totaled R\$33.6 million and decreased 12%, or R\$4.7 million compared to 2Q16, mainly because the reduction in selling expenses. The actions to re-adjust expenses and organizational structure of the commercial area explains the decrease of 18% in Selling Expenses in 2Q17 compared to 2Q16.

FINANCIAL RESULT

<i>In R\$ thd, except otherwise stated</i>	2Q16	2Q17	Δ %
Financial Income	29,846	14,363	-52%
Financial Expenses	(56,094)	(44,906)	20%
Net FX Variance	(7,160)	(5,522)	23%
Other Financial Income/Expenses	(1,402)	(2,716)	-94%
Hedge Operations:	(28,528)	7,498	126%
Metal Hedge	(26,683)	14,513	154%
Cash Flow Hedge (revenue and debt)	(1,596)	(6,971)	-337%
Other Derivatives	(249)	(44)	82%
Net Financial Result	(63,338)	(31,283)	51%

Net Financial Result for 2Q17 was an expense of R\$31.3 million, a significant improvement of 51% compared to 2Q16, and reflects the economic conditions of the period.

Financial Revenues fell by 52% and reached R\$14.3 million, due to the lower cash position in the period. Financial Expenses decreased 20% to R\$44.9 million, mainly explained by the lower indebtedness and volume of receivables discount in 2Q17.

The result of Hedge Operations in 2Q17 reached R\$7.5 million, versus an expense of R\$28.2 million in 2Q16. Such change reflects the reduction in volumes of metal processed, and changes in metal prices and exchange rates.

NET RESULT

<i>In R\$ thd, except otherwise stated</i>	2Q16	2Q17	Δ %
Result before Taxes	(35,548)	(89,374)	-151%
Income Tax and Social Contribution	(244,982)	16,213	107%
Net Result	(280,530)	(73,161)	74%
<i>% of Revenue</i>	<i>-21.8%</i>	<i>-11.4%</i>	<i>10.4 p.p.</i>

In 2Q17, Pre-Tax Income was a loss of R\$89.4 million, mainly due to the higher idleness expenses (R\$48.5 million). As a consequence, Net income was also a loss of R\$73.2 million. It is important to highlight that the net income of 2Q16 was heavily impacted by a non-monetary expense related to a provision for loss of a tax credit which amounted R\$252.3 million.

EBITDA

<i>In R\$ thd, except otherwise stated</i>	2Q16	2Q17	Δ %
Net Profit	(280,530)	(73,161)	74%
(+) Taxes	244,982	(16,213)	-107%
(+) Net Financial Result	63,338	31,283	-51%
EBIT	27,790	(58,091)	-309%
(+) Depreciation and Amortization	36,788	30,593	-17%
EBITDA	64,578	(27,498)	-143%
% of Revenue	5.0%	-4.3%	-9.3 p.p.

The Company's EBITDA was a loss of R\$27.5 million in 2Q17, mostly due to the idleness expenses and the non recurrent legal contingencies provisions that together impacted EBITDA by approximately R\$74.1 million.

WORKING CAPITAL

<i>In R\$ thd, except otherwise stated</i>	1Q17	2Q17	Δ %
Account Receivable	388,971	303,285	-22%
Inventory	778,435	1,050,525	35%
Recoverable Tax	211,867	223,216	5%
Suppliers and Forfaiting and Credit Letter	(600,433)	(687,334)	-14%
Advances from clients	(4,594)	(10,456)	-128%
Total Working Capital	774,246	879,236	14%
<i>Change in Total Working Capital (compared with last quarter)</i>	<i>(95,085)</i>	<i>104,990</i>	<i>210%</i>

Total Working Capital in 2Q17 was R\$879.2 million, 14% higher than R\$774.2 million in 1Q17. Accounts Receivable decreased 22% in 2Q17 compared to 1Q17 due to the reduction in sales volume and customer credit lines. Inventories increased by R\$272 million in 2Q17 (35%) compared to 1Q17 because of the operation with Glencore to purchase copper concentrate linked to future export of cathode. Advance from Clients increased by R\$5.8 million in 2Q17 compared to 1Q17.

CAPEX

<i>In R\$ thd, except otherwise stated</i>	1Q17	2Q17	Δ %
Fixed Assets	1,273,582	1,257,619	-1%
Intangibles	8,638	7,855	-9%
Others	2,250	2,250	0%
Total Investments	1,284,470	1,267,724	-1.3%
Depreciation	31,928	30,593	-4%
<i>Depreciation/Net Revenue</i>	<i>2.5%</i>	<i>4.8%</i>	<i>2.3 p.p.</i>

In 2Q17, total investments reached R\$1,267.7 million, down 1.3% compared to the previous quarter, explained by the reduction in property, plant and equipment due to accumulated depreciation in the period of R\$30.6 million, which was offset by investments in sustaining maintenance of R\$13.8 million.

INDEBTEDNESS

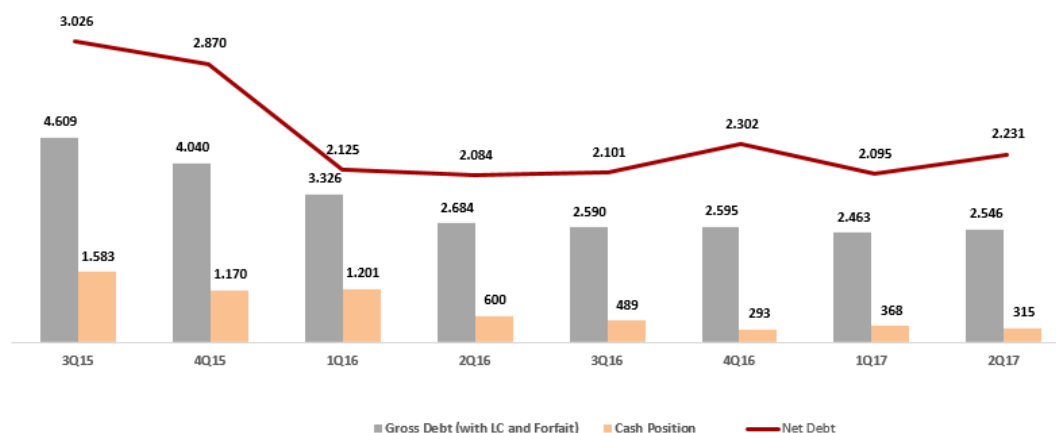
<i>In R\$ thd, except otherwise stated</i>	1Q17	2Q17	Δ %
Short Term	1,821,553	1,992,685	9%
LC e Forfait	555,575	502,931	-9%
Derivatives	85,931	50,296	-41%
Total Indebtedness	2,463,059	2,545,912	3%
Cash and Cash Equivalents	377,636	103,627	-73%
Financial Investments	(58,545)	168,142	387%
Collection Account ¹	32,209	2,042	-94%
Derivatives	16,483	40,958	148%
Total Cash	367,783	314,769	-14%
Net Debt	2,095,276	2,231,143	6%

¹ **Escrow Account:** Foreign currency received and amount received from national customers withheld by the custodian bank as collateral to amortize loan installments.

Indebtedness in Reais in 2Q17 reached R\$2.545 billion, including Letter of Credit and Forfait (used for financing with suppliers), representing a 3% increase compared to 1Q17. The increase of R\$82.9 million is due to the change in exchange rate (R\$88 million) plus R\$53 million of accrual of interest payable, which were partially offset by R\$23 million of amortizations with development banks and the settlement of some metal hedge contracts of R\$35.6 million.

Total Cash at the end of 2Q17 reached R\$314.8 million, a decrease of R\$53.0 million (14%) compared to 1Q17, due to some debt amortization and the purchase cycle of raw material.

Below is the chart with the Company's indebtedness profile:



CASH FLOW

<i>In R\$ thd, except otherwise stated</i>	1Q17	2Q17	Δ %
Cash and Cash Equivalents at the beginning of period	142,824	282,536	98%
Operational Activities (without LC and Forfait*)	128,546	(51,471)	-140%
Investment Activities	38,506	(115,296)	-399%
Financing	57,443	(131,587)	-329%
Collection account	(9,081)	30,167	432%
Capex	(9,856)	(13,876)	-41%
Financing Activities	(27,340)	(12,142)	56%
Increase (Decrease) of Cash	139,712	(178,909)	-228%
Cash and Cash Equivalents at the end of period	282,536	103,627	-63%

At the end of 2Q17, the Company had Cash and Cash Equivalents of R\$103.6 million, a decrease of 63% compared to 1Q17, mainly due to the purchase cycle of raw material (ex the concentrate contract with Glencore).

Operating Activities used R\$51.5 million (excluding LC and Forfait), mainly due to the increase in the volume of metal inventory in the period and the expenditure with idleness.

In Investment Activities, the increase relates to higher remunerated cash saving deposits based on the CDI in relation to 1Q17.

Within Financing Activities, the development banks debt amortization during 2Q17 required R\$12.1 million in payments.

The Company complies with the rules of the New Market Arbitration Chamber, as set forth in its Bylaws.

Paranapanema contracted PwC Auditores Independentes in 2017 to provide audit services for its financial statements.

ATTACHMENT IV – COVENANTS

Total Indebtedness

In R\$ thd, except otherwise stated	1Q17	2Q17	Δ %
Short Term Debt	1,821,553	1,992,685	9%
Long Term Debt	-	-	n.a
Derivatives financial instruments	85,931	50,296	-41%
Gross Debt	1,907,484	2,042,981	7%
Cash and Cash Equivalents	377,636	103,627	-73%
Derivatives	16,483	40,958	148%
Financial Investments	(58,545)	168,142	387%
Collection Account	32,209	2,042	-94%
Net Debt	1,539,701	1,728,212	12%
LTM Adjusted EBITDA*	332,136	273,793	-18%
Net Debt /LTM Adjusted EBITDA	4.64	6.31	36%

Last 12 months (without LC and Fofait)

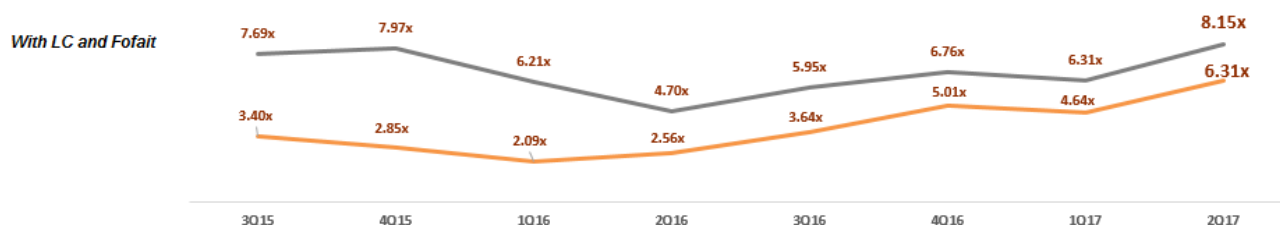
Current Ratio

In R\$ thd, except otherwise stated	1Q17	2Q17	Δ %
Current assets	1,610,489	1,686,121	5%
Current liabilities	2,655,448	2,875,622	8%
Current Ratio	0.61	0.59	-3%

Net Debt/Shareholders' Equity

In R\$ thd, except otherwise stated	1Q17	2Q17	Δ %
Net Debt	1,539,701	1,728,212	12%
Shareholders' Equity	1,279,432	1,206,271	-6%
Index: Net Debt/Shareholders'	1.20	1.43	19%

Leveraging and Net Debt/LTM Adjusted EBITDA:



The Company has pre-export bank loans (PPE) in the amount of R\$632,553 as at June 30, 2017 (R\$616,082 as at December 31, 2016). Under the terms of the contracts, these loans will be paid over the next three years. The contracts contain covenants measured quarterly by the cumulative result of the last 12 month period, As a result of the debt restatement, the ratios measured by the Company at the end of June 30, 2017 were: net debt divided by Adjusted EBITDA (6.31x), current assets index divided by current liabilities (Current Liquidity) (0.59x), and the net debt ratio divided by shareholders' equity (1.43x).

Balance sheets

As at June 30, 2017 and December 31, 2016

(In thousands of Reais)

ASSETS	Notes	Parent company		Consolidated	
		06/30/2017	12/31/2016	06/30/2017	12/31/2016
Cash and cash equivalents	05	84.677	139.492	103.627	142.824
Financial investments	05	67.676	87.636	92.752	87.936
Linked account deposits/guarantees	06	2.042	20.865	2.042	23.128
Accounts receivable	07	425.548	558.965	292.936	452.593
Inventory	08	1.031.568	923.995	1.050.525	937.369
Tax recoverables	09	72.370	70.927	78.031	72.742
Other Current assets	10.1	8.414	50.646	8.601	50.657
Derivative financial instruments	28	40.931	32.934	40.958	32.958
Prepaid expenses		16.291	12.332	16.649	12.829
Total current assets		1.749.517	1.897.792	1.686.121	1.813.036
Financial investments	05	10.106	6.062	75.390	6.062
Accounts receivable	07	830	1.845	10.349	21.497
Tax recoverable	09	145.164	144.340	145.185	144.439
Maintained assets for sale	11	110.879	110.568	110.879	110.568
Deferred income tax and social contribution	26.1	-	-	14.511	14.208
Legal deposits	10.2	32.451	33.801	32.451	33.801
Other non-current assets	10.1	129.197	82.375	81.403	82.376
Prepaid expenses		9.588	11.201	9.589	11.201
		438.215	390.192	479.757	424.152
Investments	12	13.033	7.179	-	-
Other investments		2.250	2.250	2.250	2.250
Property, plant and equipment	13	1.256.523	1.294.487	1.257.619	1.295.633
Intangible assets	13	7.855	9.341	7.855	9.341
		1.279.661	1.313.257	1.267.724	1.307.224
Total non-current assets		1.717.876	1.703.449	1.747.481	1.731.376
Total assets		3.467.393	3.601.241	3.433.602	3.544.412

The accompanying notes are an integral part of the Quarterly Information (ITR)

Balance sheets

As at June 30, 2017 and December 31, 2016

(In thousands of Reais)

LIABILITIES	Notes	Parent company		Consolidated	
		06/30/2017	12/31/2016	06/30/2017	12/31/2016
Suppliers	14	222,819	212,373	184,390	153,743
Forfeiting and letter of credit operations	15	502,931	595,833	502,931	595,833
Loans and financing	16	1,992,679	1,845,131	1,992,685	1,845,140
Derivative financial instruments	28	50,296	154,072	50,296	154,084
Payroll and related charges	17	43,306	42,008	43,428	42,306
Tax payable	18	20,638	16,208	22,660	16,470
Cash and cash equivalents	20	24,077	24,560	24,077	24,560
Advances from clients	20	8,385	9,332	10,456	9,704
Other current liabilities	20	44,282	47,416	44,699	48,264
Total current liabilities		2,909,413	2,946,933	2,875,622	2,890,104
Suppliers	14	13	28	13	28
Tax payable	18	322	465	322	465
Legal deposits	19	221,635	189,454	221,635	189,454
Deferred income tax and social contribution	26.1	193,177	207,351	193,177	207,351
Provision for negative net equity	12	-	-	-	-
Other non - current liabilities	20	-	-	-	-
Total non-current liabilities		415,147	397,298	415,147	397,298
Total liabilities		3,324,560	3,344,231	3,290,769	3,287,402
Paid-in capital		1,382,990	1,382,990	1,382,990	1,382,990
Capital reserves		-	-	-	-
Revaluation reserves		223,220	226,827	223,220	226,827
Equity valuation adjustments		(1,063,438)	(1,065,570)	(1,063,438)	(1,065,570)
Treasury shares		(741)	(741)	(741)	(741)
Retained earnings		(399,198)	(286,496)	(399,198)	(286,496)
Shareholders' equity	21	142,833	257,010	142,833	257,010
Total shareholders' equity		142,833	257,010	142,833	257,010
Total liabilities and equity		3,467,393	3,601,241	3,433,602	3,544,412
Net equity per share – in Brazilian reais (R\$)		0.45	0.81		

The accompanying notes are an integral part of the Quarterly Information (ITR)

Statements of income

Quarters ended June 30, 2017 and 2016

(In thousands of Reais, except earnings per share)

		Parent			
	Notes	2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
Net sales	22	753,519	1,655,195	1,394,006	2,861,283
Cost of goods sold	23	(709,347)	(1,525,482)	(1,290,506)	(2,672,851)
Gross income		44,172	129,713	103,500	188,432
Commercial	23	(6,483)	(12,790)	(7,891)	(15,576)
General and administrative	23	(17,789)	(36,944)	(17,852)	(35,115)
Management fees	12.3	(1,857)	(3,618)	(1,614)	(3,224)
Equity	12.1	3,085	5,853	(1,628)	(1,639)
General and administrative		(6,047)	(12,424)	(6,477)	(11,703)
Other operating expenses	24	(78,974)	(173,311)	(61,892)	(107,284)
Other operating income	24	4,781	10,091	7,619	12,391
Operating expenses		(103,284)	(223,143)	(89,735)	(162,150)
(Loss) operating profit before financial results		(59,112)	(93,430)	13,765	26,282
Financial expenses	25	(103,075)	(275,534)	(692,929)	(1,177,790)
Financial income	25	70,248	238,480	642,217	1,112,968
(Loss) before income and social contribution taxes		(91,939)	(130,484)	(36,947)	(38,540)
Deferred income and social contribution taxes	26	18,778	14,175	(243,583)	(239,310)
Income and social contribution tax		18,778	14,175	(243,583)	(239,310)
Loss for the period		(73,161)	(116,309)	(280,530)	(277,850)
(Loss) per share - common		(0.2292)	(0.3644)	(0.8789)	(0.8705)

		Consolidated			
	Notes	2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
Net sales	22	643,897	1,418,721	1,288,331	2,610,042
Cost of goods sold	23	(594,071)	(1,281,586)	(1,181,609)	(2,413,571)
Gross income		49,826	137,135	106,722	196,471
Commercial	23	(6,986)	(13,671)	(8,557)	(17,312)
General and administrative	23	(18,547)	(38,450)	(18,621)	(36,663)
Management fees	12.3	(1,857)	(3,618)	(1,614)	(3,224)
General and administrative		(5,979)	(12,366)	(6,549)	(11,652)
Other operating expenses	24	(79,329)	(174,499)	(62,147)	(107,790)
Other operating income	24	4,781	10,121	18,556	23,510
Operating expenses		(107,917)	(232,483)	(78,932)	(153,131)
(Loss) operating profit before financial results		(58,091)	(95,348)	27,790	43,340
Financial expenses	25	(108,925)	(288,840)	(700,427)	(1,192,754)
Financial income	25	77,642	255,220	637,089	1,112,172
(Loss) before income and social contribution taxes		(89,374)	(128,968)	(35,548)	(37,242)
Income and social contribution tax for the current year	26.2	(1,405)	(1,819)	130	-
Deferred income and social contribution taxes	26	17,618	14,478	(245,112)	(240,608)
Income and social contribution tax		16,213	12,659	(244,982)	(240,608)
Loss for the period		(73,161)	(116,309)	(280,530)	(277,850)

The accompanying notes are an integral part of the Quarterly Information (ITR)

Statements of comprehensive income
Three-month and six-month periods ended June 30
(In thousands of Reais)

	Parent company				Consolidated			
	2nd Quarter	Year to date	2nd Quarter	Year to date	2nd Quarter	Year to date	2nd Quarter	Year to date
	2017	2017	2016	2016	2017	2017	2016	2016
Loss for the period	(73,161)	(116,309)	(280,530)	(277,850)	(73,161)	(116,309)	(280,530)	(277,850)
Other comprehensive income	(25,701)	2,132	110,632	390,277	(25,701)	2,132	110,632	390,277
Hedge cash flow – Export income ACC/PPE	(31,116)	(11,039)	95,528	222,375	(31,116)	(11,039)	95,528	222,375
Hedge cash flow – NDF sales income	7,234	15,054	(2,296)	78,910	7,234	15,054	(2,296)	78,910
Hedge cash flow – Cost metal x Future stock exchange	327	309	194	58	327	309	194	58
Hedge cash flow - NDF - Capex	-	-	(249)	(769)	-	-	(249)	(769)
Hedge cash flow – Other debts	(2,154)	(2,194)	17,622	90,038	(2,154)	(2,194)	17,622	90,038
Earnings from foreign exchange on foreign investment	8	2	(167)	(335)	8	2	(167)	(335)
Comprehensive income for the year	(98,862)	(114,177)	(169,898)	112,427	(98,862)	(114,177)	(169,898)	112,427

The accompanying notes are an integral part of the Quarterly Information (ITR)

Statements of changes in equity
Periods ending on June 30, 2016 and 2017
(In thousands of Reais)

	Paid in capital	Treasury shares	Profit reserves		Accumulated loss	Equity valuation adjustment	Revaluation reserve	Consolidated shareholders' equity
			Legal reserve	Profit retention reserve				
Balance as at December 31, 2015	1.382.990	(741)	5.092	72.558	-	(1.351.272)	235.849	344.476
Financial instruments, net of taxes	-	-	-	-	-	390.612	-	390.612
Earnings and losses from foreign exchange variations-Foreign investment	-	-	-	-	-	(335)	-	(335)
Equity evaluation adjustment	-	-	-	-	5.778	-	(5.778)	-
Tax on realization of equity evaluation adjustment	-	-	-	-	(1.251)	-	1.251	-
Other comprehensive income	-	-	-	-	4.527	390.277	(4.527)	390.277
Loss for the period	-	-	-	-	(277.849)	-	-	(277.849)
Balance as at June 30, 2016	1.382.990	(741)	5.092	72.558	(273.322)	(960.995)	231.322	456.904
Balance as at December 31, 2016	1.382.990	(741)	-	-	(286.496)	(1.065.570)	226.827	257.010
Financial instruments, net of taxes	-	-	-	-	-	2.130	-	2.130
Earnings and losses from foreign exchange variations-Foreign investment	-	-	-	-	-	2	-	2
Equity evaluation adjustment	-	-	-	-	4.595	-	(4.595)	-
Tax on realization of equity evaluation adjustment	-	-	-	-	(988)	-	988	-
Other comprehensive income	-	-	-	-	3.607	2.132	(3.607)	2.132
Loss for the period	-	-	-	-	(116.309)	-	-	(116.309)
Balance as at June 30, 2017	1.382.990	(741)	-	-	(399.198)	(1.063.438)	223.220	142.833

The accompanying notes are an integral part of the Quarterly Information (ITR)

Statements of cash flow

Six months periods ended June 30, 2017 and 2016

(In thousands of Reais)

	Parent company		Consolidated	
	Year to date 2017	Year to date 2016	Year to date 2017	Year to date 2016
(Loss) before income and social contribution taxes	(130.484)	(38.540)	(128.968)	(37.242)
Adjustments for reconcile net (loss) with resources provided by (used in) operating activities				
Residual value of written-off fixed assets	651	2	651	2
Depreciation and amortization	62.475	70.661	62.521	70.667
Equity in net income	(5.853)	(1.178)	-	-
Shareholder's equity provision	-	2.817	-	-
Reversion for recoverable value estimated loss	(2.973)	15.538	(3.234)	129
Reversions of others estimated losses	-	(7.065)	-	(4.384)
Provision for judicial losses	54.124	37.057	54.124	37.057
Present value adjustment - receivables and suppliers	(664)	(497)	(3.814)	9.073
Gains on financial charges	124.290	12.332	124.287	12.331
	101.566	91.127	105.567	87.633
(Increase) decrease in assets				
Accounts receivable	123.391	76.200	163.249	80.485
Inventory	(112.864)	526.486	(118.447)	528.754
Tax recoverable	(2.267)	38.807	(6.035)	41.673
Prepaid expenses	(2.346)	(10.942)	(2.208)	(11.541)
Legal deposits	1.350	4.721	1.350	4.857
Derivatives	7.365	551.428	7.362	551.404
Assets held for sale	(311)	1.955	(311)	1.955
Other current and non-current liabilities	(4.590)	(15.629)	43.029	(14.802)
Increase (decrease) in liabilities				
Suppliers	(13.601)	(12.963)	6.526	(26.366)
Forfeiting and Credit letter operations	35.576	(886.876)	35.576	(886.876)
Taxes payable	4.287	13.675	4.228	13.833
Write-offs for judicial demands	(21.943)	(46.579)	(21.943)	(46.579)
Payroll and social charges	1.298	(6.353)	1.122	(6.575)
Derivatives	(103.776)	(145.270)	(103.788)	(145.565)
Advances from clients	(761)	(177.877)	938	(178.234)
Other current and non-current liabilities	(3.134)	(45.448)	(3.564)	(45.823)
Net cash provided by (used in) operating activities	9.240	(43.538)	112.651	(51.767)
Investing activities				
Financial investments	(116.873)	(817.361)	(704.751)	(817.361)
Redemption of financial investments	132.789	895.210	630.607	895.210
Other Investments	-	34	-	34
Release linked bank account	18.823	-	21.086	-
Variance of subsidiaries	-	(5.000)	-	(336)
Fixed assets and intangible additions	(23.736)	(36.226)	(23.732)	(36.602)
Net cash used in (provided by) investing activities	11.003	36.657	(76.790)	40.945
Financing activities				
Loans and financing	-	678.208	-	678.208
Amortization of loans and financing	(47.748)	(642.726)	(47.748)	(642.728)
Amortization of financial charges	(27.310)	(43.578)	(27.310)	(43.578)
Net cash used in financing activities	(75.058)	(8.096)	(75.058)	(8.098)
Reduction in cash and cash equivalents	(54.815)	(14.977)	(39.197)	(18.920)
Cash and cash equivalents at the beginning of the year	139.492	248.151	142.824	253.713
Cash and cash equivalents at the end of the year	84.677	233.174	103.627	234.793
Reduction in cash and cash equivalents	(54.815)	(14.977)	(39.197)	(18.920)

The accompanying notes are an integral part of the Quarterly Information (ITR)

Statements of added value

Six months periods ended June 30, 2017 and 2016

(In thousands of Reais)

	Parent company		Consolidated	
	Year to date 2017	Year to date 2016	Year to date 2017	Year to date 2016
Income				
Sale of goods and services	1.862.991	3.099.557	1.566.685	2.784.221
Provision of credits for doubtful accounts	(3.141)	(15.697)	(3.445)	(288)
Other income	9.382	7.650	9.411	6.147
Inputs acquired from third parties (Including taxes)				
Cost of goods and services sold	(1.433.081)	(2.491.497)	(1.189.214)	(2.233.106)
Materials, energy, third party services and other	(262.910)	(293.180)	(268.043)	(297.327)
Gross added value	173.241	306.833	115.394	259.647
Retentions				
Depreciation and amortization	(62.475)	(70.661)	(62.521)	(70.667)
Net added value	110.766	236.172	52.873	188.980
Received from third parties				
Equity equivalence result	5.853	1.178	-	-
Financial income	238.480	1.112.968	255.220	1.112.172
Total net added value payable	355.099	1.350.318	308.093	1.301.152
		-		
Net added value payable	355.099	1.350.318	308.093	1.301.152
Personnel and charges	113.111	114.620	114.676	116.485
Taxes and contributions	72.038	325.549	9.751	258.858
Interest and rents	286.259	1.187.999	299.975	1.203.659
Loss for the period	(116.309)	(277.850)	(116.309)	(277.850)

The accompanying notes are an integral part of the Quarterly Information (ITR)

01. Operations

Paranapanema S.A., (Paranapanema, the Parent or the Company) is a publicly-traded corporation headquartered in the city of Dias d'Ávila, in the State of Bahia, at Via do Cobre, nº 3.700, West Industrial Area, Prédio Administrativo I, Complexo Petroquímico de Camaçari - COPEC.

The Company's Individual and Consolidated Quarterly Financial Report for the period ended June 30, 2017 includes the Company and its subsidiaries and should be read in conjunction with the Reference Form (FRE). The Company and its subsidiaries are engaged in industrial activities related to the transformation and processing of ores and their byproducts, and metallurgical activities for ferrous and non-ferrous products such as strips, bars and profiles, tubes, rods, casts, manufactured and semi-manufactured industrial parts and components intended for domestic and export markets.

In 2Q17, the Company incurred a net loss of R\$73,161, and a year-to-date loss of R\$116,309. The consolidated net working capital, which corresponds to the difference between current assets and current liabilities, as at June 30, 2017, was negative R\$1,189,501 (negative R\$1,077,068 as of December 31, 2016). This increase is mainly due to the reclassification of R\$1,388,787 related to total loans from non-current liabilities to current liabilities, due to breaches of covenant clauses in some long-term debt contracts. Thus, not considering this reclassification effect, the net working capital would be positive by R\$199,286. These covenants are subject to review in the debt reprofiling process and will be redefined based on the business plan.

The Company's Quarterly Financial Report for the year ended June 30, 2017 was prepared based on an assumption of operational continuity in line with the business plan, which includes projected cash flow. Several financial and business assumptions were considered for these projections, as well as new capital injections, new credit lines and the intensification of actions to monetize non-operating assets, reprofile the Company's debt and readjust the capital structure. Management believes that the business plan presented is adequate, within reasonable assumptions for its realization. It should be noted, however, that there are unforeseeable external variables which could impair the Company's capacity to continue its operations.

Paranapanema's business model relies heavily on investments and financing obtained through bank credit lines and financing. As a result of constraints on the credit market in the Brazilian domestic market in 2016 and early 2017, the Company has been working hard to implement measures to strengthen and readjust its capital structure, liquidity and debt profile. The Company is assisted by specialized advisor in this process.

The Standstill Agreement expired on July 20, 2017 and the addendum to renew its effectiveness, until August 20, 2017, is going through the signing process with the Consenting Creditors. The Company expects to have the addendum signed within the week of July 24, 2017. Under this Standstill Agreement, the Consenting Creditors commit not to take measures to collect their credits, including abstaining from accelerating obligation due dates to pay principal or interest, to not execute guarantees, and to not make voluntary appointments at credit protection agencies as a result of the financial instruments and/or bank debt listed in the Standstill Agreement. Additionally, the Company confirms that on July 21, 2017, no consenting creditors formalized new collection procedures, executed guarantees, and /or has taken any actions towards their overdue credits.

On July 21, 2017, Paranapanema disclosed to the Market that it has signed an Investment Commitment with Glencore International Investments Ltd. (Glencore), where Glencore commits to participate in an eventual capitalization of the Company through a follow-on process (Investment Agreement). The Investment Agreement is subject to some suspensive clauses common to this type of transaction which includes the increase of the Company's capital to receive investments, among others, from Glencore, and the implementation of the Company debt reprofiling. Upon realization of these conditions, Glencore commits to capitalize the Company with R\$66 million.

The Investment Agreement negotiated by the Company and Glencore is key part of the process of Paranapanema's financial restructuring. Within this process, there are also negotiations with some of the Company's key shareholders in the context of an eventual capital raise. Negotiations with its main creditors to refinance its debts continue to progress satisfactorily and the Company believes it may be concluded in the near future.

This movement, combined with the conclusion of the debt reprofiling process with our main creditors, will increase Company's liquidity and reduce debt leverage, providing significant improvements into its debt profile.

Also, Company's management remains committed and dedicated to resume the Company's full operational activity and create value to shareholders. The focus remains on completing our financial restructuring, keep the daily cash management discipline, and increase the overall operational efficiency.

The Company's Management will keep the market informed about the signing of the Final Contracts, emphasizing that non-approval could affect the success of the business plan, and the assumption of business continuity in the elaboration of the Company Individual and Consolidated financial statements. On the approval date of these financial statements, it was not possible to estimate the potential impacts on operations and the respective effects on Company assets and financials in the case the Final Contracts were not approved.

Paranapanema's shares have been listed and traded on the BM&F BOVESPA S.A. - Stock, Commodities and Futures Exchange since 1971, and in the "New Market" segment since 2012 under the code PMAM3.

Group entities – “Subsidiaries”

The Company had the following equity in its direct subsidiaries at the respective dates:

Subsidiaries	06/30/2017	12/31/2016
CDPC-Centro de Distrib. de Produtos de Cobre Ltda Company with headquarters in the city of Santo Andre, in the State of São Paulo, Brazil. Its key business purpose is the marketing and distribution of copper, goods and other ores, alloys and their resulting products and byproducts.	99.99%	99.99%
Caraíba Incorporated Ltd. (*) Company with headquarters in the Cayman Islands, established on July 8, 2005.	100.00%	100.00%
Paraibuna Agropecuária Ltda. (*) Company with headquarters in the city of Santo Andre, in the State of São Paulo, Brazil. The business purpose is to carry out agricultural and pastoral activities.	99.98%	99.98%
Paranapanema Netherlands B.V. (*) Company with headquarters in the city of Amsterdam, The Netherlands, established on April 09, 2014.	100.00%	100.00%
Rio Negro Mineração e Com Ltda (*) Company with headquarters in the city of Santo Andre, state of São Paulo, Brazil, established on July 30, 1974.	99.99%	99.99%

(*) The Company is currently inactive.

02. Preparation basis

A) Declaration of compliance (in relation to IFRS and CPC standards)

The Consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), IAS 34 – “Interim Financial Reporting”, and in accordance with the accounting practices adopted in Brazil, CPC 21 (R1) – “Interim Statements”.

The presentation of the Individual and Consolidated Statement of Value Added (DVA) is required by Brazilian corporate law and by the accounting practices adopted in Brazil applicable to publicly-held companies. IFRS does not require the presentation of this statement. As a consequence, under IFRS, this statement is presented as supplementary information, without prejudice to the Quarterly Financial Report.

The issuance of the Individual and Consolidated financial statements was authorized by the Company's Board of Directors at a meeting held on July 21, 2017.

Measuring basis

The consolidated Quarterly Financial Report information was prepared based on a historical costs basis, except for the following material items recognized in the balance sheets:

- Derivative financial instruments measured at fair value;
- Non-derivative financial instruments designated and measured at fair value through profit or loss;
- Hedged metals inventory measured at fair value in R\$ through profit or loss.

B) Functional currency and presentation currency

This individual and consolidated Quarterly Financial Statements are being presented in Brazilian Reais (R\$), the functional currency of the Company. All financial information presented in Brazilian Reais has been rounded to the nearest thousands, except as otherwise indicated.

C) Use of estimates and judgments

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

Estimates and assumptions are reviewed continuously, and revisions to estimates are recognized prospectively.

D) Uncertainty regarding assumptions and estimates

Information on uncertainties related to assumptions and estimates that carry a significant risk of resulting in a material adjustment during the year ending December 31, 2017 are included in the following notes:

- Note 13 – Fixed assets: Main assumptions on the recoverable values of assets and a substantive analysis of the useful life;
- Note 19 - Provision for judicial claims: Main assumptions regarding the probability and size of cash disbursements;
- Note 26 - Deferred income and social contribution taxes: Availability on future taxable profits to compensate accumulated losses;
- Note 28 - Derivative financial instruments.

03. Measuring the fair value

A number of Company accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods below. When applicable, additional information regarding the assumptions used to determine the fair values is disclosed in the notes specific to the respective assets or liabilities.

A) Forward exchange rate agreements and interest rate swaps

The fair values of exchange rate forward contracts and interest rate swap contracts are based on brokerage prices. These quotations are tested for reasonableness by estimating the discounted future cash flow based on contract conditions and maturities, and using market interest rates of similar instruments on the measurement date. The fair values reflect the instrument credit risk and include adjustments to consider the credit risk of Paranapanema, its subsidiaries and counterparties, when appropriate.

B) Metal inventory

The fair value of metals inventory is marked-to-market using the USD future price curve of the London Metal Exchange (LME) and the London Bullion Market Association (LBMA) converted into R\$ using the month end exchange rate (PTAX). Future prices variations are reflected at each production stage considering the estimated time to sell this inventory.

C) Other non-derivative financial liabilities

Other non-derivative financial liabilities are measured at fair value upon initial recognition and at each annual reporting date for disclosure purposes. The fair value is calculated based on the present value of principal and future cash flow, discounted at the market interest rate on the measurement date. For convertible debt securities, the market interest rate is determined with reference to similar liabilities that do not have a conversion option. For financial leases, the interest rate is calculated by referring to similar lease agreements.

04. Main accounting policies

The Quarterly Financial Report follows the same principles, methods and GAAPs, except where indicated, as the annual financial statements as at December 31, 2016.

New standards and interpretations not yet adopted

A number of new standards, changes in standards and interpretations will be effective for years beginning after January 1, 2017 and were not adopted for the preparation of these interim financial statements. Those that may be relevant to the Company are mentioned below. The Company has not yet analyzed the potential impacts of the adoption of these new standards.

A) Disclosure Initiative (Review of CPC 3 (R2)/IAS 7)

The amendments require additional disclosure to allow users of financial statements to understand and evaluate changes in liabilities arising from financing activities, changes in cash flow and any other changes.

Changes are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted only for quarterly financial statements in accordance with IFRS.

B) Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to CPC 32/IAS 12)

Changes clarify the accounting of deferred tax assets for unrealized losses on debt instruments measured at fair value. Changes are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted only for quarterly financial statements in accordance with IFRS.

C) IFRS 9 (CPC 48) – “Financial Instruments”

IFRS 9 (CPC 48) replaces existing guidance in IAS 39 (CPC 38) – “Financial Instruments”: “Recognition and Measurement”. IFRS 9 (CPC 48) includes new models for the classification and measurement of financial instruments and the measurement of expected credit losses for financial and contractual assets, as well as new requirements on hedge accounting. The new standard maintains the existing guidance on the recognition and derecognition of financial instruments in IAS 39. IFRS 9 (CPC 48) is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted only for quarterly financial statements in accordance with IFRS. The Company is evaluating the potential impact on its quarterly financial statements.

D) IFRS 15 (CPC 47) – “Revenue from Contracts with Customers”

IFRS 15 (CPC 47) introduces a comprehensive framework for determining whether and when a revenue is recognized, and how revenue is measured. IFRS 15 (CPC 47) replaces the current revenue recognition standards, including CPC 30 (IAS 18) – “Revenue”, CPC 17 (IAS 11) – “Construction Contracts” and CPC 30 Interpretation A (IFRIC 13) – “Customer Loyalty Program Agreements”. IFRS 15 (CPC 47) is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted only for quarterly financial statements in accordance with IFRS. The Company is evaluating the potential impact on its quarterly financial statements.

E) Changes to CPC 36 – “Consolidated Statements” (IFRS 10) and CPC 18 – “Investments in Subsidiaries and Joint Ventures” (IAS 28)

Changes to CPC 36 and CPC 18 in relation to sales or contributions of assets between an investor and an associated company or jointly controlled enterprise.

There are no other IFRS or IFRIC interpretations that significantly impact the Company's quarterly financial statements which have not yet come into effect and that could have a material impact on the Company.

05. Cash and cash equivalents and interest earning bank deposits

	Notes	Parent company		Consolidated	
		06/30/2017	12/31/2016	06/30/2017	12/31/2016
Cash and banks		50,762	134,501	54,200	137,833
Interest earning bank deposits	(b)	27,207	-	42,719	-
Foreign exchange received	(a)	6,708	4,991	6,708	4,991
Cash and cash equivalents		84,677	139,492	103,627	142,824
Interest earning bank deposits	(c)	77,782	93,698	168,142	93,998
Interest earning bank deposits		77,782	93,698	168,142	93,998
		162,459	233,190	271,769	236,822
Interest earning bank deposits current assets		67,676	87,636	92,752	87,936
Interest earning bank deposits non-current assets		10,106	6,062	75,390	6,062

a) Cash held in foreign currency

Refers to cash in foreign currency (mainly USD) received from clients abroad which are pending exchange rate liquidation, compensation of any financing related to pre-export payments, or other cash settlements by the Company and its subsidiaries in foreign currency.

b) Cash savings classified as cash and cash equivalents

Refers to bank savings certificates and buyback debentures at market value, for which maturity is equal or less than 90 days. They are highly liquid low interest fluctuation risks. On June 30, 2017 these savings yielded 92.62% of the CDI, measured at fair value through P&L.

c) Financial investments

Refers to bank deposit certificates and buyback debentures reflecting normal market conditions as at the financial statement closing dates, and yields an average of 92.62% of the CDI as at June 30, 2017 (91.33% in December 31, 2016) in the consolidated statements, measured at fair value.

As at June 30, 2017, the Company had R\$77,782 (R\$50,053 as at December 31, 2016) of financial savings given as guarantees of electricity power purchase transactions in the free market, future US Dollar denominated working capital, and bank guarantees.

Following Paranapanema's investment policy, the Company keeps its cash surplus in low-risk saving accounts or treasury bonds held by first-line financial institutions (based on ratings from the main credit agencies).

06. Bank collateral account

	Parent company		Consolidated	
	06/30/2017	12/31/2016	06/30/2017	12/31/2016
Amortization of portions of export prepayment loans	2,042	7,964	2,042	7,964
Amortization of short-term loans	-	12,901	-	15,164
Current assets	2,042	20,865	2,042	23,128

On June 30, 2017 the value of R\$2,042 (R\$7,964 as at December 31, 2016) referred to foreign currency received, withheld by Banco Bradesco - New York as collateral for the payment of short-term installments of the PPE. The value R\$15,164, as at December 31 2016, refers to amounts received from collections, withheld by Banco do Brasil as collateral for the amortization of short-term loan installments.

07. Trade accounts receivable

		Parent company		Consolidated	
	Notes	06/30/2017	12/31/2016	06/30/2017	12/31/2016
Domestic clients:					
Third parties		164.048	166.389	220.721	264.753
Adjustment to present value - Third parties		(820)	(961)	(5.617)	(1.574)
Related parties	12.2	174.576	183.379	-	-
AVP related parties	12.2	(1.242)	(282)	-	-
Estimated loss on recoverable value		(55.082)	(52.256)	(56.717)	(53.630)
Foreign clients:					
Third parties		146.296	265.970	146.296	265.970
Adjustment to present value		(231)	(409)	(231)	(409)
Estimated loss on recoverable value		(1.167)	(1.020)	(1.167)	(1.020)
		426.378	560.810	303.285	474.090
Current assets		425.548	558.965	292.936	452.593
Non-current assets		830	1.845	10.349	21.497

The aging of accounts receivable, net of any impairment losses, is as follows:

	Parent company		Consolidated	
	06/30/2017	12/31/2016	06/30/2017	12/31/2016
Due in more than 120 days	1,716	2,627	23,358	23,197
Due in 91 to 120 days	2,162	3,490	10,889	3,620
Due in 61 to 90 days	74,574	36,684	35,655	45,065
Due in 31 to 60 days	174,624	111,507	80,364	132,124
Due in 30 days	164,584	343,032	141,024	252,779
Overdue up to 30 days	9,325	63,551	10,673	14,168
Overdue from 31 to 60 days	372	511	412	4,060
Overdue for more than 120 days	969	860	6,413	860
	<u>428,326</u>	<u>562,262</u>	<u>308,788</u>	<u>475,873</u>
Adjustment to present value	(2,293)	(1,652)	(5,848)	(1,983)
Other	345	200	345	200
	<u>426,378</u>	<u>560,810</u>	<u>303,285</u>	<u>474,090</u>
Current assets	425,548	558,965	292,936	452,593
Non-current assets	830	1,845	10,349	21,497

The Company is exposed to credit risk due to defaults on accounts receivable. The Company mitigates this risk applying policies and standards for credit monitoring and overdue bills. The Company establishes provision for losses on doubtful accounts (PCLD) to reduce the recoverable value of accounts receivable whenever it identifies evidence that amounts may not be received.

Changes in the estimated doubtful accounts provision are shown below:

	Parent company	Consolidated
Balance as at December 31, 2016	(53.276)	(54.650)
Provision for the year	(3.141)	(3.445)
Realized	168	211
Balance as at June 30, 2017	(56.249)	(57.884)

The balance of estimated losses on trade accounts receivable is composed of trade receivables overdue for more than 60 days and trade receivables where there is any evidence that cash may not be received, except when backed by collateral or cash in advance open balances. The collateral

balance was R\$6,413 as at June 30, 2017 (R\$860 as at December 31, 2016). Expenses subject to the recognition of a provision for doubtful receivables are recorded in the statements of income, under the caption "Other operating income (expenses)".

08. Inventory

	Parent company		Consolidated	
	06/30/2017	12/31/2016	06/30/2017	12/31/2016
Raw materials	336,421	265,977	336,421	265,977
Work in progress	262,236	218,567	262,236	218,567
Finished products	170,778	234,343	170,778	234,343
Imports in transit	128	57,433	128	57,433
Advances to suppliers for purchases of raw material	238,280	111,223	238,280	111,223
Maintenance materials and others	18,197	20,068	18,197	20,068
Resale material	1,237	3,939	20,194	17,313
Raw material in transit	4,291	12,445	4,291	12,445
Current assets	1,031,568	923,995	1,050,525	937,369

Inventory is initially measured at historical cost and, subsequently, under the inventory hedge accounting program (see Note 28.6.3); the portion related to the cost of metal (Copper, Gold, Silver, Lead, Zinc and Tin) is adjusted to the average market price in US Dollars based on the future market price curve. The translation of each metal price from USD to R\$ is made using the closing exchange rate for the month.

The variation of R\$113,156 in the consolidated company refers mainly to the receipt of R\$114,135 of copper concentrate pegged to the export of cathodes, totally pledged, and increase of R\$127,057 of cash advancement to suppliers to purchase raw materials, partially offset by the sales of finished products and lower inventory in-transit.

The Company offered 255 tons of electrolytic copper rods as guarantee for a fiscal lawsuit which on March 31, 2017 totaled R\$4,877 (R\$4,668 as of December 2016). In the case of an unfavorable decision, the full amount will be paid in cash.

09. Recoverable taxes and contributions

	Notes	Parent company			
		06/30/2017		12/31/2016	
		Current assets	Non-current assets	Current assets	Non-current assets
Value-added tax on sales and services–ICMS	(a)	28,239	104,213	24,889	99,147
Import license fee	(b)	-	32,554	-	32,105
Taxes on fixed assets recoverable		10,038	13,996	9,658	16,499
Income and social contribution taxes to be refunded	(c)	106	18,257	364	18,249
Reintegra	(d)	13,070	-	835	2,220
Credit retirement	(f)	9,138	-	11,688	-
Contribution for social security funding–COFINS	(e)	6,463	-	7,763	-
Social integration program - PIS	(e)	937	1,716	1,261	1,692
Social integration program–PIS - Export	(e)	310	-	310	-
Withholding income tax–IRRF		750	-	11,427	-
Excise tax–IPI		954	271	511	271
Estimated loss on recoverable value	(g)	-	(25,846)	-	(25,846)
Other		2,365	3	2,221	3
		72,370	145,164	70,927	144,340

	Notes	Consolidated			
		06/30/2017		12/31/2016	
		Current assets	Non-current assets	Current assets	Non-current assets
Value-added tax on sales and services–ICMS	(a)	29,955	104,213	25,640	99,147
Import license fee	(b)	-	32,554	-	32,105
Taxes on fixed assets recoverable		10,052	13,996	9,671	16,499
Income and social contribution taxes to be refunded	(c)	349	18,278	657	18,349
Reintegra	(d)	13,070	-	835	2,220
Credit retirement	(f)	9,138	-	11,688	-
Contribution for social security funding–COFINS	(e)	7,031	-	8,166	-
Social integration program - PIS	(e)	1,063	1,716	1,349	1,691
Social integration program–PIS - Export	(e)	310	-	310	-
Withholding income tax–IRRF		2,101	-	11,427	-
Excise tax–IPI		954	271	511	271
Prepaid income and social contribution taxes		1,646	-	266	-
Estimated loss on recoverable value	(g)	-	(25,846)	-	(25,846)
Other		2,362	3	2,222	3
		78,031	145,185	72,742	144,439

- a) Refers substantially to the credit balance on the circulation of goods and services (ICMS), generated from its operations in the Santo André-SP unit, as shown at its net realizable value. The Company is working to develop operations to utilize this credit. This amount is net of R\$7,897 provision as unrecoverable credit in cases of unforeseeable realization (g).
- b) The reimbursement of amounts related to Importation License (IL) with actions against the Federal Government for tax overpayment. Presently, the case is in the judicial execution phase.
- c) Refers to income tax (IT) and social contribution (SC) credits to be recovered from previous fiscal years. For the amounts classified as non-current assets, the Company has already applied for a refund through judicial proceedings and is waiting for a decision to compensate or receive the amount. This amount is net of a provision of R\$17,949 for unrecoverable credit (g).

- d) The Federal Program for tax reimbursement to export companies (REINTEGRA) amounts were calculated in accordance with the parameters defined in Law 12.546/2011, with amendments based on Law 12.844/2013.
- e) Refers mainly to federal tax credits based on Law 10.637/02 (PIS) and 10.866/03 (COFINS) related to the non-cumulative calculation regime.
- f) Refers to credits arising from past employer contributions to social security on employees' constitutional holiday supplements, indemnification for dismissal without prior notice, and the first 15 days of sick leave/accidents. The amount initially recorded in 2016 was R\$17,065 under "tax recovery" in other operating revenue, and R\$6,610 in financial interest income. The amount has already been offset against social security debts.
- g) The provision for loss on income tax credits in respect to several lawsuits in the amount of R\$17,949 (item c). The Company's legal advisors classified lawsuits to recover these credits as remote, and the constitution of a provision for loss in the amount of R\$7,897 related to ICMS credits with no foreseeable compensation (item a).

Management projects that the future taxable income for the Company and its subsidiaries will be adequate to realize the tax credits mentioned above.

These estimates are annually reviewed to ensure that any eventual change in the prospects of collection is reflected in the Company's financial statements.

10. Other current and non-current assets

10.1 Other accounts receivable

		Parent company			
	Note	06/30/2017		12/31/2016	
		Current assets	Non-current assets	Current assets	Non-current assets
Accounts payable related parties	(a)	-	47,794	-	-
Municipal writs of payment	(b)	-	68,911	-	66,272
City of Manaus	(c)	-	8,924	-	8,924
Federal writs of payments	(d)	-	2,890	42,308	6,500
Collective Plan Brasilprev Recovery	(e)	4,340	-	4,297	-
Advances to employees		2,480	-	1,739	-
Amount receivable - Disposal of Cibrafertil		1,001	-	1,001	-
Advances to suppliers		85	-	70	-
Accounts receivable from insurance		-	-	500	-
Margin call deposits		-	-	133	-
Other		508	678	598	679
		<u>8,414</u>	<u>129,197</u>	<u>50,646</u>	<u>82,375</u>

	Note	Consolidated			
		06/30/2017		12/31/2016	
		Current assets	Non-current assets	Current assets	Non-current assets
Municipal writs of payment	(b)	-	68,911	-	66,272
City of Manaus	(c)	-	8,924	-	8,924
Federal writs of payments	(d)	-	2,890	42,308	6,500
Collective Plan Brasilprev Recovery	(e)	4,340	-	4,297	-
Advances to employees		2,492	-	1,750	-
Amount receivable - Disposal of Cibrafertil		1,001	-	1,001	-
Advances to suppliers		85	-	70	-
Accounts receivable from insurance		-	-	500	-
Margin call deposits		-	-	133	-
Other		683	678	598	680
		<u>8,601</u>	<u>81,403</u>	<u>50,657</u>	<u>82,376</u>

- a) The subsidiary CDPC is providing cash management services to the parent company, based on the contract signed January 2, 2017. This contract does not transfer the ownership of resources, which will always be held by the parent company, as set out under Note 12.4 item b).
- b) Refers to writs of payment from the Cities of São Paulo, Santo André and Manaus, to be received starting in 2018.
- c) Refers to the lawsuit of a former Paranapanema construction company against the City of Manaus to collect the amounts incurred in the infrastructure work on the Flores road grid. The final ruling from the Court was favorable to the Company, but the Court has not presented the final ruling on the updated amount to be reimbursed.
- d) Refers to several federal writs of payment to be collected. Variation in this period in current assets of R\$42,308 refers to the receipt on January 12, 2017 of the Tax over Financial Operations (IOF) paid over financial assets between April 1990 and October 1991 in compliance with Law nº 8.033/90 (a.k.a. the Collor Plan).
- e) Refers to the collective account of the private pension plan, under the administration of BrasilPrev, the sum total of which was formed with the amounts not released by the company according to the criteria described in Note 31.

It is defined in the contract that the amount accumulated in the collective reserve may be used to adjust or improve the benefits or to settle its future contributions to present employees.

10.2. Judicial deposits

	Parent company/Consolidated	
	06/30/2017	12/31/2016
Labor	18,798	18,957
Tax	8,433	7,965
Social Security	1,216	1,216
Writs of payment	2,155	3,734
Civil	827	908
Other	1,022	1,021
Non-current assets	<u>32,451</u>	<u>33,801</u>

11. Assets held-for-sale

These are represented by properties available for sale in the amount of R\$110,879 as at June 30, 2017, measured at the acquisition cost less accumulated depreciation, which are lower than the expected realization values. This group of assets includes real estate no longer used in the Company's operations, and real estate legally confiscated from customers which defaulted against the Company. These assets are available for immediate sale under current conditions, and the Company has intensified its actions to monetize these properties, as they are part of the plan to readjust its capital structure.

On April 11, 2016, the Company signed with Plano Madeira Empreendimentos Imobiliários Ltda., a subsidiary of Plano & Plano Construções e Empreendimentos Ltda., the Sale and Purchase Agreements with resolving Clauses and Other Covenants (the Transaction). The Transaction subject is the land on which the old Capuava plant is installed, shut down in February 2015, with a total area of approximately 150,000 m², covering the municipalities of Santo Andre and Maua.

The amount to be paid under the Transaction is fixed at a certain percentage of sales value (PSV) of the condo project to be released onsite. The current reference value provides approximately R\$150 million in revenue. This cash inflow will follow the sales flow of this enterprise. The closing of the Transaction is subject to the fulfillment of certain resolute clauses, which are common for transactions of this nature.

The Company, together with Plano & Plano, has been following contractual conditions precedent regarding both legal due diligence and environmental due diligence, and to date, have not impeded the continuation of the Transaction, which has evolved into the next contractual phases, including working with public institutions to develop the condo project.

The Company offered four real estate properties as guarantees to a financial institution with the amount of R\$5,425, and two real estate properties worth R\$19,973 in guarantee for the administrative process related to the collection of social contribution on net profit (CSLL). If there is an unfavorable decision, the amount will be paid in cash.

12. Investments and related parties

12.1 Summary information and investment movements in June 30, 2017

	Note	CDPC - Centro Distrib. Prods. Cobre Ltda.	CINC - Caraiba International	Paraibuna Agropec. Ltda.	Total
Summarized financial information of subsidiaries					
Current assets		149.167	190	-	149.357
Non-current assets		89.835	-	598	90.433
Current liabilities		178.963	-	-	178.963
Non-current liabilities	10 (a)	47.794	-	-	47.794
Equity		12.245	190	598	13.033
Capital		27.000	3	6.400	33.403
Income from sales of goods and/or services		535.257	-	-	535.257
Cost of goods and/or services sold		(527.834)	-	-	(527.834)
Gross income		7.423	-	-	7.423
Operating expenses or income		(3.475)	(13)	-	(3.488)
Loss before financial income (loss) and taxes		3.948	(13)	-	3.935
Financial income (loss)		3.439	12	-	3.451
Loss before income tax		7.387	(1)	-	7.386
Income and social contribution taxes		(1.515)	-	-	(1.515)
Net Income (loss) for the period		5.872	(1)	-	5.871
Balance as at December 31, 2016		6.373	208	598	7.179
Foreign exchange variation of foreign investment		-	1	-	1
Equity in net income of subsidiaries		5.872	(19)	-	5.853
Balance as at June 30, 2017		12.245	190	598	13.033

12.2 Balances and parent company's transactions with related parties:

Direct subsidiaries	Current assets	Current liabilities	Sales of goods and services	Purchase of goods and services
Accounts receivable / payable				
CDPC -Centro de Distr. de Prods. Cobre Ltda.	174.576	39.555	533.196	(238.534)
Adjustment to present value CDPC	(1.242)	(134)	-	-
	<u>173.334</u>	<u>39.421</u>	<u>533.196</u>	<u>(238.534)</u>
Other accounts receivable / payable				
CDPC -Centro de Distr. de Prods. Cobre Ltda.	47.794	-	-	-
	<u>47.794</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance as at June 30, 2017	<u>221.128</u>	<u>39.421</u>	<u>533.196</u>	<u>(238.534)</u>
Balance as at December 31, 2016	183.097	59.641		
Balance as at June 30, 2016			322.890	(142.788)

12.3 Fees of Directors and Fiscal Council

The Company considered as "key management personnel", as intended by CVM Resolution 642/2010 and IAS 24/CPC 05 (R1), the members of its Executive Board, the Board of Directors and Audit Committee. The Company has no controlling shareholder and no Shareholders' Agreement.

	Note	Year to date 2017				Year to date 2016			
		Statutory Board	Administrative Council	Supervisory Board	Total	Statutory Board	Administrative Council	Supervisory Board	Total
Salary or pro-labore		1.103	723	361	2.187	1.244	854	344	2.442
Labor benefits		209	-	-	209	224	-	-	224
Compensation for participation in Committee		270	-	-	270	-	-	-	-
Social burden		221	198	72	491	298	171	69	538
Fixed remuneration		1.803	921	433	3.157	1.766	1.025	413	3.204
Post-employment benefit		62	-	-	62	20	-	-	20
Others		399	-	-	399	-	-	-	-
Other remuneration		461	-	-	461	20	-	-	20
Management fees		2.264	921	433	3.618	1.786	1.025	413	3.224
Bonus (ICP)	32	2.417	-	-	2.417	1.042	-	-	1.042
Bonus (ILP)	32	3	-	-	3	812	-	-	812
Social Burdens		484	-	-	484	371	-	-	371
Variable remuneration	32	2.904	-	-	2.904	2.225	-	-	2.225
Total remuneration		5.168	921	433	6.522	4.011	1.025	413	5.449

The members of the Fiscal Board and the Board of Directors are not parties to contracts for additional business benefits, such as post-employment benefits or other long-term benefits and compensation based on shares.

12.4 Related party transactions

a) Caixa Econômica Federal

The Board of Directors, in compliance with the Company's Related Party Policy, authorized the Company to contract credit lines up to R\$370,000 with Caixa Econômica Federal (CEF), a shareholder with 17.23% of the total shares. The contract is bound by the terms and conditions offered by CEF, which are equal to or more competitive than other credit lines available to the Company.

On June 30, 2017 the Company had loans related to anticipation of foreign currency contracts (ACC), with Caixa Econômica Federal in the amount of R\$201,095.

b) Centro de Distribuição de Produtos de Cobre Ltda. (CDPC)

The Company signed a cost sharing agreement on January 2, 2015 with its subsidiary CDPC which provides the charge of expenses, costs and its related labor contributions and taxes related to shared resources. Given the not-for-profit nature of this contract, neither party will charge any premium for the shared services and costs.

On January 2, 2017, the parent company signed with its subsidiary CDPC a cash, receivables and accounts payable management service contract, which includes activities such as collection, receipts and payments of general bills, the allocation of resources and investments, and other related activities. This contract does not transfer the ownership of resources, which will always be held by the parent company.

13. Property, plant and equipment and intangibles

							Parent company
	Average depreciation rate	12/31/2016	Additions	Write-offs	Transfers	Depreciation Amortization	06/30/2017
PROPERTY, PLANT AND EQUIPMENT							
Land		119.684	-	-	-	-	119.684
Industrial landfill		8.573	-	-	-	-	8.573
Improvements		15.435	-	-	-	-	15.435
Buildings		265.505	-	-	2.500	-	268.005
Installations		36.435	-	-	10.046	-	46.481
Machinery and equipment		1.528.335	-	(3.861)	24.308	-	1.548.782
Furniture and fixtures		19.817	-	-	355	-	20.172
Vehicles		1.339	-	(49)	-	-	1.290
Property, plant and equipment in progress		88.050	23.676	-	(36.929)	-	74.797
Provision for impairment losses		(25.083)	-	-	-	-	(25.083)
Spare parts		62.245	-	-	(409)	-	61.836
Cost		2.120.335	23.676	(3.910)	(129)	-	2.139.972
Industrial landfill	25%	(8.573)	-	-	-	-	(8.573)
Improvements	2,2%	(8.684)	-	-	-	(664)	(9.348)
Buildings	2,2%	(65.710)	-	-	-	(4.704)	(70.414)
Installations	2,2%	(9.285)	-	-	-	(1.233)	(10.518)
Machinery and equipment	8,5%	(718.886)	-	3.210	-	(53.461)	(769.137)
Furniture and fixtures	10%	(13.716)	-	-	-	(750)	(14.466)
Vehicles	20%	(994)	-	49	-	(48)	(993)
Accumulated depreciation:		(825.848)	-	3.259	-	(60.860)	(883.449)
Total assets		1.294.487	23.676	(651)	(129)	(60.860)	1.256.523
INTANGIBLES							
ERP/Software		55.904	-	-	129	-	56.033
Cost		55.904	-	-	129	-	56.033
ERP/Software	20%	(46.563)	-	-	-	(1.615)	(48.178)
Accumulated amortization:		(46.563)	-	-	-	(1.615)	(48.178)
Intangible assets		9.341	-	-	129	(1.615)	7.855

							Consolidated
	Average depreciation rate	12/31/2016	Additions	Write-offs	Transfers	Depreciation Amortization	06/30/2017
PROPERTY, PLANT AND EQUIPMENT							
Land		120.283	-	-	-	-	120.283
Industrial landfill		8.573	-	-	-	-	8.573
Improvements		15.929	-	-	3	-	15.932
Buildings		265.505	-	-	2.500	-	268.005
Installations		36.435	-	-	10.046	-	46.481
Machinery and equipment		1.528.434	-	(3.861)	24.308	-	1.548.881
Furniture and fixtures		19.885	-	-	355	-	20.240
Vehicles		1.339	-	(49)	-	-	1.290
Property, plant and equipment in progress		88.050	23.672	-	(36.932)	-	74.790
Provision for impairment losses		(25.083)	-	-	-	-	(25.083)
Spare parts		62.248	-	-	(409)	-	61.839
Cost		2.121.598	23.672	(3.910)	(129)	-	2.141.231
Industrial landfill	25%	(8.573)	-	-	-	-	(8.573)
Improvements	2,2%	(8.684)	-	-	-	(705)	(9.389)
Buildings	2,2%	(65.710)	-	-	-	(4.704)	(70.414)
Installations	2,2%	(9.285)	-	-	-	(1.233)	(10.518)
Machinery and equipment	8,5%	(718.937)	-	3.210	-	(53.466)	(769.193)
Furniture and fixtures	10%	(13.780)	-	-	-	(750)	(14.530)
Vehicles	20%	(996)	-	49	-	(48)	(995)
Accumulated depreciation:		(825.965)	-	3.259	-	(60.906)	(883.612)
Total assets		1.295.633	23.672	(651)	(129)	(60.906)	1.257.619
INTANGIBLES							
ERP/Software		55.904	-	-	129	-	56.033
Cost		55.904	-	-	129	-	56.033
ERP/Software	20%	(46.563)	-	-	-	(1.615)	(48.178)
Accumulated amortization:		(46.563)	-	-	-	(1.615)	(48.178)
Intangible assets		9.341	-	-	129	(1.615)	7.855

13.1. Property, plant and equipment in progress

As at June 30, 2017, the balance of the account property, plant and equipment in progress presented in the parent company and consolidated was R\$74,790 (R\$88,050 at December 31, 2016), and was substantially represented by:

13.1.1. The unit of Dias d'Ávila-BA had a balance of R\$48,981 as at June 30, 2017 (R\$54,404 as at December 31, 2016), referring to several projects arising from the need to improve the production of copper cathodes. The main projects were: i) Maintenance and improvement of operational activities; ii) Purchase of refractories; iii) Revamp of the electric furnace; iv) Recovery of Sulfuric Acid Plant phase-2; (v) Maintenance of the gas handling system; vi) Mud pond – 2o containment cell; and vii) Technological updating and operational maintenance of the factory.

13.1.2. The Santo André-SP unit had a balance of R\$25,816 as at June 30, 2017 (R\$33,646 as at December 31, 2016), with the main projects being aimed at maintaining and improving operational activities and corporate safety.

13.1.3. As at December 31, 2016, a provision of R\$25,083 was recorded for projects in progress related to equipment purchased and not expected to be installed as a result of the re-adjustment of investments in Capex for the preservation of cash.

13.2. Losses for impairment of fixed and intangible assets

In compliance with IAS 36/CPC 01 (R1) – “Impairment of Assets”, the Company performed annual impairment testing on its assets as at December 31, 2016, which were estimated based on the market values and discounted cash flow, and found that the estimated market value was in excess of the net book value on the assessment date. Also, there was no evidence of loss of value of individual assets or groups of relevant assets except for the provision made pursuant to Item 13.1.3.

Occasional impairment impacts were highlighted in the notes to the financial statements, when relevant.

13.3. Fixed assets in guarantee

The Company offered fixed assets that are part of its property, plant and equipment as guarantees in relation to tax lawsuits that, as at June 30, 2017 totaled R\$5,212 (R\$10,395 as at December 31, 2016). In the event of an unfavorable decision on any proceeding, the amounts will be paid in cash.

The Company provided fixed assets as collateral for loans used for projects related to production line expansion and technological updating, which as at June 30, 2017 totaled R\$340,931 (R\$344,371 as of December 31, 2016), and machinery and equipment totaling R\$69,997 as guarantee for the administrative process related to the collection of CSLL.

14. Trade payables

	Notes	Parent company		Consolidated	
		06/30/2017	12/31/2016	06/30/2017	12/31/2016
Domestic					
Goods		14,511	12,382	14,534	12,382
Freight and transportation		5,228	9,649	5,992	10,527
Services		8,321	10,487	8,532	10,621
Electric power/Water and sewage/Gas		7,123	7,022	7,123	7,022
Insurance		474	3,003	474	3,003
Others		-	78	-	78
Related parties	12.2	39,421	59,641	-	-
Adjustment to present value		(86)	(127)	(92)	(128)
		<u>74,992</u>	<u>102,135</u>	<u>36,563</u>	<u>43,505</u>
Foreign					
Goods		147,840	110,266	147,840	110,266
		<u>147,840</u>	<u>110,266</u>	<u>147,840</u>	<u>110,266</u>
		<u>222,832</u>	<u>212,401</u>	<u>184,403</u>	<u>153,771</u>
Current liabilities		222,819	212,373	184,390	153,743
Non-current liabilities		13	28	13	28

15. Forfait and letter of credit operations

These operations relate to signed purchase contracts of copper concentrate with suppliers that use banking operations called "forfaiting". In such transactions, suppliers transfer their security receiving rights to the banks which, in turn, become the creditors of the operations. This type of transaction does not significantly alter the prices and other conditions set by the Company's suppliers. However, the use of financial institutions allows suppliers to extend payment terms to customers and, at the same time, anticipate the receipt of payment for forward sales, contributing to the improvement of operating cash flow.

Considering the characteristics of such transactions and awareness of how the Company's suppliers are funding their operations, the amounts related to these transactions are presented in a specific caption. The terms and conditions are presented below:

			Parent company/Consolidated			
	Interest rate	Deadline	06/30/2017		12/31/2016	
			US\$	R\$	US\$	R\$
Letter of credit	VC + 1,3% to 4,3% p.y.	up to 360 days	18,683	61,807	42,263	137,738
Forfaiting - Foreign suppliers	VC + 2,8% to 5,7% p.y.	up to 360 days	133,342	441,124	140,559	458,095
			152,025	502,931	182,822	595,833

Due to the Company's debt reprofiling process, forfait operations were renewed under the FINIMP debt instrument during 2Q17. This instrument is recorded in loans and financing.

16. Loans and financing

		Parent company		Consolidated	
		06/30/2017	12/31/2016	06/30/2017	12/31/2016
Short-term loans					
Foreign trade loans	3% to 8% p.y	603,898	582,273	603,898	582,273
		603,898	582,273	603,898	582,273
Obtained in the long term					
Foreign loans					
Import financing	up to 3% p.y	336,787	299,321	336,787	299,321
Loans in foreign currency	3% to 7% p.y	632,553	616,082	632,553	616,082
		969,340	915,403	969,340	915,403
Domestic loans					
Project financing	2,5% to 18,5% p.y	30,951	39,639	30,957	39,648
Banco do Nordeste do Brasil – FNE	5% to 10% p.y	96,414	96,248	96,414	96,248
Working capital	CDI + 0,5% p.m	215,500	137,960	215,500	137,960
Credit Export Notes - NCE	8% p.y	76,576	73,608	76,576	73,608
		419,441	347,455	419,447	347,464
Current liabilities		1,992,679	1,845,131	1,992,685	1,845,140

As at June 30, 2017 and December 31, 2016, total loans and financing balances were updated and fully recorded in current liabilities due to breaches of covenants as well as defaults on other debts. The amount reclassified to current liabilities on June 30, 2017 totaled R\$282,913 (R\$433,464 on December 31, 2016). As described in Note 1, the Company is adopting a series of measures for capital restructuring that include the renegotiation of debt reprofiling and new standards for covenants.

The table below states loans and financing in thousands of USD as at June 30, 2017. The Company presented a consolidated position in the amount of USD602,346 fully recorded in current liabilities, of which USD85,518 was reclassified as a result of the breaches of covenants (USD566,150 as at December 31, 2016, with USD133,001 reclassified due to the covenant breach).

		Parent company		Consolidated	
		06/30/2017	12/31/2016	06/30/2017	12/31/2016
Short-term loans					
Foreign trade loans	3% to 8% p.y	182,546	178,661	182,546	178,661
		182,546	178,661	182,546	178,661
Obtained in the long term					
Foreign loans					
Import financing	up to 3% p.y	101,804	91,842	101,804	91,842
Loans in foreign currency	3% to 7% p.y	191,208	189,034	191,208	189,034
		293,012	280,876	293,012	280,876
Domestic loans					
Project financing	2,5% to 18,5% p.y	9,356	12,163	9,358	12,165
Banco do Nordeste do Brasil – FNE	5% to 10% p.y	29,144	29,532	29,144	29,532
Working capital	CDI + 0,5% p.m	65,141	42,331	65,141	42,331
Credit Export Notes - NCE	8% p.y	23,147	22,585	23,147	22,585
		126,788	106,611	126,790	106,613
Current liabilities					
		602,346	566,148	602,348	566,150

Guarantees:

As at June 30, 2017, the long-term loans and financing named FINEM FINAME (BNDES), FNE (BNB) and FINIMP were guaranteed by property, plant and equipment items. The net book value of these assets is R\$340,931, sufficient to cover the respective loans, of which R\$208,638 in land and facilities and R\$132,293 in machinery and equipment (Note 13.3).

On June 30, 2017, the PPE financial instrument was backed-up by a cash collateral account in foreign currency, in order partially to compensate short-term installments, per Note 6.

Covenants:

The Company had PPE in the amount of R\$632,553 as at June 30, 2017 (R\$616,082 as at December 31, 2016). Under the terms of the contracts, these loans will be paid over the next three years. The contracts contain covenants measured quarterly by the cumulative result of the last 12 month. Given the debt reprofiling negotiations, the ratios measured by the Company at the end of June 30, 2017 were: net debt divided by Adjusted EBITDA (6.31x), current assets index divided by current liabilities (current liquidity) (0.59x) and the net debt ratio divided by shareholders' equity (1.43x).

17. Salaries and social security charges

	Parent company		Consolidated	
	06/30/2017	12/31/2016	06/30/2017	12/31/2016
Provision for vacations	22.500	25.308	22.555	25.377
Profit sharing	7.926	9.658	7.948	9.842
Provision for 13th month's salary	6.721	-	6.742	-
Social security	4.860	5.113	4.877	5.150
Contribution to the Severance Indemnity Fund	761	1.431	764	1.436
Social security	441	469	441	469
Other	97	29	101	32
Current liabilities	43.306	42.008	43.428	42.306

18. Taxes and contributions payable

	Notes	Parent company		Consolidated	
		06/30/2017	12/31/2016	06/30/2017	12/31/2016
Contribution for social security funding-COFINS		5,363	1,886	5,526	2,097
Value-added tax on sales and services - ICMS		6,918	8,294	6,923	8,297
Social Integration Program-PIS		1,160	464	1,193	509
Property tax urban		2,881	175	2,881	175
Excise Tax - IPI		2,075	1,790	2,075	1,790
Withholding income tax-IRRF		1,771	3,007	1,772	3,009
Income tax and social contribution	26.2	-	-	1,819	-
Withheld PIS, COFINS, income tax and social contribution		407	588	408	588
ISS - Service Tax		347	436	347	437
Other		38	33	38	33
		20,960	16,673	22,982	16,935
Current liabilities		20,638	16,208	22,660	16,470
Non-current liabilities		322	465	322	465

The Brazilian tax system is based on self-filing, where tax filing declarations are available for review by the fiscal authorities for a period of five years from the filing date.

19. Provision for judicial claims

19.1 Risk provision

The Company makes provision for tax, labor and civil lawsuits and administrative proceedings against the Company and its subsidiaries when the likelihood of losses is deemed probable by its Legal Counsel.

	Parent company/Consolidated	
	06/30/2017	12/31/2016
Labor	208,129	178,136
Tax	8,145	7,635
Civil	5,361	3,683
Non-current liabilities	221,635	189,454

The provision for labor contingencies refers to lawsuits in progress in the Labor Court which, individually, are not material to the Company's business.

The provision for civil lawsuits consists mainly of indemnity suits in connection with contractual disputes.

The changes in provision are shown below:

	Parent company/Consolidated			
	Labor	Civil	Tax	Total
Balance as at December 31, 2016	178.136	3.683	7.635	189.454
Provision (Reversal)	51.936	1.678	510	54.124
Write-offs	(21.943)	-	-	(21.943)
Balance as at June 30, 2017	208.129	5.361	8.145	221.635

19.2 Risks assessed as possible

In addition to the above-mentioned lawsuits, there are other lawsuits in progress where the likelihood of loss is deemed possible by Legal Counsel. Therefore, in accordance with the accounting practices adopted by the Company, no provision was recorded.

Most relevant proceedings are of a tax nature and are commented on in items from "a" to "b":

	Parent company		Consolidated	
	06/30/2017	12/31/2016	06/30/2017	12/31/2016
Labor	252,690	260,700	252,690	260,700
Tax	814,842	811,989	815,159	879,647
Social security	22,970	22,695	22,970	22,695
Civil	995,808	979,402	995,808	979,402
	<u>2,086,310</u>	<u>2,074,786</u>	<u>2,086,627</u>	<u>2,142,444</u>

a) Social Contribution on Net Income (CSLL)

In 1994, the company Caraíba Metais S.A., incorporated by Paranapanema S.A. on November 13, 2009, obtained a final Court decision that it is not required to pay CSLL as established by Law 7.689/88.

The decision was challenged by the National Treasury through a motion for a new trial proposed in 1994, requiring the payment of CSLL by Caraíba Metais S. A. The motion for a new trial was accepted and the final ruling was favorable to the Federal Government on March 29, 2010.

The Company, based on its legal advisors' opinion, believes the decision that canceled Caraíba Metais S.A.'s right not to pay CSLL cannot be retroactively applied to the years before 2010. For this reason, the incorporated Caraíba Metais S.A. has not recorded a provision for this contribution since 1992. Also, in years prior to this date Caraíba Metais S.A. presented a net loss and was exempt from paying CSLL.

However, the Brazilian Internal Revenue Service filled four infraction notices for not paying CSLL for the calendar years 1996-2008. Two infraction notices are already in the Tax Execution phase, and payments were guaranteed by the Company through treasury bonds deposited in a judicial account created for this purpose.

On June 30, 2017, the Company estimated not provisioned amounts of R\$487,186 (R\$474,507 as of December 31, 2016). The tax counselors assessed R\$392,458 as representing a possible risk of loss and R\$94,728 as a remote risk.

b) Isolated IPI and IRPJ fine

The Brazilian Federal Internal Revenue Service filed an infraction notice to collect an isolated fine related to undue compensations of IPI and IRPJ debits between 2004 and 2006, performed by Caraíba Metais SA (incorporated company). These compensations were made by the Company before the final ruling from justice on the credit used validity.

On August 24, 2010, Caraíba Metais S.A obtained partial success in the Appeal Court, on recognition of the lack of a legal basis for the enforcement of an "isolated/non-cumulative" fine before the edition on Law nº 11.196/2005.

The Company, supported by its legal counselors, believes this collection to be undue according with the decision ruled by the Supreme Court of Justice in the special appeal nº 1.164.452/MG, which jurisprudence demands that the requisite final ruling can only be used for actions filed after

Complementary Law nº 104/2001, published on January 11, 2001. The legal action which allowed the use of the credit was published on August 17, 1998.

Presently, the case is under discussion at the first legal instance, being the collection of the fine contested by the Company through suspension of the fiscal execution.

As at June 30, 2017, the Company estimated the updated amount not subject to provision as being R\$101,972 (R\$90,519 as at December 31, 2016). Risk of loss is assessed as possible.

c) Contract UBS Pactual S.A. and Santander S.A.

Paranapanema concluded on August 22, 2008 the Private Instrument parameter exchange (swap) with the banks UBS Pactual SA (BTG Pactual) and Banco Santander (Brazil) SA (Santander and together with BTG Pactual, the Banks), whose underlying value was the price of Paranapanema's shares (the Agreements). The Banks on April 20, 2009 submitted notifications to Paranapanema charging in respect of swap contracts, the total amount of R\$208,500, adjusted under the terms of the contracts. The Company believes that this amount is not due. Because of this disagreement, in April 2010, Santander initiated arbitration proceedings before the Arbitration and Mediation Center of the Chamber of Commerce Brazil-Canada (CAM-CCBC), whose judgment, in favor of Santander, required the payment of R\$292,000, restated from the dates set out in the judgment, at the IGP-M + 1% per month. That judgment was an annulment action proposed by Paranapanema in common law, which was upheld in the first and second instance, determining the annulment of the decision by CAM-CCBC. The annulment action is pending judgment of the appeals addressed to the Superior Courts filed by Paranapanema and by BTG Pactual. In view of the annulment of the award, and although there are still some appeals pending trial, Santander required the initiation of a new arbitration before the CAM-CCBC. The new arbitration was established, becoming Number 02/2015/SEC1 (the Arbitration). This Arbitration involves Santander, BTG Pactual and the Company. On August 1, 2016, the Directorate of CAM-CCBC informed the parties that, on the basis of requests from the applicants, it had defined the amount involved in the arbitration as being R\$631,693. The reported value may be reassessed at any time during the course of the arbitration.

As at June 30, 2017, the Company estimated the total amount not provisioned of R\$669,599 (R\$634,168 on December 31, 2016), assessing the risk of loss as possible.

20. Other current liabilities

	Notes	Parent company		Consolidated	
		06/30/2017	12/31/2016	06/30/2017	12/31/2016
Dividends payable	(a)	24.077	24.560	24.077	24.560
Attorneys' fees and services		13.984	15.760	13.984	15.760
Various provision		9.471	9.462	9.478	9.463
Sales commissions		8.836	8.570	8.923	8.649
Provision for environmental expenses	(b)	6.740	5.719	6.740	5.719
Guest credits	(c)	4.173	6.791	4.494	7.559
Advances from customers	(d)	8.385	9.332	10.456	9.704
Others		1.078	1.114	1.080	1.114
Current liabilities		76.744	81.308	79.232	82.528
Dividends payable		24.077	24.560	24.077	24.560
Advances from Customers		8.385	9.332	10.456	9.704
Other current liabilities		44.282	47.416	44.699	48.264
		76.744	81.308	79.232	82.528

- a) Mandatory minimum dividend equivalent to 25% of net income adjusted by the legal reserve, with monetary updates based on the IGP-M, as Note 21j.
- b) Refers to expenditure forecasted to fulfill obligations under the Conduct Adjustment Agreement (TAC – Termo de Ajuste de Conduta) signed on December 04, 2015 between the Public Ministry of Bahia, Paranapanema and other companies. The agreement objective is to implement mitigation, reparation and compensation measures related to the environmental impacts within the Ilha da Maré area.
- c) Customer Credits refer to adjustment between price parameters, volumes and/or metal content yields charged temporarily at invoicing, and final transaction parameters.
- d) Advances from customers (mainly from export sales) where the final sales price is later adjusted by volume, metal yields or quality verified by customers.

21. Equity

a) Capital

The subscribed and paid-in capital, as at June 30, 2017 and December 31, 2016 was R\$1,382,990 (one billion, three hundred eighty-two million, nine hundred ninety thousand Reais), represented by 319,176,942 registered shares, and all of them are common, nominative and with no par value.

The ownership structure of the Company is as follows:

	%	06/30/2017	%	12/31/2016
Caixa de Previd. dos Func. do Banco do Brasil - PREVI	23.96	76,468,727	23.96	76,468,727
Caixa Econômica Federal	17.23	54,990,591	17.23	54,990,591
Bonsucex Holding S.A.	13.61	43,437,178	12.56	40,074,383
Fund. Petrobras de Seguridade Social - PETROS	11.81	37,702,021	11.81	37,702,021
Sul America Investimentos DTVM S.A.	-	-	6.87	21,928,000
Treasury shares	0.01	24,505	0.01	24,505
Market	33.38	106,553,920	27.57	87,988,715
Quantity of shares		319,176,942		319,176,942

b) Authorized capital

The Company's Management is authorized to increase its capital independently of a decision by a Shareholders' Meeting, up to the limit of R\$2,500,000 (two billion and five hundred million Reais), through a resolution of the Board of Directors, which will also establish issuance and placement conditions of said securities among the assumptions permitted by law.

c) Rights of shares

Each year, the shareholders will receive minimum dividends of 25% of net income calculated pursuant to the terms of Brazilian Public Corporate Law, and they must be paid within a maximum period of 60 days after the date on which they are declared by the General Shareholders' Meeting. And, shareholders are entitled with voting rights to all shares that comprise capital, which is fully subscribed and paid-in.

In accordance with the BM&FBOVESPA S.A New Market segment regulation, owners of common shares have the right to sell their shares for the same prices as shares negotiated through a controlling group/shareholder (tag along rights of 100%).

d) Legal reserve

Brazilian Public Corporate Law requires corporations to allocate 5% of their net income for the year to the legal reserve, before profit sharing, limiting this reserve to 20% of the paid-in capital.

e) Treasury shares

As at June 30, 2017 and December 31, 2016, the Company had 24,505 common shares in treasury. The market value of the total treasury shares, calculated based on the last stock exchange quotation as at June 30, 2017 was R\$32 (R\$37 as at December 31, 2016).

f) Tax incentive reserve

Paranapanema is a tax beneficiary until 2020 of a 75% fixed reduction in the income tax rate and additions calculated based on the operating profit. This profit is calculated based on the net income for the period, excluding the tax benefits of: (i) financial results, and (ii) capital gains. This tax benefit is under the Regulation of Tax Incentives of the Northeast Development Superintendence (SUDENE), as established by Minister of National Integration (MIN) No. 283 of 04.07.2013 (the Regulation).

According to Article 11, "the amount of tax not paid because of tax benefits described in this Regulation may not be distributed to partners or shareholders and constitutes the tax incentive reserve, which can only be used to offset losses or increase capital." Thus, it is an obligation of the Company to allocate to the tax incentive reserve account the amount arising from the tax benefit (tax amount not paid), which, by definition, does not go into net income, because it does not arise from the delivery of goods or services by the Company.

g) Equity evaluation adjustments

The reserve for equity evaluation adjustments includes:

- Net variations of financial instruments' fair value used as a cash flow hedge, which will later be recognized in the profit or loss upon liquidation (see Note 28).
- Accumulated translation adjustments including all foreign currency differences deriving from the translation of the quarterly information of subsidiaries with foreign operations.

Changes in equity valuation adjustments:

	Hedge Cash Flow					Total
	Export revenue ACC/PPE	NDF sales revenue	Metal cost x exchange future	Other debts	Exchange variation investment exterior	
Balance as at December 31, 2016	(454.790)	(185.635)	85	(425.127)	(103)	(1.065.570)
Other comprehensive income	(11.039)	15.054	309	(2.194)	2	2.132
Balance as at June 30, 2017	(465.829)	(170.581)	394	(427.321)	(101)	(1.063.438)

h) Market value of Company's shares

The market value of the Company's shares, in accordance with the latest average quotation of shares traded at BM&FBOVESPA, corresponded on June 30, 2017 to R\$421,314 (R\$481,957 as at December 31, 2016). The Company presents shareholders' equity of R\$142,833 (R\$257,010 as at December 31, 2016), with the Statement of Financial Position value of shares being R\$0.45 (R\$0.81 as at December 31, 2016).

i) (Loss) earnings per share

The basic calculation of (loss) earnings per share is made by dividing the net income (loss) for the period attributable to the Company's common shareholders by the weighted average number of common shares outstanding during the period.

The diluted (loss) earnings per share is calculated by dividing the net income (loss) attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the period, plus the weighted average number of common shares that would be issued on conversion of all common shares with dilutive potential into common shares

The following table shows the result data and shares used in the calculation of basic loss per share:

	Year to date 2017	Year to date 2016
Loss for the period	(116.309)	(277.850)
Weighted average of the quantity of shares to the profit and diluted income per share (*)	319.152.437	319.152.437
(Loss) per share - common	(0,36443)	(0,87059)

(*) The weighted average quantity of shares considers the effect of changes in the weighted average quantity of shares within this period (except treasury shares).

There were no other transactions involving common shares or potential common shares between March 31, 2017 and the publication of these financial statements.

j) Profit Allocation

The Company's bylaws provide a mandatory minimum dividend payment of 25% of adjusted net income after the establishment of the legal reserve, in compliance with the Public Companies (S.A.) regulations.

Payment of Dividends

The Ordinary and Extraordinary Shareholders' Meeting (AGOE) held on April 28, 2017 unanimously approved the renewal of the postponement date for dividend payments declared in the Ordinary Shareholders' Meeting held on April 29, 2016 (AGO 2016). Dividends will be paid until December 31, 2019 including monetary adjustments based on the inflation index IGP-M from June 24, 2016 to the effective payment date.

22. Net revenue from sales

a) Breakdown of net revenue

	Parent company			
	2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
Gross sales	864,006	1,888,443	1,538,456	3,231,463
Domestic market	552,277	1,168,618	659,446	1,295,664
Foreign market	311,729	719,825	879,010	1,935,799
Taxes and sales deductions	(110,487)	(233,248)	(144,450)	(370,180)
Excise Tax - IPI	(5,319)	(10,935)	(5,185)	(9,958)
Value-added tax on sales and services - ICMS	(56,475)	(117,080)	(62,458)	(126,382)
Tax Incentive Fiscal ICMS - Desenvolve (I)	19,015	40,878	21,177	39,990
Social Integration Program-PIS	(8,573)	(17,784)	(9,678)	(19,301)
Contribution for social security funding-COFINS	(39,490)	(81,916)	(44,577)	(88,903)
Other taxes and sales deductions	(19,645)	(46,411)	(43,729)	(165,626)
Net revenue from sales	753,519	1,655,195	1,394,006	2,861,283
Net revenue - DM	452,925	959,051	541,669	1,057,705
Net revenue - FM	300,594	696,144	852,337	1,803,578
	753,519	1,655,195	1,394,006	2,861,283

	Consolidated			
	2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
Gross sales	727,498	1,589,980	1,406,912	2,921,126
Domestic market	415,769	870,155	522,995	980,420
Foreign market	311,729	719,825	883,917	1,940,706
Taxes and sales deductions	(83,601)	(171,259)	(118,581)	(311,084)
Excise Tax - IPI	(5,319)	(10,935)	(5,185)	(9,958)
Value-added tax on sales and services - ICMS	(39,040)	(81,514)	(44,810)	(86,166)
Tax Incentive Fiscal ICMS - Desenvolve (I)	19,015	40,878	21,177	39,990
Social Integration Program-PIS	(6,199)	(12,900)	(7,202)	(13,816)
Contribution for social security funding-COFINS	(28,551)	(59,418)	(33,173)	(63,639)
Other taxes and sales deductions	(23,507)	(47,370)	(49,388)	(177,495)
Net revenue from sales	643,897	1,418,721	1,288,331	2,610,042
Net revenue - DM	343,303	722,577	431,087	801,557
Net revenue - FM	300,594	696,144	857,244	1,808,485
	643,897	1,418,721	1,288,331	2,610,042

(I). The industrial headquarters located in Dias d'Ávila, in the State of Bahia, was granted a tax incentive of ICMS, within the scope of the Industrial Development and Economic Integration Program of the State of Bahia (DESENVOLVE). In August 2016, by Decree No. 16,970, Law 13,564 the Government established that every company enjoying fiscal and financial benefits, or incentives that result in a reduction in the value of ICMS paid, shall contribute the corresponding amount of 10% of the benefit or incentive to the State Fund to Combat and Eradicate Poverty.

b) Geographical information – revenue from clients abroad

	Parent company / Consolidated			
	2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
America	139,530	265,773	129,468	270,209
Europe	133,956	272,946	399,913	864,022
Asia	34,450	174,186	354,536	805,077
Africa	3,793	6,920	-	1,398
	<u>311,729</u>	<u>719,825</u>	<u>883,917</u>	<u>1,940,706</u>

Exports to Europe and Asia are basically represented by sales to trading companies, where the main destination was China.

23. Expenses per type

	Parent company			
	2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
Metal cost	(614.181)	(1.328.764)	(1.143.622)	(2.370.430)
Personnel and benefits	(59.428)	(114.781)	(59.692)	(118.418)
Depreciation	(30.566)	(62.475)	(36.785)	(70.661)
Electricity/water/gas/fuel and lube oil	(27.819)	(55.098)	(34.109)	(66.247)
Services rendered by third parties and others	(13.787)	(28.611)	(25.322)	(48.151)
Maintenance	(14.210)	(35.484)	(20.568)	(37.393)
Petrochemicals stock used/absorbed	(12.049)	(33.838)	(3.859)	(24.443)
Rent	(3.826)	(10.725)	(5.121)	(10.209)
Issues institutional and legal	(3.316)	(6.282)	(2.881)	(6.288)
Informatics/telecommunications	(976)	(2.920)	(1.763)	(3.480)
Other expenses	(1.183)	(2.231)	(1.475)	(2.991)
Travel expenses	(629)	(1.219)	(837)	(1.565)
Sales and marketing	(180)	(410)	(792)	(1.285)
Transfer idleness for expense	(a) 48.531	107.622	20.577	38.019
	<u>(733.619)</u>	<u>(1.575.216)</u>	<u>(1.316.249)</u>	<u>(2.723.542)</u>
Cost of products sold	(709.347)	(1.525.482)	(1.290.506)	(2.672.851)
Sales expenses	(6.483)	(12.790)	(7.891)	(15.576)
Administrative and general expenses	(17.789)	(36.944)	(17.852)	(35.115)
	<u>(733.619)</u>	<u>(1.575.216)</u>	<u>(1.316.249)</u>	<u>(2.723.542)</u>

	Consolidated			
	2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
Metal cost	(498.976)	(1.084.895)	(1.034.858)	(2.112.040)
Personnel and benefits	(60.261)	(116.465)	(60.731)	(120.449)
Depreciation	(30.593)	(62.521)	(36.788)	(70.667)
Electricity/water/gas/fuel and lube oil	(27.847)	(55.152)	(34.144)	(66.289)
Services rendered by third parties and others	(13.958)	(28.999)	(25.528)	(48.784)
Maintenance	(14.228)	(35.457)	(20.563)	(37.474)
Petrochemicals stock used/absorbed	(11.868)	(33.560)	(3.589)	(23.203)
Rent	(4.071)	(11.135)	(5.315)	(10.905)
Inssues institutional and legal	(3.342)	(6.317)	(2.904)	(6.317)
Informatics/telecommunications	(990)	(2.948)	(1.804)	(3.549)
Other expenses	(1.192)	(2.248)	(1.474)	(2.995)
Travel expenses	(628)	(1.219)	(844)	(1.580)
Sales and marketing	(181)	(413)	(822)	(1.313)
Transfer idleness for expense	(a) 48.531	107.622	20.577	38.019
	<u>(619.604)</u>	<u>(1.333.707)</u>	<u>(1.208.787)</u>	<u>(2.467.546)</u>
Cost of products sold	(594.071)	(1.281.586)	(1.181.609)	(2.413.571)
Sales expenses	(6.986)	(13.671)	(8.557)	(17.312)
Administrative and general expenses	(18.547)	(38.450)	(18.621)	(36.663)
	<u>(619.604)</u>	<u>(1.333.707)</u>	<u>(1.208.787)</u>	<u>(2.467.546)</u>

- a) The reclassification of idle capacity to the expenses for the year relates to the lower volume of production as a result of re-adjusting the level of acquisition of raw materials to the availability of working capital in order to preserve cash.

24. Other operating income (expenses)

	Notes	Parent company			
		2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
Sundry recoveries		658	4.978	1.015	1.321
Energy sales revenue		1.480	1.957	1.426	4.252
Tax recoveries		1.681	1.681	225	610
Sundry sales		242	476	387	691
Leasing of property and equipment.		93	143	48	99
Profits and dividends		61	61	-	-
Reversal of negative net worth from investments	12	-	-	2.999	2.817
Writs of payment		-	-	1.493	1.493
Reversal of estimated loss for allowance of doubtful accounts	07	-	-	-	1.042
Reversal of other estimated loss		-	-	16	29
Other operating income		566	795	10	37
Total of other operating income		<u>4.781</u>	<u>10.091</u>	<u>7.619</u>	<u>12.391</u>
Idle capacity	23	(48.531)	(107.622)	(20.577)	(38.019)
Provision for judicial claims	19	(25.615)	(54.124)	(16.963)	(37.057)
Provision for estimated doubtful accounts	07	(815)	(3.141)	(16.739)	(16.739)
Severance pay		(1.240)	(3.029)	(1.434)	(1.434)
PIS and COFINS on other income		(462)	(1.883)	(1.470)	(2.991)
Write-off of property, plant and equipment		-	(651)	(1)	(2)
Provision for judicial claims		(199)	(456)	(3.072)	(7.263)
Fines from infraction notices		(91)	(166)	(167)	(401)
Sundry sales cost		(31)	(59)	(131)	(850)
Tax credits write-off		-	-	-	(906)
Other estimated losses		-	-	(362)	(362)
Other operating expenses		(1.990)	(2.180)	(976)	(1.260)
Total of other operating income		<u>(78.974)</u>	<u>(173.311)</u>	<u>(61.892)</u>	<u>(107.284)</u>
Total of other operating income (expenses), net		<u>(74.193)</u>	<u>(163.220)</u>	<u>(54.273)</u>	<u>(94.893)</u>

					Consolidated
	Notes	2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
Sundry recoveries		658	4.978	1.005	1.311
Energy sales revenue		1.480	1.957	1.426	4.252
Tax recoveries		1.681	1.710	225	610
Sundry sales		242	476	387	691
Leasing of property and equipment.		93	143	48	99
Profits and dividends		61	61	-	-
Reversal of estimated loss for allowance of doubtful accounts	07	-	-	15.441	16.483
Reversal of other estimated loss		-	-	16	29
Other operating income		566	796	8	35
Total of other operating income		4.781	10.121	18.556	23.510
Idle capacity	23	(48.531)	(107.622)	(20.577)	(38.019)
Provision for judicial claims	19	(25.615)	(54.125)	(16.963)	(37.057)
Provision for estimated doubtful accounts	07	(821)	(3.445)	(16.769)	(16.771)
Severance pay		(1.251)	(3.040)	(1.480)	(1.480)
PIS and COFINS on other income		(640)	(2.293)	(1.629)	(3.354)
Write-off of property, plant and equipment		-	(651)	(1)	(2)
Provision for judicial claims		(199)	(456)	(3.072)	(7.263)
Fines from infraction notices		(91)	(232)	(172)	(447)
Sundry sales cost		(31)	(59)	(131)	(850)
Tax credits write-off		-	-	-	(906)
Other estimated losses		-	-	(362)	(362)
Other operating expenses		(2.150)	(2.576)	(991)	(1.279)
Total of other operating income		(79.329)	(174.499)	(62.147)	(107.790)
Total of other operating income (expenses), net		(74.548)	(164.378)	(43.591)	(84.280)

25. Financial income (expenses)

					Parent company
	Note	2nd Quarter 2017	Year to date 2017	2nd Quarter 2016	Year to date 2016
Liability foreign exchange fluctuations	a	(37.944)	(107.465)	(483.524)	(759.494)
Derivative financial instruments	b	(21.224)	(82.101)	(148.196)	(307.516)
Interest expenses		(37.334)	(67.689)	(37.999)	(65.290)
Adjustment to present value		(3.636)	(8.432)	(10.786)	(25.949)
Hedge on fair value of inventory		1.419	(3.122)	(67)	(3.427)
Bank expenses/IOF		(3.183)	(4.502)	(2.567)	(3.986)
Liability monetary variation		(1)	(332)	(9.618)	(11.487)
Other financial expenses		(1.172)	(1.891)	(172)	(641)
Total financial expenses		(103.075)	(275.534)	(692.929)	(1.177.790)
Asset foreign exchange fluctuation	a	30.650	118.571	479.712	751.847
Derivative financial instruments	b	10.859	68.277	117.479	266.022
Adjustment to present value		6.590	12.927	6.663	13.647
Interest income		3.157	8.206	18.338	35.109
Hedge on fair value of inventory		16.591	24.425	2.245	25.194
Monetary variation – assets		1.627	2.415	6.270	7.757
Other financial income		774	3.659	11.510	13.392
Total financial income		70.248	238.480	642.217	1.112.968
Total financial result		(32.827)	(37.054)	(50.712)	(64.822)

	Note	2nd Quarter	Year to date	2nd Quarter	Consolidated Year to date
		2017	2017	2016	2016
Liability foreign exchange fluctuations	a	(37.944)	(107.465)	(483.524)	(759.494)
Derivative financial instruments	b	(21.224)	(82.101)	(148.202)	(307.522)
Interest expenses		(39.484)	(74.348)	(42.012)	(73.408)
Adjustment to present value		(7.167)	(14.646)	(14.082)	(32.563)
Hedge on fair value of inventory		1.419	(3.122)	(67)	(3.427)
Bank expenses/IOF		(3.192)	(4.593)	(2.604)	(4.038)
Liability monetary variation		(1)	(332)	(9.618)	(11.487)
Other financial expenses		(1.332)	(2.233)	(318)	(815)
Total financial expenses		(108.925)	(288.840)	(700.427)	(1.192.754)
Asset foreign exchange fluctuation	a	30.650	118.571	479.712	751.847
Derivative financial instruments	b	10.859	68.301	117.496	266.086
Adjustment to present value		10.136	20.807	11.418	22.555
Interest income		5.973	15.782	18.429	35.331
Hedge on fair value of inventory		16.591	24.425	2.245	25.194
Monetary variation – assets		1.627	2.415	6.270	7.757
Other financial income		1.806	4.919	1.519	3.402
Total financial income		77.642	255.220	637.089	1.112.172
Total financial result		(31.283)	(33.620)	(63.338)	(80.582)

- (a) Exchange variation: Refers to the restatement of assets and liabilities exposed in foreign currency, mainly in USD, the appreciation of which against the Real during the period generated considerable exchange variations, on both the asset and liability sides. Despite this, the consolidated result of the Company's exchange rate variation is practically neutralized during the periods, as shown below:

	2nd Quarter	Year to date	Parent company / Consolidated	
	2017	2017	2nd Quarter 2016	Year to date 2017
Negative exchange variation	(37,944)	(107,465)	(483,524)	(759,494)
Exchange variation gain	30,650	118,571	479,712	751,847
Net effect of exchange rate variation	(7,294)	11,106	(3,812)	(7,647)

- (b) Derivative financial instruments

	2nd Quarter	Year to date	Consolidated	
	2017	2017	2nd Quarter 2017	Year to date 2017
Financial expenses derivative financial instruments	(21,224)	(82,101)	(21,224)	(82,101)
Financial income derivative financial instruments	10,859	68,277	10,859	68,301
Net effect of derivative financial instruments	(10,365)	(13,824)	(10,365)	(13,800)

26. Deferred income and social contribution taxes

26.1. Deferred income and social contribution taxes

Deferred income and social contribution taxes have the following sources:

	Note	06/30/2017			12/31/2016		
		Parent company	Parent company	Consolidated	Parent company	Parent company	Consolidated
Aliquot		25%	34%		25%	34%	
Credits on tax losses		1.402.222	37.013	1.439.235	1.336.590	39.233	1.375.823
Income tax over fiscal loss		350.556	12.584	363.140	334.148	13.339	347.487
Credits on tax losses		(300.391)	-	(300.391)	(278.401)	-	(278.401)
Income tax over fiscal loss	a)	50.165	12.584	62.749	55.747	13.339	69.086
Net exchange variations		(888.444)	-	(888.444)	(929.585)	-	(929.585)
Estimated losses (reversals) on allowance for doubtful assets		56.249	1.635	57.884	53.277	1.374	54.651
Provision for lawsuits		221.635	-	221.635	189.454	-	189.454
Estimated loss (reversal) on recoverable inventory sums		540	-	540	15.648	-	15.648
Estimated sundry losses (reversals)		28.874	-	28.874	28.874	-	28.874
Provision (Reversals) for financial instruments and others		(90.052)	340	(89.712)	(108.965)	571	(108.394)
Management profit sharing and others		266	9	275	6.688	76	6.764
Provision for adjustment at present value		2.073	3.683	5.756	1.321	534	1.855
Total Temporary differences		(668.859)	5.667	(663.192)	(743.288)	2.555	(740.733)
Income tax on temporary differences	b)	(167.215)	1.927	(165.288)	(185.822)	869	(184.953)
Deferred income tax and social contribution		(117.050)	14.511	(102.539)	(130.075)	14.208	(115.867)
Tax on revaluation reserve	c)	(76.127)	-	(76.127)	(77.276)	-	(77.276)
		(193.177)	14.511	(178.666)	(207.351)	14.208	(193.143)
Non-current assets		-	14.511	14.511	-	14.208	14.208
Non-current liabilities		(193.177)	-	(193.177)	(207.351)	-	(207.351)

- a) The Company has tax losses generated in Brazil in the amount of R\$1,439,235 (R\$1,375,823 at December 31, 2016), subject to offsetting against future taxable income.

Due to the uncertainty regarding future taxable income, considering the existence of tax losses and the full utilization of tax credits, an estimated loss in the amount of R\$300,391 (R\$278,401 as of December 31, 2016) on previously deferred tax assets was recorded. In order to support independent judgments from external auditors, based on assumptions and estimates about future events, it is necessary that all negotiations among stakeholders and implementations related to the debt reprofiling of the Company be duly concluded.

The Company will continuously monitor income tax credits and, based upon concrete estimates indicating the realization of taxable income, the provision for losses will be reversed in favor of the Company. In Brazil, the offsetting of tax losses has no statute of limitations, being limited only to 30% of annual profits.

- b) On June 30, 2017, the Company had in the account "Deferred income tax" amounts calculated on temporarily non-deductible expenses on the calculation of taxable income for income tax purposes, which are available for future offsetting against the said tax.
- c) Realization of deferred income tax on valuation adjustment to equity is proportional to the revaluation reserve realization.

Based on this technical study of the generation of future taxable income, Paranapanema estimates that it will be able to recover these tax credits on tax losses.

The Company has a 75% exemption for income tax and non-refundable additional taxes on earnings from exploration and production of copper and its byproducts up to the base period of 2020.

Income tax benefits enjoyed by the Company depend on the recognition of a capital reserve at an amount equivalent to the tax that was not paid. Recognized tax incentive reserves may only be used to increase capital or absorb losses.

The reconciliation between the tax expense as calculated by the combined nominal rates and the income and social contribution tax expense charged to income is presented below:

	Parent company		Consolidated	
	Year to date 2017	Year to date 2016	Year to date 2017	Year to date 2016
(Loss) before income and social contribution taxes	(130.484)	(38.540)	(89.374)	(37.242)
Nominal combined statutory rates	25%	25%	25% e 34%	25% e 34%
Income tax	32.621	9.635	31.034	7.634
Permanent additions	(3.069)	590	(3.069)	591
Realization of revaluation reserve (depreciation/write-off)	1.223	1.377	1.223	1.377
Provision for doubtful credit	743	3.884	832	(1.355)
Provision for litigation	8.045	(2.380)	8.045	(2.380)
Other deductible provision	(466)	(20.659)	503	(20.558)
Net exchange variance (cash basis)	10.285	(97.011)	10.285	(97.011)
Shareholders' deficit	-	(704)	-	-
Deferred income tax and social contribution on tax losses				
Tax loss and negative basis of social contribution	(36.356)	(135.487)	(37.343)	(130.351)
Deferred income tax on revaluation reserve	1.149	1.445	1.149	1.445
Current income tax credits	14.175	(239.310)	12.659	(240.608)
Income tax for the current year	-	-	(1.333)	-
Social contribution for the current year	-	-	(485)	-
Corrents taxes	-	-	(1.818)	-
Deferred income tax	13.026	(240.755)	13.248	(242.053)
Deferred social contribution	-	-	80	-
Deferred income tax on revaluation reserve	1.149	1.445	1.149	1.445
Deferred taxes	14.175	(239.310)	14.477	(240.608)
Credit (expense) from income and social contribution taxes	14.175	(239.310)	12.659	(240.608)
Total effective rate	-10,86%	620,94%	-14,16%	646,07%
Current effective rate	0,00%	0,00%	2,03%	0,00%

27. Operating segments

The Company operates in the copper segment, which includes the production and sale of electrolytic refined copper, its byproducts and related services, as well as semi-finished copper and its alloys.

28. Financial instruments

28.1 Financial risk management policy

The Company recognizes that certain financial risks such as variations in commodities prices, foreign exchange (FX) rates and interest rates are inherent in the business. However, the Company's policy is to avoid unnecessary risks and guarantee that the business risk exposure has been identified and measured and that it can be controlled and minimized using the most effective and efficient methods to eliminate, reduce or transfer such exposure.

The Board of Directors has the Finance, Risks and Contingencies Committee to assist in the establishment of risk management policies and guarantee that proper procedures are in place at the Company so that all risk exposure can be identified and evaluated. In addition, the Committee

must monitor this exposure to ensure that it is within established limits. Identified business risks are as follows:

- Interest rate risk inherent to the Company's debts.
- Foreign exchange risk and commodities price risk deriving from raw materials and sold products, forecasted transactions and firm commitments.
- Foreign exchange risk deriving from assets and liabilities such as: investments abroad and loans, inventory linked to commodities whose prices are denominated in foreign currency, among others.
- Basis risk arising from differences in timing volume, or indexation that can possibly occur between the contracting and settlement of hedging instruments and objects.

Risk Management policy permits to the Company to use approved derivative financial instruments to minimize exposure to market risks: FX, commodities and interest rates.

Derivative instruments are only used for hedging purposes as they limit the financial exposure associated with the risks identified in certain Company assets and liabilities. The use of derivatives is not automatic nor necessarily the only answer to managing business risk. Their use is permitted only after verifying that the derivative chosen may minimize risks within certain tolerance levels established by this policy.

The Company carries out hedge transactions using derivative or non-derivative financial instruments and makes such transactions fit into the hedge accounting rules, such as those defined by the CVM Resolution No. 604 (CPC 38). Not all hedge transactions with derivatives can be designated for hedge accounting.

28.2 Fair value methodologies

Derivative financial instruments are measured at fair value and recognized in their respective Statement of Financial Position accounts. The fair value measurement methodology involves verifiable parameters extracted from the BM&F futures markets (Foreign Exchange Coupon and Fixed Coupon), LME (copper, zinc, tin and lead) and LBMA (gold and silver), British Bankers' Association (LIBOR), Reuters, and Bloomberg (USD spot).

The Company measures its FX derivatives fair value by calculating the present value of the future price discounted by the market curve (Pre- and FX Coupon), all values published by Bloomberg and BM&FBOVESPA. The fair values of embedded derivatives are calculated based on the average of the spot price published by LME and LBMA.

28.3 Embedded derivatives

Purchase or sale contracts with price adjustment clauses for raw materials such as copper which are based on market prices at a date subsequent to the shipment or delivery date are considered embedded derivatives that require segregation and separate accounting. According to CPC 38/AG30 the cash flow adjustment of payments indexed to raw materials prices (such as copper, for example) embedded in financial liabilities or assets are not closely related to the principal instrument because the risks inherent in the principal contract and embedded derivative are not similar. An embedded derivative that is separated from its host contract and is accounted for separately at fair value through profit or loss like any other derivative instrument can be designated as a hedge instrument in a relation of hedge accounting, such as a fair value hedge of copper inventory.

Purchase contracts for copper concentrate and sales contracts for copper products normally include a provisional price on the shipment date, with the final price based on the monthly average copper price at LME for a certain future period. This period normally varies from 30 to 120 days after the shipment or billing date. This purchase of concentrate and the sale of products with provisional price contains an embedded derivative that must be separated from the main contract and calculated as a separate derivative in the statement of income (loss).

28.4 Classification of financial instruments

Financial assets and liabilities are classified into three measurement categories: assets and liabilities at fair value through profit or loss, loans and receivables, and other liabilities measured using the amortized cost method.

Classification of financial assets and liabilities is as follows:

					Parent company	
					Book value	Fair value
	Notes	Loans and receivables	At fair value through profit or loss	Other liabilities – Amortized cost method	06/30/2017	06/30/2017
Financial assets						
Cash and cash equivalents	05	-	84.677	-	84.677	84.677
Interest earnings bank deposits	05	-	77.782	-	77.782	77.782
Linked bank account unless	06	-	2.042	-	2.042	2.042
Trade accounts receivable	07	426.378	-	-	426.378	426.378
Financial instr. - Hedge accounting	28	-	9.888	-	9.888	9.888
Financial instr. - Other derivatives	28	-	31.043	-	31.043	31.043
Total assets		426.378	205.432	-	631.810	631.810
Financial liabilities						
Suppliers	14	-	-	222.832	222.832	222.832
Securitization of accounts payable	15	-	-	502.931	502.931	502.931
Advances from customers	20	-	-	8.385	8.385	8.385
Customer credit	20	-	-	4.173	4.173	4.173
Loans and financing	16	-	-	1.992.679	1.992.679	1.992.679
Financial instr. - Hedge accounting	28	-	29.387	-	29.387	29.387
Financial instr. - Other derivatives	28	-	20.909	-	20.909	20.909
Total liabilities		-	50.296	2.731.000	2.781.296	2.781.296

					Parent company	
					Book value	Fair value
	Notes	Loans and receivables	At fair value through profit or loss	Other liabilities – Amortized cost method	12/31/2016	12/31/2016
Financial assets						
Cash and cash equivalents	05	-	139.492	-	139.492	139.492
Interest earnings bank deposits	05	-	93.698	-	93.698	93.698
Linked bank account unless	06	-	20.865	-	20.865	20.865
Trade accounts receivable	07	560.810	-	-	560.810	560.810
Financial instr. - Hedge accounting	28	-	27.234	-	27.234	27.234
Financial instr. - Other derivatives	28	-	5.700	-	5.700	5.700
Total assets		560.810	286.989	-	847.799	847.799
Financial liabilities						
Suppliers	14	-	-	212.401	212.401	212.401
Securitization of accounts payable	15	-	-	595.833	595.833	595.833
Advances from customers	20	-	-	9.332	9.332	9.332
Customer credit	20	-	-	6.791	6.791	6.791
Loans and financing	16	-	-	1.845.131	1.845.131	2.446.753
Financial instr. - Other derivatives	28	-	154.072	-	154.072	154.072
Total liabilities		-	154.072	2.669.488	2.823.560	3.425.182

						Consolidated
		Book value				Fair value
	Notes	Loans and receivables	At fair value through profit or loss	Other liabilities Amortized cost method	06/30/2017	06/30/2017
Financial assets						
Cash and cash equivalents	05	-	103.627	-	103.627	103.627
Interest earnings bank deposits	05	-	168.142	-	168.142	168.142
Linked bank account unless	06	-	2.042	-	2.042	2.042
Trade accounts receivable	07	303.285	-	-	303.285	303.285
Financial instr. - Hedge accounting	28	-	9.888	-	9.888	9.888
Financial instr. - Other derivatives	28	-	31.070	-	31.070	31.070
Total assets		303.285	314.769	-	618.054	618.054
Financial liabilities						
Suppliers	14	-	-	184.403	184.403	184.403
Securitization of accounts payable	15	-	-	502.931	502.931	502.931
Advances from customers	20	-	-	10.456	10.456	10.456
Customer credit	20	-	-	4.494	4.494	4.494
Loans and financing	16	-	-	1.992.685	1.992.685	1.992.685
Financial instr. - Hedge accounting	28	-	29.387	-	29.387	29.387
Financial instr. - Other derivatives	28	-	20.909	-	20.909	20.909
Total liabilities		-	50.296	2.694.969	2.745.265	2.745.265

						Consolidated
					Book value	Fair value
	Notes	Loans and receivables	At fair value through profit or loss	Other liabilities Amortized cost method	12/31/2016	12/31/2016
Financial assets						
Cash and cash equivalents	05	-	142.824	-	142.824	142.824
Interest earnings bank deposits	05	-	93.998	-	93.998	93.998
Linked bank account unless	06	-	23.128	-	23.128	23.128
Trade accounts receivable	07	474.090	-	-	474.090	474.090
Financial instr. - Hedge accounting	28	-	27.234	-	27.234	27.234
Financial instr. - Other derivatives	28	-	5.724	-	5.724	5.724
Total assets		474.090	292.908	-	766.998	766.998
Financial liabilities						
Suppliers	14	-	-	153.771	153.771	153.771
Securitization of accounts payable	15	-	-	595.833	595.833	595.833
Advances from customers	20	-	-	9.704	9.704	9.704
Customer credit	20	-	-	7.559	7.559	7.559
Loans and financing	16	-	-	1.845.140	1.845.140	2.446.753
Financial instr. - Other derivatives	28	-	154.084	-	154.084	154.084
Total liabilities		-	154.084	2.612.007	2.766.091	3.367.704

Fair value hierarchy

The Company discloses its assets and liabilities at fair value, based on the relevant accounting pronouncements that define fair value, and the structure for determining fair value, which refers to evaluation criteria and practices and requires certain disclosures related to fair value.

Financial assets and liabilities recorded at fair value are classified and disclosed according to the following levels:

Level 1 – prices quoted (not adjusted) in active markets for identical assets and liabilities as at the measurement date. A price that is quoted in an active market provides a more reliable evidence of fair value and should be used whenever available.

Level 2 – quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in non-active markets (i.e., markets where few transactions are made for those assets or liabilities), data other than observable quoted prices for an asset or liability and data derived from or corroborated mostly by data observable in the market by correlation or other means.

Level 3 –unobservable inputs for an asset or liability. Unobservable inputs should be used to measure the fair value when observable inputs are not available, and should reflect the business unit's expectations of what market players would use as assumptions for pricing an asset or a liability, including risk assumptions.

No financial instrument held by the Company has Level 3 category characteristics.

We present below the parent company and consolidated assets and liabilities measured at fair value on June 30, 2017 and December 31, 2016:

		Parent company			Consolidated		
	Notes	Level 1	Level 2	06/30/2017	Level 1	Level 2	06/30/2017
Financial assets							
Cash and cash equivalents	05	84,677	-	84,677	103,627	-	103,627
Interest earning bank deposits	05	-	77,782	77,782	-	168,142	168,142
Financial instr. - Hedge accounting	28	-	9,888	9,888	-	9,888	9,888
Linked Bank Account	06	-	2,042	2,042	-	2,042	2,042
Financial instr. - Other derivatives	28	-	31,043	31,043	-	31,070	31,070
Total assets		84,677	120,755	205,432	103,627	211,142	314,769
Financial liabilities							
Suppliers	14	-	222,832	222,832	-	184,403	184,403
Forfait and credit letter operations	15	-	502,931	502,931	-	502,931	502,931
Loans and financing	16	-	1,992,679	1,992,679	-	1,992,685	1,992,685
Advances from customers	20	-	8,385	8,385	-	10,456	10,456
Customer credit	20	-	4,173	4,173	-	4,494	4,494
Financial instr. - Hedge accounting	28	-	29,387	29,387	-	29,387	29,387
Financial instr. - Other derivatives	28	-	20,909	20,909	-	20,909	20,909
Total liabilities		-	2,781,296	2,781,296	-	2,745,265	2,745,265

		Parent company			Consolidated		
	Notes	Level 1	Level 2	12/31/2016	Level 1	Level 2	12/31/2016
Financial assets							
Cash and cash equivalents	05	139,492	-	139,492	142,824	-	142,824
Interest earning bank deposits	05	-	93,698	93,698	-	93,998	93,998
Financial instr. - Hedge accounting	28	-	27,234	27,234	-	27,234	27,234
Linked Bank Account	06	-	20,865	20,865	-	23,128	23,128
Financial instr. - Other derivatives	28	-	5,700	5,700	-	5,724	5,724
Total assets		139,492	147,497	286,989	142,824	150,084	292,908
Financial liabilities							
Suppliers	14	-	212,401	212,401	-	153,771	153,771
Forfait and credit letter operations	15	-	595,833	595,833	-	595,833	595,833
Loans and financing	16	-	1,845,131	1,845,131	-	1,845,140	1,845,140
Advances from customers	20	-	9,332	9,332	-	9,704	9,704
Customer credit	20	-	6,791	6,791	-	7,559	7,559
Financial instr. - Other derivatives	28	-	154,072	154,072	-	154,084	154,084
Total liabilities		-	2,823,560	2,823,560	-	2,766,091	2,766,091

Summary of consolidated derivative financial instruments on June 30, 2017.

28.5 Market risks

28.5.1 Foreign exchange risk

The company has assets and liabilities denominated or indexed to foreign currency, as well as futures operations that will involve income and costs denominated or indexed to foreign currency.

The Policy establishes that risk management has as its objective the hedging against the exchange risk of forecasted flow denominated in foreign currency using over-the-counter operations (NDFs) and non-derivative financial instruments (liabilities indexed to US Dollars).

The foreign currency exposure is shown in the table below:

		Parent company / Consolidated	
		06/30/2017	12/31/2016
		USD	USD
Object	Position		
Accounts receivable	Purchased	1,063,731	1,351,816
Instrument			
NDF - Designated to hedge accounting	Sold	(170,581)	(351,823)
NDF - Designated to hedge accounting	Purchased	-	-
Loans and financing	Sold	(465,829)	(632,985)
Suppliers	Sold	(427,321)	(367,008)
Accounts receivable	Purchased	-	-
Loans and financing	Sold	(123,452)	(64,342)
Suppliers	Sold	(13,265)	(28,639)
Total net exposure		(136,717)	(92,981)

28.5.2 Interest rate risk

The Company has floating exposure to LIBOR, CDI, the long-term interest rate (TJLP), and Interest Rate Resolution 635/87 derived from investments and loans. LIBOR risk is concentrated on Trade Finance transactions which comprised LIBOR x Fixed rate transactions, as cash flow hedges.

Exposure to interest rates is shown in the table below:

		Parent company/Consolidated	
		06/30/2017	12/31/2016
Designated to hedge accounting			
Loans and financing	Libor	(653,296)	(643,359)
Derivatives – Swap	Libor	110,008	154,494
		(543,288)	(488,865)
Not designated to hedge accounting			
Loans and financing	TJLP	(20,754)	(19,288)
		(20,754)	(19,288)
Loans and financing	Interest rate Res.635/8	(8,337)	(10,135)
		(8,337)	(10,135)
Investments	PRE	370,331	223,595
Loans and financing	PRE	(312,031)	166,766
		58,300	390,361

28.5.3 Commodities risk

Paranapanema's business activities comprise acquiring raw materials and selling finished products, both benchmarked against the amounts of metals contained therein, and prices of these metals in international exchanges (London Metal Exchange and London Bullion Market Association).

The origin of commodity risk is the mismatch between sell and buy prices of the metals contained in the finished products and raw materials.

The Company's Market Risk Policy establishes that the exposure to commodities risk of each metal is given by the mismatch between volumes of this metal already priced for purchase and the amounts of this metal already priced for sale, and sets risk exposure limits.

Due to this exposure, the Company has a strategy of keeping all inventory metal costs in USD fluctuating (mark-to market), and only fixing the metal prices when they are sold and the price is known.

				Parent company/Consolidated	
Copper				12/31/2016	
	Position	Reference value	Exposure	Reference value	Exposure
Assets, net	Purchased	37,387 tonnes	652,495	36,395 tonnes	652,495
Designated for hedge accounting					
Embedded derivative	Sold	(24,499) tonnes	(533,399)	(29,903) tonnes	(533,399)
Firm commitments	Sold	(3,575) tonnes	(86,863)	(4,845) tonnes	(86,863)
NDF	Sold	(10,200) tonnes	(22,410)	(1,250) tonnes	(22,410)
Not designated for hedge accounting					
Embedded derivative	Sold	(471) tonnes	-	- tonnes	-
Firm commitments	Sold	(2,734) tonnes	(35,839)	(1,999) tonnes	(35,839)
NDF	Sold	(0) tonnes	(42,089)	(2,348) tonnes	(42,089)
Total net exposure		(4,092) tonnes	(68,105)	(3,950) tonne	(68,105)

				Parent company/Consolidated	
Gold				12/31/2016	
	Position	Reference value	Exposure	Reference value	Exposure
Assets, net	Purchased	11,368 Oz	46,738	14,015 Oz	52,641
Designated for hedge accounting					
Embedded derivative	Sold	(7,896) Oz	(32,461)	(9,777) Oz	(36,725)
NDF	Sold	(5,336) Oz	(21,937)	(1,732) Oz	(6,505)
Not designated for hedge accounting					
Embedded derivative	Purchased	5,444 Oz	22,383	5,593 Oz	21,008
Firm commitments	Purchased	976 Oz	965	- Oz	-
NDF	Sold	(4,301) Oz	(17,683)	(11,165) Oz	(41,938)
Total net exposure		255 Oz	(1,995)	(3,066) Oz	(11,519)

				Parent company/Consolidated	
Silver				12/31/2016	
	Position	Reference value	Exposure	Reference value	Exposure
Assets, net	Purchased	472,900 Oz	25,766	477,669 Oz	25,282
Designated for hedge accounting					
Embedded derivative	Sold	(322,914) Oz	(17,594)	(202,953) Oz	(10,742)
NDF	Sold	(214,566) Oz	(11,691)	(333,888) Oz	(17,672)
Not designated for hedge accounting					
Embedded derivative	Purchased	225,316 Oz	12,277	352,396 Oz	18,652
Firm commitments	Purchased	16,713 Oz	911	- Oz	-
NDF	Sold	(122,829) Oz	(6,692)	(196,565) Oz	(10,404)
Total net exposure		54,620 Oz	2,977	96,659 Oz	5,116

				Parent company/Consolidated	
Other				12/31/2016	
	Position	Reference value	Exposure	Reference value	Exposure
Assets, net	Purchased	1,332 tonnes	14,081	1,117 tonnes	11,497
Designated for hedge accounting					
NDF	Sold	(1,235) tonnes	(13,117)	(1,120) tonnes	(9,268)
Not designated for hedge accounting					
Firm commitments	Sold	(78) tonnes	(759)	(78) tonnes	(701)
NDF	Sold	(50) tonnes	(456)	(65) tonnes	(2,603)
Total net exposure		(31) tonnes	(251)	(146) tonnes	(1,075)

28.5.4 Sensitivity analysis

In order to measure the impact on the Company's net income (loss) and shareholders' equity arising from the variations in the financial market rates, stress scenarios were constructed in relation to the rates effective as at June 30, 2017. As required by CVM Instruction No. 475/08, the Company carried out a sensitivity analysis using the probable scenario, and scenarios for a 25% and 50% decrease and increase.

Parent company/Consolidated								
	Notional	Unit	Risk factors	Probable scenario	Falling scenario		Rising scenario	
					25%	50%	25%	50%
Impact on comprehensive income								
Foreign exchange rate risk								
Subject to hedge								
Liabilities	\$ 1.236.743	USD	USD	1.063.731	(265.932)	(531.867)	265.932	531.867
Hedge instrument								
NDF - Cash flow hedge	\$ -251.924	USD	USD	(170.581)	42.645	85.291	(42.645)	(85.291)
NDF - Cash flow hedge	\$ -	USD	USD	-	-	-	-	-
Suppliers	\$ -359.886	USD	USD	(427.321)	106.830	213.661	(106.830)	(213.661)
Loans	\$ -624.934	USD	USD	(465.829)	116.457	232.915	(116.457)	(232.915)
Total	\$ -1			-	-	-	-	-
Impact on profit or loss								
Foreign exchange rate risk								
Other non-derivative financial instruments								
Liabilities	\$ -136.717	USD	USD	(452.287)	113.072	226.144	(113.072)	(226.144)
Total	\$ -136.717			(452.287)	113.072	226.144	(113.072)	(226.144)
Interest rate risk								
Subject to hedge								
Liabilities	\$ 197.478	USD	LIBOR	(688.678)	806	1.450	(480)	(1.123)
Hedge instrument								
Swap - Cash flow hedge	\$ 33.253	USD	LIBOR	111.805	(86)	(224)	189	326
Other non-derivative financial instruments								
Liabilities	\$ -20.754	BRL	TJLP	24.749	(582)	(1.452)	1.120	1.954
Assets	\$ 370.331	BRL	PRÉ	124.211	245.709	245.673	245.779	245.813
Liabilities	\$ -312.031	BRL	PRÉ	(306.794)	8.155	17.289	(8.307)	(15.744)
Total	\$ 268.277			(734.707)	254.002	262.736	238.301	231.226
Commodity price risk								
Hedge instrument								
NDF (Copper) - Fair value hedge	(3.575) tonnes		Copper	(69.867)	17.467	34.934	(17.467)	(34.934)
NDF (Copper) - Fair value hedge Inventories	(10.200) tonnes		Copper	(199.341)	49.835	99.671	(49.835)	(99.671)
Embedded derivative (Cooper) - Fair Value Hedge	(24.499) tonnes		Copper	(487.714)	121.929	243.857	(121.929)	(243.857)
Not designated for hedge accounting								
Embedded derivative	(471) tonnes		Copper	(9.202)	2.301	4.601	(2.301)	(4.601)
Total	(38.745)			(766.124)	191.532	383.063	(191.532)	(383.063)
Not designated for hedge accounting								
NDF	(4.301)	Oz	Gold	(17.683)	4.421	8.842	(4.421)	(8.842)
Embedded derivative	5.444	Oz	Gold	22.383	(5.596)	(11.192)	5.596	11.192
Hedge instrument								
NDF	(5.336)	Oz	Gold	(21.937)	5.484	10.969	(5.484)	(10.969)
Embedded derivative	(7.896)	Oz	Gold	(32.461)	8.115	16.231	(8.115)	(16.231)
Total	(12.089)			(49.698)	12.424	24.850	(12.424)	(24.850)
Not designated for hedge accounting								
Assets, net								
NDF	(122.829)	Oz	Silver	(6.692)	1.673	3.346	(1.673)	(3.346)
Embedded derivative	225.316	Oz	Silver	12.277	(3.069)	(6.139)	3.069	6.139
Hedge instrument								
NDF	(214.566)	Oz	Silver	(11.691)	2.923	5.846	(2.923)	(5.846)
Embedded derivative	(322.914)	Oz	Silver	(17.594)	4.399	8.797	(4.399)	(8.797)
Total	(434.993)			(23.700)	5.926	11.850	(5.926)	(11.850)
Hedge instrument								
NDF (Zinc, Lead and Tin)	(1.235) tonnes		Other Metals	(13.117)	3.279	6.559	(3.279)	(6.559)
Not designated for hedge accounting								
NDF	(50) tonnes		Other Metals	(456)	114	228	(114)	(228)
Total	(1.285)			(13.573)	3.393	6.787	(3.393)	(6.787)
Assumptions								
NDF (Foreign exchange rate)	Ptax - USD/BRL			3,3082	2,48115	1,6541	4,1353	4,9623
NDF (Copper price)	Official Price Cash LME			\$5.908	4430,625	\$2.954	\$7.384	\$8.861
NDF (Gold Price)	Official Price Cash LBMA			\$1.243	932,0625	\$621	\$1.553	\$1.864
NDF (Silver Price)	Official Price Cash LBMA			\$16	12,3525	\$8	\$21	\$25
NDF (Zinc Price)	Official Price Cash LME			\$2.754	2065,5	\$1.377	\$3.443	\$4.131
NDF (Tin Price)	Official Price Cash LME			\$20.200	15150	\$10.100	\$25.250	\$30.300
NDF (Lead Price)	Official Price Cash LME			\$2.274	1705,5	\$1.137	\$2.843	\$3.411

28.6 Hedge accounting

Paranapanema adopted the following hedge accounting programs:

28.6.1 US Dollar Revenue Cash Flow Hedge

The program's purpose is to ensure that a percentage of revenue equivalent to the sales premium pegged to the US Dollar is not impacted by exchange variations. The derivative and income combination will result in a fixed/constant cash inflow based on the derivative financial instrument's US Dollar rate collateralized by the derivative financial instrument.

The hedged item refers to a percentage of revenue equivalent to highly probable future sales premium indexed to the US Dollar. The hedging instrument contracted for this program is USD/R\$ (NDF) currency contracts. Besides the derivative instruments, the Company also uses, as authorized by CVM Resolution No. 604/09, the variations in the exchange rates of non-derivative financial instruments such as ACC, PPE and debt contracts in US Dollars to mitigate the exchange risk arising from its highly probable future sales in foreign currency. This program was implemented since November 2013 for the ACC and PPE instruments, and since March 2013 for the other debts as hedge instruments.

The FX variation on debt in USD is credited in OCI and debited from loans and financing when the adjustment is positive. In case of a negative adjustment, the loans and financing account is credited and the debit is registered in OCI. The corresponding balance in OCI is recognized within operating profit or loss only when the hedged item (the revenue percentage equivalent to the sales premium) matures and the hedge relationship is effective.

Based on CPC 38, hedge instruments can be rolled over until the hedged item expected realization month. The realization month is defined at the hedge relationship designation date.

28.6.2 Firm Sales Commitment Fair Value Hedge

The Firm Sale Commitment hedge's purpose is to protect fair value in US Dollars of the fixed sales price of copper against unfavorable trends in the price of copper quoted on the LME.

The hedge covers future copper sales in US Dollars with a pre-fixed price for clients in fixed sale commitments. The hedging instrument is copper derivatives quoted on the LME.

The metal price mark-to-market adjustments on derivative contracts designated as hedges are recognized within operational profit or loss as well as metal price adjustments on firm sales contracts (the hedged item). The derivative financial instrument account in assets is debited against operational profit when adjustments are positive and credited in liabilities against operational loss when adjustments are negative.

28.6.3 Inventory Fair Value Hedge

The objective of the fair value hedge of inventory is to hedge the fair value of metal prices (copper, zinc, lead and tin) in Reais (R\$), keeping the metal cost floating at market value until it is sold.

Hedge instruments are embedded derivatives in copper concentrate supply contracts. This program has been implemented since March 2013. On June 1, 2015, an inventory fair value hedge was implemented using mercantile exchange derivatives as hedging instruments to protect the variation of the monthly average spot prices. The same strategy with derivatives on the mercantile exchange was implemented for the metals zinc, lead and tin (on May 1, 2015), and for gold and silver (on June 1, 2015). On January 1, 2016, the metal fair value began to be recorded in Reais.

The mark-to-market adjustments on metal price derivative contracts designated as hedges are recognized within operational results as well as the metal portion of inventory (the hedged item). The derivative financial instrument account in assets is debited against operational profit when adjustments are positive and credited in liabilities against operational loss when adjustments are negative.

28.6.4 Cost of metals cash flow hedge

The objective of the hedge is to protect the cost of copper of products sold for a particular month of sale, adjusting the cost of the goods sold by price references (LME) that are identical or close to the price references of revenue from the sale of copper. This hedge, together with the inventory fair value hedge program, allows the USD cost of metal in COGS to be similar to the R\$ metal price in revenue.

The item to be hedged is the cost of copper in the COGS for a particular month of sale. The hedge instrument consists of forward contracts of copper whose objective is to exchange references of average copper prices. This program has been implemented since April 2015.

The metal price mark-to-market adjustments on derivative contracts with hedge designations are credited in OCI and debited from the derivative financial instruments account in assets when adjustments are positive. In the case of negative adjustments, the derivative financial instruments account in liabilities is credited, and the OCI is debited. The corresponding OCI balance is recognized within operational profit or loss when the hedged item matures.

28.6.5 Foreign currency cash outflow hedge (Capex)

The objective of the program is to ensure that payments related to the acquisition of fixed assets indexed to foreign currencies are not impacted by exchange variations. The combination of the derivative and the payment will result in a fixed/constant cash outflow, based on the rate guaranteed by the derivative financial instrument.

The hedged item is the cash outflow in foreign currency (US Dollars, Canadian Dollars and Euros). The hedge instrument used in this program is a long position with a NDF of USD/R\$, CAD/R\$ and EUR/R\$.

In compliance with the documentation requirements that are defined in CPC38 and IAS39, the Company made the formal designation of its hedge operations subject to hedge accounting by documenting the following:

- i. The hedge relationship;
- ii. The objective and strategy of the risk management of the Company in carrying out the hedge;
- iii. The identification of hedge instrument (derivative or non-derivative financial instrument);
- iv. The hedged item or position;
- v. The nature of the risk to be covered;
- vi. The description of the coverage ratio;
- vii. The statement of the correlation between the hedge instrument and the hedged item, when applicable;
- viii. The prospective and retrospective statement of the hedge's effectiveness.

Transactions for which Paranapanema has designated as a cash flow hedge have highly probable occurrence. The deferral of unrealized gains and losses on derivative financial instruments and non-derivative ones designated for hedging against exchange and interest rates was carried out in OCI within shareholders' equity.

Parent company/Consolidated						
Instrument	Object	Index	Maturities	Reference	Market value(*)	
06/30/2017						
<u>Cash flow hedge</u>						
Derivatives – designated					<u>Instrument</u>	
NDF – Closed	Income (in USD)	USD/BRL	jan-17 - jun-17	- US\$	(6,697)	
NDF – Provision	Income (in USD)	USD/BRL	jul-17 - sep-21	- US\$	(170,581)	
NDF – Closed	Cost	Copper	jan-17 - jun-17	21,280 tonnes	(2,456)	
NDF – Provision	Cost	Copper	aug -17 -	1,945 tonnes	394	
Non-derivative - designated						
ACC / PPE – Provision	Income (in USD)	USD/BRL	jul-17 - jun-30	- US\$	(465,829)	
Other debt – provision	Income (in USD)	USD/BRL	jul-17 - nov-36	- US\$	(427,321)	
Derivatives – undesignated						
NDF – Closed		USD/BRL	jan-17 - dec-17	-	(12,083)	
<u>Fair value hedge</u>						
Derivatives						
NDF – Closed	Sales commitment	Copper	jan-17 - jun-17	4,099 tonnes	11,983	
NDF – Provision	Sales commitment	Copper	jul-17 - may-18	3,550 tonnes	5,146	
Embedded derivatives	Inventory	Copper	jun-17 -	10,014 tonnes	(1,207)	
Embedded derivatives	Inventory	Copper	jul-17 - sep-17	24,688 tonnes	(20,443)	
Embedded derivatives	Inventory	Gold	jun-17 -	1,944 Oz	(100)	
Embedded derivatives	Inventory	Gold	jul-17 - sep-17	7,738 Oz	116	
Embedded derivatives	Inventory	Silver	jun-17 -	51,849 Oz	46	
Embedded derivatives	Inventory	Silver	jul-17 - sep-17	316,456 Oz	236	
NDF – Closed	Inventory	Copper	jul-17 -	6,683 tonnes	(805)	
NDF – Provision	Inventory	Copper	aug -17 -	3,850 tonnes	(1,375)	
NDF – Provision	Inventory	Zinc	aug -17 -	1,175 tonnes	71	
NDF – Provision	Inventory	Lead	aug -17 -	25 tonnes	-	
NDF – Provision	Inventory	Tin	aug -17 -	35 tonnes	61	
NDF – Closed	Inventory	Gold	jul-17 -	2,331 Oz	(121)	
NDF – Provision	Inventory	Gold	aug -17 -	3,005 Oz	(155)	
NDF – Closed	Inventory	Silver	jul-17 -	97,000 Oz	(61)	
NDF – Provision	Inventory	Silver	aug -17 -	117,566 Oz	(74)	

	Parent company/Consolidated	
	Equity	
	06/30/2017	12/31/2016
Derivatives designated to hedge accounting		
Commodities risk	394	85
Foreign exchange risk	(170,581)	(185,635)
	(170,187)	(185,550)
Non-derivatives designated to hedge accounting		
Foreign exchange risk - Operation settled	-	17,986
Foreign exchange risk - Operation open	(893,150)	(879,917)
	(893,150)	(861,931)

28.7 Credit risk

The Company's sales policy varies depending on the level of credit risk that it is willing to accept.

Credit is an important instrument to promoting business between the Company and its clients. This is due to the fact that credit leverages clients' purchasing power.

Risk is inherent to credit transactions and the Company must perform a careful analysis. This work involves client quantitative and qualitative evaluations, as well as considering the industry in which it operates. This analysis takes into consideration the client's past performance, a forecast on its economic-financial robustness, the client risk management policy, and its prospects for the future.

The diversification of the receivables portfolio, the selection of clients, and the monitoring of terms and credit limit per individual client are procedures adopted to minimize delays and defaults in accounts receivable. In addition to performing credit limit checking procedures, client balances are individually limited to 10% of the Company's total income. Thus, the Company spread the credit risk among several clients.

As regards credit risk associated to financial investments, the Company always invests with low-risk institutions, as evaluated by independent ratings agencies.

Credit risks		Parent company		Consolidated	
	Notes	06/30/2017	12/31/2016	06/30/2017	12/31/2016
Assets					
Cash and cash equivalents	05	84.677	139.492	103.627	142.824
Interest earning bank deposits	05	77.782	93.698	168.142	93.998
Linked bank account	06	2.042	20.865	2.042	23.128
Trade accounts receivable	07	426.378	560.810	303.285	474.090
Derivative financial instruments	28	40.931	32.934	40.958	32.958
		631.810	847.799	618.054	766.998

28.8 Liquidity risk

- The risk management policy implies keeping a safe level of cash and cash equivalents and access to credit lines. The Company's investments have maturities lower than 90 days and immediate liquidity, at amounts sufficient to cover possible necessity of settling accounts with suppliers, loans and financing.
- Liquidity risk represents a shortage of funds intended to pay debts and interest (see Note 1).

The estimated existing debt contract payments, as at June 30, 2017, was as follows:

Presented amounts include estimated principal amounts and interest calculated using the US Dollar rate prevailing on June 30, 2017 (R\$3.3082/USD1) for debts denominated in US Dollars (PPE, ACC and FINIMP) and prevailing contracts' interest rates.

Liquidity risk		Parent company/Consolidated		
	Notes	Amount	Up to 1 year	1 – 2 years
Assets				
Cash and cash equivalents	05	103,627	103,627	-
Interest earning bank deposits	05	168,142	92,752	75,390
Linked bank account	06	2,042	2,042	-
Trade accounts receivable	07	303,285	292,936	10,349
Derivative financial instruments	28	40,958	40,958	-
		618,054	532,315	85,739
Liabilities				
Loans and financing	16	(1,992,685)	(1,992,685)	-
Advances from customers	20	(10,456)	(10,456)	-
Customer credit	20	(4,494)	(4,494)	-
Derivative financial instruments	28	(50,296)	(50,296)	-
Suppliers	14	(184,390)	(184,390)	-
Forfait and credit card operation.	15	(502,931)	(502,931)	-
		(2,745,252)	(2,745,252)	-
Net position		(2,127,198)	(2,212,937)	85,739

28.9 Book value/fair value

Management considers that the fair value equates the carrying value in short-term transactions, once the carrying value in such transactions is a reasonable approximation of the fair value (CPC-40/item 29), except for loans and financing transactions, for which the fair values are determined and shown in the Note 28.4 charts of financial instruments classification.

28.10 Capital management

The main purpose of the capital management of Paranapanema and its subsidiaries is to ensure a strong credit rating for institutions and an adequate capital ratio to support the Company's business and maximize shareholder value.

The Company includes the following within its net debt structure: loans, financing, derivative financial instruments payable, net of cash, cash equivalents, interest earning bank deposits and derivative financial instruments receivable.

	Notes	Parent company		Consolidated	
		06/30/2017	12/31/2016	06/30/2017	12/31/2016
Loans and financing	16	1.992.679	1.845.131	1.992.685	1.845.140
Derivative financial instruments payable	28	60.378	41.962	60.351	41.950
(-) Cash and cash equivalents	05	(84.677)	(139.492)	(103.627)	(142.824)
(-) Interest earning bank deposits	05	(77.782)	(93.698)	(168.142)	(93.998)
(-) Linked bank account	06	(2.042)	(20.865)	(2.042)	(23.128)
(-) Derivative financial instruments receivable	28	(40.660)	(29.148)	(40.660)	(29.148)
(=) Net debt (cash)		1.847.896	1.603.890	1.738.565	1.597.992
Derivative financial instruments payable	28	(10.055)	112.134	(10.055)	112.134
(-) Derivative financial instruments receivable	28	(298)	(3.810)	(298)	(3.810)
(=) Net debt on embedded derivatives		1.837.543	1.712.214	1.728.212	1.706.316
Equity	21	142.833	257.010	142.833	257.010
Leverage ratio		92,83%	86,19%	92,41%	86,15%
Leverage ratio with embedded derivative		92,79%	86,95%	92,37%	86,91%

29. Firm commitments

The Company has a contractual commitment with a supplier for the coming years regarding the outsourcing of management, operation and maintenance of an oxygen gas plant located in the industrial plant of Dias d'Ávila, maturing up to February 2023, and the commitment does not subject the Company to any restrictions.

The renewal and adjustment clauses are described in the contract and follow market practices.

The future minimum obligations payable under this contract, if not canceled before maturity, are as follows:

	06/30/2017	12/31/2016
Up to one year	1.346	1.392
From two to six years	5.364	5.857
Over six years	-	170
	<u>6.710</u>	<u>7.419</u>

30. Insurance

The Company maintains insurance coverage at amounts considered sufficient to cover potential losses arising from claims, taking into account the nature of the activities, the risks involved in the operations and the guidance of its insurance consultants.

On June 30, 2017, the amounts insured and coverage limits hired within its respective insurance segment were the following:

Type	Endangered Declared Value	Maximum Limit Indemnified
Operational Risks	R\$ 1,348,203	R\$ 200,000
General Liability	R\$ 11,000	R\$ 11,000
Liability (D&O)	R\$ 65,000	R\$ 65,000
Transports (National territory)	R\$ 21,000,000	R\$ 21,000,000
Export Credit Insurance	USD 3,696,000	USD 3,696
Transports (international territory)	USD 3,150,000	USD 3,150,000
Judicial and Financial Actions		Stipulated value for cause defended
Vehicles		100% of the vehicle's value (Based on Table FIPE)
Group Life insurance		30 x base salary

31. Private pension

The private pension plan offered by the Company and its subsidiaries corresponds to a pension plan deductible for income tax purposes (PGBL) and a private pension plan non-deductible for income tax purposes (VGBL), respectively, which are administered by BrasilPrev based on joint contributions made by the Company, its subsidiaries and the employees:

PGBL/VGBL: After meeting the cumulative prerequisites of contribution of 120 months and 60 years of age, the beneficiaries will be entitled to redeem 100% of the savings accumulated from them, the Company and its subsidiaries, provided that they are not employed by the Company at the redemption date, and in the case of death or permanent disability. In the case of termination from the Company before becoming eligible, the beneficiary shall be entitled to withdraw up to 80% of the amount deposited by the Company respecting the policy which provides a rate of 1% per contributed month.

Therefore, plans exclude the risk benefits and thus do not generate actuarial liabilities. If the participant opts for a life income benefit, BrasilPrev is responsible for maintaining reserves under the contract.

The year-to-date amount of contributions made to plans by the Company and subsidiaries was R\$1,038 (R\$1,170 in the same period of 2016).

32. Variable remuneration plan

General terms and conditions

Beneficiaries: All Company executives holding positions such as Director, Manager or Chief are eligible to a Variable Remuneration Program comprised of short (ICP) and long-term (ILP) incentives. The ICP and ILP are linked to pre-determined collective and individual goals. The achievement percentage of each goal is assessed at the annual closing.

Until 2016, the ILP was based on Company shares using the concept of “Phantom Shares”, where at the end of each period, goals achieved in the period between January and December were converted into units (URVs) based on the performance, variations and value of Company shares (PMAM3), distributed in some vesting periods. Payment obligations from URVs distributed until 2016 will follow the concept described in this paragraph.

Starting in 2017, the Board of Directors approved the change in ILP definition revoking the calculation based on phantom shares performance. ILP is now calculated on salary multiples and based on collective goals established by the Board of Directors, and previously agreed individual goals. Payments will be calculated on salary multiples due each year multiplied by the base salary as at December 31 of the year prior to the payment.

Variable Remuneration Program conditions and rules can be changed at any moment by the Company, with such changes to be expressly communicated to the eligible executive.

Exercising conditions: The private contract determines eligibility rights for and payments with variable remuneration all employees who meet the annual goals under the terms of the contract.

The contract provides the following eligibility conditions toward *variable remuneration*:

The eligible employee has the right to receive the ILP only if his/her labor contract is active.

- i. In the case of labor contract suspension due to disability, there will be no payments while the labor contract remains suspended.
- ii. In case of employee decease, his/her heirs and/or legal beneficiaries will receive 50% of the amount due at the decease date.

Criteria for fixing the exercise term: Except for the ineligibility conditions mentioned above, the vesting will be deferred in two installments, with annual payments, or 50% of salary multiples per year, being the first payment due the year following the ILP acquisition. The amount to be granted will be based on the salary multiple as at December 31, 2017 of the year prior to payment.

Liquidation form: Liquidation will be through payroll process when all established conditions are met.

Phantom shares until 2016:

Criteria for fixing the acquisition or exercise price: In every phantom share payment year, the vesting number of shares ($\frac{1}{4}$ per year) will be multiplied by the average stock (PMAM3) price from January to December of the year prior to payment.

Restrictions on stock transfers: The exercise of phantom shares does not imply the concession of any Company stock, all remuneration being linked to the phantom shares paid in cash. All rights and obligations derived from the individual instrument cannot in any circumstances be assigned or transferred to third parties, nor offered as guarantees for obligations.

Phantom share remuneration based on stocks recognized in results in the last social year and forecast to the current social year: The Company completed in the first trimester of 2017 the second evaluation cycle referring to 2016, where phantom shares were granted to eligible individuals who fulfilled the criteria established in the individual contracts. Approval of targets met and phantom share distribution occurred on April 29, 2017 in the AGE, upon approval of the 2016 financial statements. The provisioned amount in the period was R\$62 (R\$1,287 in the period of 2016).

33. Subsequent event

On July 21, 2017, Paranapanema disclosed to the Market that it has signed an Investment Commitment with Glencore, where Glencore commits to participate in an eventual capitalization of the Company through an Investment Agreement. The Investment Agreement is subject to some suspensive clauses common to this type of transaction which includes the increase of Company's capital to receive investments, among others, from Glencore, and the implementation of the Company debt reprofiling. Upon realization of these conditions, Glencore commits to capitalize the Company with R\$66,000 (sixty-six million Reais).

Report on review of quarterly information

To the Board of Directors and Stockholders
Paranapanema S.A.

Introduction

We have reviewed the accompanying parent company and consolidated interim accounting information of Paranapanema S.A. (the "Company"), included in the Quarterly Information Form (ITR) for the quarter ended June 30, 2017, comprising the balance sheet at that date and the statements of operations and comprehensive income for the quarter and six-month period then ended, and the statements of changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of the parent company and consolidated interim accounting information in accordance with the accounting standard CPC 21, Interim Financial Reporting, of the Brazilian Accounting Pronouncements Committee (CPC), and International Accounting Standard (IAS) 34 - Interim Financial Reporting issued by the International Accounting Standards Board (IASB), as well as the presentation of this information in accordance with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of the Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim accounting information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Reviews of Interim Financial Information (NBC TR 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the interim information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying parent company and consolidated interim accounting information included in the quarterly information referred to above has not been prepared, in all material respects, in accordance with CPC 21 and IAS 34 applicable to the preparation of the Quarterly Information, and presented in accordance with the standards issued by the CVM.

Emphasis of matter

Going concern – significant uncertainty

We draw attention to Note 1 to the interim accounting information, which describes the Company's financial situation and its business plan, and discloses that the Company has incurred recurring losses, and that its current liabilities exceeded its current assets by R\$ 1,159,896 thousand (Consolidated - R\$ 1,189,501 thousand) at June 30, 2017. These conditions, along with other matters described in Note 1, raise significant doubt about the Company's ability to continue as a going concern. No adjustments arising from these uncertainties were included in the financial information. Our conclusion is not qualified in respect of this matter.

Lawsuits with possible risk of loss

We draw attention to Note 19.2 to these interim accounting information, which discloses that the Company has several lawsuits arising from its operations amounting to R\$ 2,086,310 thousand (Consolidated - R\$ 2,086,627 thousand), whose risk of loss is classified as possible based on the opinion of its legal counsel. Accordingly, no related provision is recorded. The main lawsuits refer to the court decision about the right to collect the Social Contribution on Net Income (CSLL), and the ongoing arbitration procedure related to the contract with UBS Pactual S.A. and Banco Santander S.A. An unfavorable outcome for these claims may have a significant impact on the Company's financial position. Our conclusion is not qualified in respect of this matter.

Other matters

Statements of value added

We have also reviewed the parent company and consolidated statements of value added for the six-month period ended June 30, 2017. These statements are the responsibility of the Company's management, are required to be presented in accordance with standards issued by the CVM applicable to the preparation of Quarterly Information (ITR), and are considered supplementary information under IFRS, which do not require the presentation of the statement of value added. These statements have been submitted to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they have not been prepared, in all material respects, in a manner consistent with the parent company and consolidated interim accounting information taken as a whole.

Audit and review of prior-year information

The Quarterly Information (ITR) mentioned in the first paragraph includes the accounting information corresponding to the statements of operations and comprehensive income (loss) for the quarter and six-month period ended June 30, 2016, and to the statements of changes in equity, cash flows and value added for the six-month period ended June 30, 2016, obtained from the quarterly information as at that date, and to the balance sheet at December 31, 2016, obtained from the financial statements as at December 31, 2016, presented for comparison purposes. The review of the Quarterly Information (ITR) for the quarter ended June 30, 2016 and the audit of the financial statements for the year ended December 31, 2016 were conducted by another firm of independent auditors, whose unqualified review and audit reports were dated August 22, 2016 and March 30, 2017, respectively, including emphasis of matter paragraphs regarding the significant uncertainty of going concern and the lawsuits with possible risk of loss.

Barueri, July 21, 2017

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" BA

Sérgio Eduardo Zamora
CRC 1SP168728/ O-5 "S" BA

PARANAPANEMA S.A.
CNPJ/MF nº 60.398.369/0004-79 – NIRE 29.300.030.155
PUBLIC COMPANY

Directors Statement over Independent Auditors' Report

In accordance with Article 25, paragraph 1, items V, of CVM Instruction 480/2009, the Company's Executive Directors declare they have reviewed, discussed and agreed with the report issued on July 21, 2017 by PRICEWATERHOUSECOOPERS, the Independent Auditors of the Company and its subsidiaries, regarding the "Parent company and Consolidated" financial statements, related to the quarter ended June 30, 2017.

Dias d'Ávila, July 21, 2017.

Chief Executive Officer
Marcos Paletta Camara

Legal Officer
Paulo Rodrigo Chung

Chief Financial Officer and Investor Relations
André Luis da Costa Gaia