# Paranapanema S.A.

## Quarterly Financial Report

## March 31, 2018

# Company information/Capital composition

| Quantity of shares (Units) | Current quarter 03/31/2018 |
|---|---|
| **Paid-in capital** | |
| **Common** | 692,370,186 |
| **Preferred** | 0 |
| **Total** | 692,370,186 |
| **Treasury shares** | |
| **Common** | 24,509 |
| **Preferred** | 0 |
| **Total** | 24,509 |

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

| Code of account | Account description | Current quarter 03/31/2018 | Prior year 12/31/2017 |
|---|---|---|---|
| 1 | Total assets | 3,954,535 | 4,201,829 |
| 1.01 | Total current assets | 2,223,307 | 2,503,942 |
| 1.01.01 | Cash and cash equivalents | 248,887 | 343,678 |
| 1.01.02 | Financial investments | 42,781 | 38,453 |
| 1.01.03 | Accounts receivable | 353,034 | 432,038 |
| 1.01.04 | Inventory | 1,422,187 | 1,511,633 |
| 1.01.06 | Taxes recoverable | 57,984 | 76,403 |
| 1.01.07 | Prepaid expenses | 17,051 | 9,181 |
| 1.01.08 | Other current assets | 81,383 | 92,556 |
| 1.01.08.03 | Others | 81,383 | 92,556 |
| 1.01.08.03.01 | Derivative financial instruments | 72,906 | 85,554 |
| 1.01.08.03.02 | Other current assets | 8,477 | 7,002 |
| 1.02 | Total non-current assets | 1,731,228 | 1,697,887 |
| 1.02.01 | Long term assets | 417,643 | 401,313 |
| 1.02.01.01 | Financial investments | 13,737 | 13,906 |
| 1.02.01.03 | Accounts receivable | 203 | 309 |
| 1.02.01.06 | Taxes | 168,118 | 153,039 |
| 1.02.01.06.01 | Deferred income tax and social contribution | 51,322 | 40,283 |
| 1.02.01.06.02 | Taxes recoverable | 116,796 | 112,756 |
| 1.02.01.07 | Prepaid expenses | 12,336 | 12,719 |
| 1.02.01.09 | Other non-current assets | 223,249 | 221,340 |
| 1.02.01.09.01 | Maintained assets for sale | 112,105 | 111,548 |
| 1.02.01.09.03 | Legal deposits | 29,399 | 28,248 |
| 1.02.01.09.05 | Other non-current assets | 81,745 | 81,544 |
| 1.02.02 | Investments | 23,102 | 16,582 |
| 1.02.02.01 | Equity interest | 23,102 | 16,582 |
| 1.02.02.01.02 | Investments | 20,852 | 14,332 |
| 1.02.02.01.04 | Other investments | 2,250 | 2,250 |
| 1.02.03 | Property, plant and equipment | 1,283,279 | 1,273,541 |
| 1.02.03.01 | Fixed assets in operation | 1,117,660 | 1,136,421 |
| 1.02.03.03 | Property, plant and equipment in progress | 165,619 | 137,120 |
| 1.02.04 | Intangible assets | 7,204 | 6,451 |

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

| Code of account | Account description | Current quarter 03/31/2018 | Prior year 12/31/2017 |
|---|---|---|---|
| 2 | Total liabilities | 3,954,535 | 4,201,829 |
| 2.01 | Total current liabilities | 1,122,411 | 1,319,319 |
| 2.01.01 | Payroll and related charges | 45,818 | 49,606 |
| 2.01.02 | Suppliers | 736,220 | 800,898 |
| 2.01.02.01 | Domestic suppliers | 114,846 | 85,569 |
| 2.01.02.02 | Foreign suppliers | 621,374 | 715,329 |
| 2.01.03 | Taxes payable | 20,694 | 21,219 |
| 2.01.03.01 | Federal tax liabilities | 10,350 | 12,705 |
| 2.01.03.01.02 | Excise tax | 2,328 | 1,838 |
| 2.01.03.01.03 | Withholding income tax–IRRF | 2,944 | 2,367 |
| 2.01.03.01.04 | PIS and COFINS | 4,340 | 7,746 |
| 2.01.03.01.05 | Withholding social contribution tax | 533 | 728 |
| 2.01.03.01.07 | Others | 205 | 26 |
| 2.01.03.02 | State tax liabilities | 7,696 | 7,741 |
| 2.01.03.02.01 | Value-Added Tax on Sales and Services | 7,696 | 7,741 |
| 2.01.03.03 | Municipal tax liabilities | 2,648 | 773 |
| 2.01.03.03.01 | Service tax | 2,648 | 773 |
| 2.01.04 | Loans and financing | 162,058 | 120,973 |
| 2.01.05 | Other liabilities | 157,621 | 326,623 |
| 2.01.05.02 | Others | 157,621 | 326,623 |
| 2.01.05.02.02 | Cash and cash equivalents | 24,790 | 24,429 |
| 2.01.05.02.04 | Derivative financial instruments | 37,088 | 183,670 |
| 2.01.05.02.05 | Advances from clients | 21,163 | 33,799 |
| 2.01.05.02.06 | Other current liabilities | 42,700 | 42,906 |
| 2.01.05.02.07 | Forfaiting and letter of credit operations | 31,880 | 41,819 |
| 2.02 | Total non-current liabilities | 1,985,291 | 1,993,988 |
| 2.02.01 | Loans and financing | 1,792,883 | 1,807,001 |
| 2.02.02 | Other liabilities | 168 | 782 |
| 2.02.02.02 | Other non - current liabilities | 168 | 782 |
| 2.02.02.02.03 | Taxes payable | 107 | 178 |
| 2.02.02.02.06 | Suppliers | 61 | 604 |
| 2.02.04 | Provisions | 192,240 | 186,205 |
| 2.02.04.01 | Legal deposits | 192,240 | 186,205 |
| 2.02.04.01.01 | Tax Provision | 1,253 | 1,875 |
| 2.02.04.01.02 | Social security and labor provisions | 185,688 | 179,350 |
| 2.02.04.01.04 | Civil provisions | 5,299 | 4,980 |
| 2.03 | Shareholders' equity | 846,833 | 888,522 |
| 2.03.01 | Paid-in capital | 2,089,978 | 2,089,978 |
| 2.03.01.01 | Paid-in capital | 1,990,708 | 1,984,751 |
| 2.03.01.02 | Convertible debentures in action | 104,645 | 110,602 |
| 2.03.01.03 | Capitalization costs | -5,375 | -5,375 |
| 2.03.02 | Capital Reserve | -741 | -741 |
| 2.03.02.05 | Treasury shares | -741 | -741 |
| 2.03.03 | Revaluation reserves | 214,651 | 218,917 |
| 2.03.05 | Retained earnings | -459,248 | -414,356 |
| 2.03.06 | Equity valuation adjustments | -997,807 | -1,005,276 |

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

| Code of account | Account description | 1 st Quarter 2018 | 1 st Quarter 2017 |
|---|---|---|---|
| 3.01 | Net sales | 998,307 | 901,676 |
| 3.02 | Cost of goods sold | -975,201 | -816,135 |
| 3.03 | Gross income | 23,106 | 85,541 |
| 3.04 | Operating expenses | -97,478 | -119,859 |
| 3.04.01 | Sales expenses | -6,547 | -6,307 |
| 3.04.02 | General and administrative expenses | -25,872 | -27,293 |
| 3.04.02.01 | General and administrative | -16,008 | -19,155 |
| 3.04.02.02 | Management fees | -1,687 | -1,761 |
| 3.04.02.03 | General and administrative | -8,177 | -6,377 |
| 3.04.04 | Other income | 5,961 | 5,310 |
| 3.04.05 | Other expenses | -77,450 | -94,337 |
| 3.04.06 | Equity income (loss) | 6,430 | 2,768 |
| 3.05 | (Loss) operating profit before financial results | -74,372 | -34,318 |
| 3.06 | Financial income (loss) | 14,175 | -4,227 |
| 3.06.01 | Financial income | 192,805 | 168,232 |
| 3.06.02 | Financial expenses | -178,630 | -172,459 |
| 3.07 | (Loss) before income and social contribution taxes | -60,197 | -38,545 |
| 3.08 | Income and social contribution tax | 11,039 | -4,603 |
| 3.08.02 | Deferred income and social contribution taxes | 11,039 | -4,603 |
| 3.09 | Net income (loss) from continuing operations | -49,158 | -43,148 |
| 3.11 | Income (Loss) for the period | -49,158 | -43,148 |
| 3.99 | Earning per share - (Reais / Shares) | | |
| 3.99.01 | Basic earnings per share | | |
| 3.99.01.01 | ON | -0.07134 | -0.13520 |
| 3.99.02 | Diluted earning per share | | |
| 3.99.02.01 | ON | -0.06559 | -0.13520 |

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

| Code of account | Account description | 1 st Quarter 2018 | 1 st Quarter 2017 |
|---|---|---|---|
| 4.01 | Income (Loss) for the period | -49,158 | -43,148 |
| 4.02 | Items to be subsequently reclassified to the result | 7,469 | 27,834 |
| 4.02.01 | Hedge cash flow – Export income ACC(*)/PPE(**) | -104 | 20,078 |
| 4.02.02 | Hedge cash flow – NDF(***) sales income | 7,475 | 7,820 |
| 4.02.04 | Hedge cash flow – Other debts | 0 | -40 |
| 4.02.06 | Earnings from foreign exchange on foreign investment | 90 | -6 |
| 4.02.08 | Hedge cash flow – Cost metal x Future stock exchange | 8 | -18 |
| 4.03 | Comprehensive income for the year | -41,689 | -15,314 |

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

| Code of account | Account description | 1 st Quarter 2018 | 1 st Quarter 2017 |
|---|---|---|---|
| 6.01 | Net cash used in (provided by) operating activities | -34,459 | 40,409 |
| 6.01.01 | Cash generated from operations | 17,895 | 40,937 |
| 6.01.01.01 | (Loss) before income and social contribution taxes | -60,197 | -38,545 |
| 6.01.01.02 | Residual value of written-off fixed assets | 5 | 651 |
| 6.01.01.03 | Depreciation and amortization | 37,004 | 31,909 |
| 6.01.01.04 | Equity in net income | -6,430 | -2,768 |
| 6.01.01.05 | Provision for judicial losses | 17,128 | 28,510 |
| 6.01.01.07 | Provision of other estimated losses | 315 | 0 |
| 6.01.01.08 | Gains on financial charges | 30,471 | 23,608 |
| 6.01.01.09 | Present value adjustment - receivables and suppliers | -228 | -213 |
| 6.01.01.12 | Reversal for recoverable value on estimated loss | -173 | -2,215 |
| 6.01.02 | Changes in assets and liabilities | -52,354 | -528 |
| 6.01.02.02 | Accounts receivable | 79,204 | 157,699 |
| 6.01.02.04 | Inventory | 89,333 | 156,857 |
| 6.01.02.05 | Taxes recoverable | 14,379 | 6,823 |
| 6.01.02.06 | Prepaid expenses | -7,487 | -6,354 |
| 6.01.02.07 | Legal deposits | -1,151 | -556 |
| 6.01.02.08 | Derivative financial instruments | 18,934 | 24,265 |
| 6.01.02.09 | Maintained assets for sale | -557 | -138 |
| 6.01.02.10 | Other current and non-current liabilities | -1,647 | -148,464 |
| 6.01.02.11 | Suppliers | -60,993 | -71,440 |
| 6.01.02.12 | Forfaiting and letter of credit operations | -10,071 | -45,152 |
| 6.01.02.14 | Taxes payable | -596 | 8,349 |
| 6.01.02.15 | Legal deposits | -11,093 | -11,290 |
| 6.01.02.16 | Payroll and related charges | -3,788 | -1,275 |
| 6.01.02.18 | Advances from clients | -12,646 | -5,509 |
| 6.01.02.19 | Derivative financial instruments | -143,969 | -68,141 |
| 6.01.02.20 | Other current and non-current liabilities | -206 | 3,798 |
| 6.02 | Net cash used in investment activities | -51,975 | 59,536 |
| 6.02.06 | Variance of subsidiaries | 0 | 1 |
| 6.02.07 | Fixed assets and intangible additions | -47,816 | -9,859 |
| 6.02.08 | Financial investments | -328,048 | -49,570 |
| 6.02.09 | Redemption of financial investments | 323,889 | 106,713 |
| 6.02.10 | Release linked bank account | 0 | 12,251 |
| 6.03 | Net cash generated (consumed) in financing activities | -8,357 | -52,213 |
| 6.03.01 | Loans and financing | 23,557 | 0 |
| 6.03.02 | Amortization of loans and financing | -24,508 | -33,594 |
| 6.03.04 | Amortization of financial charges | -7,406 | -18,619 |
| 6.05 | (Reduction) increase in cash and cash equivalents | -94,791 | 47,732 |
| 6.05.01 | Cash and cash equivalents at the beginning of the year | 343,678 | 139,492 |
| 6.05.02 | Cash and cash equivalents at the end of the year | 248,887 | 187,224 |

**Individual financial statements / Statement of changes in equity – 01/01/2018 - 03/31/2018**
**(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 | 1,984,751 | 104,486 | 0 | -414,356 | -786,359 | 888,522 |
| 5.03 | Adjusted opening balances | 1,984,751 | 104,486 | 0 | -414,356 | -786,359 | 888,522 |
| 5.04 | Capital transactions with partners | 5,957 | -5,957 | 0 | 0 | 0 | 0 |
| 5.04.01 | Increase of capital | 5,957 | -5,957 | 0 | 0 | 0 | 0 |
| 5.05 | Total comprehensive income | 0 | 0 | 0 | -49,158 | 7,469 | -41,689 |
| 5.05.01 | Net income for the period | 0 | 0 | 0 | -49,158 | 0 | -49,158 |
| 5.05.02 | Other comprehensive income | 0 | 0 | 0 | 0 | 7,469 | 7,469 |
| 5.05.02.01 | Financial instruments - adjustments | 0 | 0 | 0 | 0 | 7,379 | 7,379 |
| 5.05.02.03 | Equity income (loss) on compreh. income-subsidiaries ar | 0 | 0 | 0 | 0 | 90 | 90 |
| 5.06 | Internal changes in equity | 0 | 0 | 0 | 4,266 | -4,266 | 0 |
| 5.06.02 | Realization of revaluation reserve | 0 | 0 | 0 | 5,593 | -5,593 | 0 |
| 5.06.03 | Taxes on the realization of the revaluation reserve | 0 | 0 | 0 | -1,327 | 1,327 | 0 |
| 5.07 | Closing balances | 1,990,708 | 98,529 | 0 | -459,248 | -783,156 | 846,833 |

**Individual financial statements / Statement of changes in equity – 01/01/2017 - 03/31/2017**
**(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 |
| 5.05 | Total comprehensive income | 0 | 0 | 0 | -43,148 | 27,834 | -15,314 |
| 5.05.01 | Net income for the period | 0 | 0 | 0 | -43,148 | 0 | -43,148 |
| 5.05.02 | Other comprehensive income | 0 | 0 | 0 | 0 | 27,834 | 27,834 |
| 5.05.02.01 | Financial instruments - adjustments | 0 | 0 | 0 | 0 | 27,840 | 27,840 |
| 5.05.02.03 | Equity income (loss) on compreh. income-subsidiaries ar | 0 | 0 | 0 | 0 | -6 | -6 |
| 5.06 | Internal changes in equity | 0 | 0 | 0 | 1,742 | -1,742 | 0 |
| 5.06.02 | Realization of revaluation reserve | 0 | 0 | 0 | 2,225 | -2,225 | 0 |
| 5.06.03 | Taxes on the realization of the revaluation reserve | 0 | 0 | 0 | -483 | 483 | 0 |
| 5.07 | Closing balances | 1,382,990 | -741 | 0 | -327,902 | -812,651 | 241,696 |

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

| Code of account | Account description | 1 st Quarter 2018 | 1 st Quarter 2017 |
|---|---|---|---|
| 7.01 | Income | 1,126,371 | 1,011,779 |
| 7.01.01 | Sale of goods and services | 1,120,460 | 1,009,473 |
| 7.01.02 | Other income | 5,911 | 4,632 |
| 7.01.04 | Provision of credits for doubtful accounts | 0 | -2,326 |
| 7.02 | Inputs acquired from third parties | -1,031,893 | -910,970 |
| 7.02.01 | Cost of goods and services sold | -897,232 | -767,813 |
| 7.02.02 | Materials, energy, third party services and other | -134,661 | -143,157 |
| 7.03 | Gross added value | 94,478 | 100,809 |
| 7.04 | Retentions | -37,004 | -31,909 |
| 7.04.01 | Depreciation and amortization | -37,004 | -31,909 |
| 7.05 | Net added value | 57,474 | 68,900 |
| 7.06 | Added value received through transfers | 199,235 | 171,000 |
| 7.06.01 | Equity equivalence result | 6,430 | 2,768 |
| 7.06.02 | Financial income | 192,805 | 168,232 |
| 7.07 | Total net added value payable | 256,709 | 239,900 |
| 7.08 | Net added value payable | 256,709 | 239,900 |
| 7.08.01 | Personnel and charges | 60,128 | 54,928 |
| 7.08.02 | Taxes, duties and contributions | 62,772 | 48,762 |
| 7.08.03 | Third-party capital remuneration | 182,967 | 179,358 |
| 7.08.04 | Remuneration of own capital | -49,158 | -43,148 |
| 7.08.04.03 | Loss for the period | -49,158 | -43,148 |

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

| Code of account | Account description | Current quarter 03/31/2018 | Prior year 12/31/2017 |
|---|---|---|---|
| 1 | Total assets | 3,910,335 | 4,211,491 |
| 1.01 | Total current assets | 2,168,978 | 2,493,482 |
| 1.01.01 | Cash and cash equivalents | 257,581 | 345,551 |
| 1.01.02 | Financial investments | 42,781 | 38,453 |
| 1.01.03 | Accounts receivable | 268,662 | 371,384 |
| 1.01.04 | Inventory | 1,439,336 | 1,546,971 |
| 1.01.06 | Taxes recoverable | 61,340 | 88,629 |
| 1.01.07 | Prepaid expenses | 17,837 | 10,053 |
| 1.01.08 | Other current assets | 81,441 | 92,441 |
| 1.01.08.03 | Others | 81,441 | 92,441 |
| 1.01.08.03.01 | Derivative financial instruments | 72,906 | 85,591 |
| 1.01.08.03.02 | Other current assets | 8,535 | 6,850 |
| 1.02 | Total non-current assets | 1,741,357 | 1,718,009 |
| 1.02.01 | Long term assets | 447,610 | 434,724 |
| 1.02.01.01 | Financial investments | 14,474 | 14,632 |
| 1.02.01.03 | Accounts receivable | 14,789 | 17,895 |
| 1.02.01.06 | Taxes | 182,762 | 168,137 |
| 1.02.01.06.01 | Deferred income tax and social contribution | 65,966 | 55,381 |
| 1.02.01.06.02 | Taxes recoverable | 116,796 | 112,756 |
| 1.02.01.07 | Prepaid expenses | 12,336 | 12,720 |
| 1.02.01.09 | Other non-current assets | 223,249 | 221,340 |
| 1.02.01.09.01 | Maintained assets for sale | 112,105 | 111,548 |
| 1.02.01.09.03 | Legal deposits | 29,399 | 28,248 |
| 1.02.01.09.04 | Other non-current assets | 81,745 | 81,544 |
| 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 | 1,284,293 | 1,274,584 |
| 1.02.03.01 | Fixed assets in operation | 1,118,676 | 1,137,464 |
| 1.02.03.03 | Property, plant and equipment in progress | 165,617 | 137,120 |
| 1.02.04 | Intangible assets | 7,204 | 6,451 |

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

| Code of account | Account description | Current quarter 03/31/2018 | Prior year 12/31/2017 |
|---|---|---|---|
| 2 | Total liabilities | 3,910,335 | 4,211,491 |
| 2.01 | Total current liabilities | 1,078,211 | 1,328,981 |
| 2.01.01 | Payroll and related charges | 45,948 | 49,767 |
| 2.01.02 | Suppliers | 690,384 | 801,203 |
| 2.01.02.01 | Domestic suppliers | 70,540 | 85,874 |
| 2.01.02.02 | Foreign suppliers | 619,844 | 715,329 |
| 2.01.03 | Taxes payable | 21,202 | 25,827 |
| 2.01.03.01 | Federal tax liabilities | 10,853 | 17,305 |
| 2.01.03.01.01 | Income tax and social contribution | 500 | 4,596 |
| 2.01.03.01.02 | Excise tax | 2,328 | 1,838 |
| 2.01.03.01.03 | Withholding income tax–IRRF | 2,946 | 2,371 |
| 2.01.03.01.04 | PIS and COFINS | 4,340 | 7,746 |
| 2.01.03.01.05 | Withholding social contribution tax | 534 | 728 |
| 2.01.03.01.07 | Others | 205 | 26 |
| 2.01.03.01.08 | Special program for tax regularization - PERT | 0 | 0 |
| 2.01.03.02 | State tax liabilities | 7,700 | 7,749 |
| 2.01.03.02.01 | Value-Added Tax on Sales and Services | 7,700 | 7,749 |
| 2.01.03.03 | Municipal tax liabilities | 2,649 | 773 |
| 2.01.03.03.01 | Service tax | 2,649 | 773 |
| 2.01.04 | Loans and financing | 162,060 | 120,977 |
| 2.01.05 | Other liabilities | 158,617 | 331,207 |
| 2.01.05.02 | Others | 158,617 | 331,207 |
| 2.01.05.02.02 | Cash and cash equivalents | 24,790 | 24,429 |
| 2.01.05.02.04 | Derivative financial instruments | 37,098 | 183,670 |
| 2.01.05.02.05 | Advances from clients | 21,823 | 37,520 |
| 2.01.05.02.06 | Other current liabilities | 43,026 | 43,769 |
| 2.01.05.02.07 | Forfaiting and letter of credit operations | 31,880 | 41,819 |
| 2.02 | Total non-current liabilities | 1,985,291 | 1,993,988 |
| 2.02.01 | Loans and financing | 1,792,883 | 1,807,001 |
| 2.02.02 | Other liabilities | 168 | 782 |
| 2.02.02.02 | Other non-current liabilities | 168 | 782 |
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| 2.02.02.02.06 | Suppliers | 61 | 604 |
| 2.02.04 | Provisions | 192,240 | 186,205 |
| 2.02.04.01 | Legal deposits | 192,240 | 186,205 |
| 2.02.04.01.01 | Tax Provision | 1,253 | 1,875 |
| 2.02.04.01.02 | Social security and labor provisions | 185,688 | 179,350 |
| 2.02.04.01.04 | Civil provisions | 5,299 | 4,980 |
| 2.03 | Shareholders' equity | 846,833 | 888,522 |
| 2.03.01 | Paid-in capital | 2,089,978 | 2,089,978 |
| 2.03.01.01 | Paid-in capital | 1,990,708 | 1,984,751 |
| 2.03.01.02 | Convertible debentures in action | 104,645 | 110,602 |
| 2.03.01.03 | Capitalization costs | -5,375 | -5,375 |
| 2.03.02 | Capital Reserve | -741 | -741 |
| 2.03.02.05 | Treasury shares | -741 | -741 |
| 2.03.03 | Revaluation reserves | 214,651 | 218,917 |
| 2.03.05 | Retained earnings | -459,248 | -414,356 |
| 2.03.06 | Equity valuation adjustments | -997,807 | -1,005,276 |

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

| Code of account | Account description | 1 st Quarter 2018 | 1 st Quarter 2017 |
|---|---|---|---|
| 3.01 | Net sales | 1,019,965 | 774,824 |
| 3.02 | Cost of goods sold | -996,378 | -687,515 |
| 3.03 | Gross income | 23,587 | 87,309 |
| 3.04 | Operating expenses | -104,795 | -124,566 |
| 3.04.01 | Sales expenses | -7,098 | -6,685 |
| 3.04.02 | General and administrative expenses | -26,268 | -28,051 |
| 3.04.02.01 | General and administrative | -16,370 | -19,903 |
| 3.04.02.02 | Management fees | -1,687 | -1,761 |
| 3.04.02.03 | General and administrative | -8,211 | -6,387 |
| 3.04.04 | Other income | 6,050 | 5,340 |
| 3.04.05 | Other expenses | -77,479 | -95,170 |
| 3.05 | (Loss) operating profit before financial results | -81,208 | -37,257 |
| 3.06 | Financial income (loss) | 21,965 | -2,337 |
| 3.06.01 | Financial income | 205,697 | 177,578 |
| 3.06.02 | Financial expenses | -183,732 | -179,915 |
| 3.07 | (Loss) before income and social contribution taxes | -59,243 | -39,594 |
| 3.08 | Income and social contribution tax | 10,085 | -3,554 |
| 3.08.01 | Income and social contribution tax for the current year | -500 | -414 |
| 3.08.02 | Deferred income and social contribution taxes | 10,585 | -3,140 |
| 3.09 | Net income (loss) from continuing operations | -49,158 | -43,148 |
| 3.11 | Income (Loss) for the period | -49,158 | -43,148 |
| 3.11.01 | Atributed to Parent Company Share Holders | -49,158 | -43,148 |

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

| Code of account | Account description | 1 st Quarter 2018 | 1 st Quarter 2017 |
|---|---|---|---|
| 4.01 | Income (Loss) for the period | -49,158 | -43,148 |
| 4.02 | Items to be subsequently reclassified to the result | 7,469 | 27,834 |
| 4.02.01 | Hedge cash flow – Export income ACC(*)/PPE(**) | -104 | 20,078 |
| 4.02.02 | Hedge cash flow – NDF(***) sales income | 7,475 | 7,820 |
| 4.02.04 | Hedge cash flow – Other debts | 0 | -40 |
| 4.02.06 | Earnings from foreign exchange on foreign investment | 90 | -6 |
| 4.02.08 | Hedge cash flow – Cost metal x Future stock exchange | 8 | -18 |
| 4.03 | Comprehensive income for the year | -41,689 | -15,314 |
| 4.03.01 | Atributed to Parent Company Share Holders | -41,689 | -15,314 |

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

| Code of account | Account description | 1 st Quarter 2018 | 1 st Quarter 2017 |
|---|---|---|---|
| 6.01 | Net cash used in (provided by) operating activities | -27,628 | 153,419 |
| 6.01.01 | Cash generated from operations | 24,957 | 37,560 |
| 6.01.01.01 | (Loss) before income and social contribution taxes | -59,243 | -39,594 |
| 6.01.01.02 | Residual value of written-off fixed assets | 5 | 651 |
| 6.01.01.03 | Depreciation and amortization | 37,031 | 31,928 |
| 6.01.01.05 | Provision for judicial losses | 17,128 | 28,510 |
| 6.01.01.07 | Provision of other estimated losses | 315 | 0 |
| 6.01.01.08 | Gains on financial charges | 30,560 | 23,599 |
| 6.01.01.09 | Present value adjustment - receivables and suppliers | -619 | -5,064 |
| 6.01.01.12 | Reversal for recoverable value on estimated loss | -220 | -2,470 |
| 6.01.02 | Changes in assets and liabilities | -52,585 | 115,859 |
| 6.01.02.02 | Accounts receivable | 106,360 | 77,870 |
| 6.01.02.04 | Inventory | 107,522 | 154,006 |
| 6.01.02.05 | Taxes recoverable | 18,653 | 5,314 |
| 6.01.02.06 | Prepaid expenses | -7,400 | -6,292 |
| 6.01.02.07 | Legal deposits | -1,151 | -556 |
| 6.01.02.08 | Derivative financial instruments | 18,971 | 24,277 |
| 6.01.02.09 | Maintained assets for sale | -557 | -138 |
| 6.01.02.10 | Other current and non-current liabilities | -1,857 | 39,425 |
| 6.01.02.11 | Suppliers | -107,134 | -59,098 |
| 6.01.02.12 | Forfaiting and letter of credit operations | -10,071 | -45,152 |
| 6.01.02.14 | Taxes payable | -600 | 8,102 |
| 6.01.02.15 | Legal deposits | -11,093 | -11,290 |
| 6.01.02.16 | Payroll and related charges | -3,819 | -1,329 |
| 6.01.02.18 | Advances from clients | -15,707 | -5,054 |
| 6.01.02.19 | Derivative financial instruments | -143,959 | -68,153 |
| 6.01.02.20 | Other current and non-current liabilities | -743 | 3,927 |
| 6.02 | Net cash used in investment activities | -51,986 | 38,506 |
| 6.02.07 | Fixed assets and intangible additions | -47,816 | -9,856 |
| 6.02.08 | Financial investments | -328,059 | -378,676 |
| 6.02.09 | Redemption of financial investments | 323,889 | 436,119 |
| 6.02.10 | Release linked bank account | 0 | -9,081 |
| 6.03 | Net cash generated (consumed) in financing activities | -8,356 | -52,213 |
| 6.03.01 | Loans and financing | 23,557 | 0 |
| 6.03.02 | Amortization of loans and financing | -24,507 | -33,594 |
| 6.03.04 | Amortization of loans and financing | -7,406 | -18,619 |
| 6.05 | (Reduction) increase in cash and cash equivalents | -87,970 | 139,712 |
| 6.05.01 | Cash and cash equivalents at the beginning of the year | 345,551 | 142,824 |
| 6.05.02 | Cash and cash equivalents at the end of the year | 257,581 | 282,536 |

**Consolidated financial statements / Statement of changes in equity – 01/01/2018 to 03/31/2018**
**(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 | 1,984,751 | 104,486 | 0 | -414,356 | -786,359 | 888,522 | 888,522 |
| 5.03 | Adjusted opening balances | 1,984,751 | 104,486 | 0 | -414,356 | -786,359 | 888,522 | 888,522 |
| 5.04 | Capital transactions with partners | 5,957 | -5,957 | 0 | 0 | 0 | 0 | 0 |
| 5.04.01 | Increase of capital | 5,957 | -5,957 | 0 | 0 | 0 | 0 | 0 |
| 5.05 | Total comprehensive income | 0 | 0 | 0 | -49,158 | 7,469 | -41,689 | -41,689 |
| 5.05.01 | Net income for the period | 0 | 0 | 0 | -49,158 | 0 | -49,158 | -49,158 |
| 5.05.02 | Other comprehensive income | 0 | 0 | 0 | 0 | 7,469 | 7,469 | 7,469 |
| 5.05.02.01 | Financial instruments - adjustments | 0 | 0 | 0 | 0 | 7,379 | 7,379 | 7,379 |
| 5.05.02.03 | Equity income (loss) on compreh. income-subsidiaries an | 0 | 0 | 0 | 0 | 90 | 90 | 90 |
| 5.06 | Internal changes in equity | 0 | 0 | 0 | 4,266 | -4,266 | 0 | 0 |
| 5.06.02 | Realization of revaluation reserve | 0 | 0 | 0 | 5,593 | -5,593 | 0 | 0 |
| 5.06.03 | Taxes on the realization of the revaluation reserve | 0 | 0 | 0 | -1,327 | 1,327 | 0 | 0 |
| 5.07 | Closing balances | 1,990,708 | 98,529 | 0 | -459,248 | -783,156 | 846,833 | 846,833 |

**Consolidated financial statements / Statement of changes in equity – 01/01/2017 to 03/31/2017**
**(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 |
| 5.05 | Net income for the period | 0 | 0 | 0 | -43,148 | 27,834 | -15,314 | -15,314 |
| 5.05.01 | Other comprehensive income | 0 | 0 | 0 | -43,148 | 0 | -43,148 | -43,148 |
| 5.05.02 | Financial instruments - adjustments | 0 | 0 | 0 | 0 | 27,834 | 27,834 | 27,834 |
| 5.05.02.01 | Equity income (loss) on compreh. income-subsidiaries an | 0 | 0 | 0 | 0 | 27,840 | 27,840 | 27,840 |
| 5.05.02.03 | Internal changes in equity | 0 | 0 | 0 | 0 | -6 | -6 | -6 |
| 5.06 | Realization of revaluation reserve | 0 | 0 | 0 | 1,742 | -1,742 | 0 | 0 |
| 5.06.02 | Taxes on the realization of the revaluation reserve | 0 | 0 | 0 | 2,225 | -2,225 | 0 | 0 |
| 5.06.03 | Taxe incentive reserve | 0 | 0 | 0 | -483 | 483 | 0 | 0 |
| 5.07 | Closing balances | 1,382,990 | -741 | 0 | -327,902 | -812,651 | 241,696 | 241,696 |

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

| Code of account | Account description | 1 st Quarter 2018 | 1 st Quarter 2017 |
|---|---|---|---|
| 7.01 | Income | 1,130,867 | 852,342 |
| 7.01.01 | Sale of goods and services | 1,124,870 | 850,305 |
| 7.01.02 | Other income | 5,997 | 4,661 |
| 7.01.04 | Provision of credits for doubtful accounts | 0 | -2,624 |
| 7.02 | Inputs acquired from third parties | -1,144,428 | -785,001 |
| 7.02.01 | Cost of goods and services sold | -997,241 | -639,149 |
| 7.02.02 | Materials, energy, third party services and other | -147,187 | -145,852 |
| 7.03 | Gross added value | -13,561 | 67,341 |
| 7.04 | Retentions | -37,031 | -31,928 |
| 7.04.01 | Depreciation and amortization | -37,031 | -31,928 |
| 7.05 | Net added value | -50,592 | 35,413 |
| 7.06 | Added value received through transfers | 205,697 | 177,578 |
| 7.06.02 | Financial income | 205,697 | 177,578 |
| 7.07 | Total net added value payable | 155,105 | 212,991 |
| 7.08 | Net added value payable | 155,105 | 212,991 |
| 7.08.01 | Personnel and charges | 60,610 | 55,760 |
| 7.08.02 | Taxes, duties and contributions | -44,654 | 13,400 |
| 7.08.03 | Third-party capital remuneration | 188,307 | 186,979 |
| 7.08.04 | Remuneration of own capital | -49,158 | -43,148 |
| 7.08.04.03 | Loss for the period | -49,158 | -43,148 |

## MESSAGE FROM THE BOARD

We started the year 2018 maintaining our process of recovery of the Company, after conclusion of the Debt Reprofiling in September 2017. We follow a conservative cash management policy in addition to the strategy of operational leverage aiming at using more operating assets, as well as rationalization of costs and expenses.

In 1Q18, we improved our net income by 32% and sales volume by 10% when compared to 1Q17.

In view of the adverse economic scenario that Brazil has been facing in recent years and the financial restructuring process of the Company, investments were contingent upon routine and mandatory maintenances. After the restructuring, the Company's management approved a robust pluriannual maintenance plan so as to recover the efficiency of the plant in Dias d´Ávila (BA). The planning is aimed to attain the maximum nominal production capacity and to provide a more profitable mix of raw material, that is, to increase the processing capacity of copper concentrate.

Based on this plan, Management intends to invest R$ 275 million in 2018 mainly in the reestablishment of the operating capacity of the unit in Bahia (Smelter) including the replacement of assets at the end of useful life. In addition, the Company will start to make investments to increase the production of Anodes through copper concentrate totaling R$ 45 million in 2018.

The principal intervention of 2018 in the unit of Bahia will be concluded up by the end of April. Known as "Scheduled Maintenance 2018", aimed to recover and/or exchange assets at the end of useful life and to eliminate the main causes of intermittences suffered in recent months and years.

Prior to the Scheduled Maintenance started on March 25 this year, we faced intermittences in the plant in Bahia, only in the first quarter of 2018, generating an impact of 31 days in the production, which, added to 7 days of Scheduled Maintenance, totaled a loss of 38 days in the production.

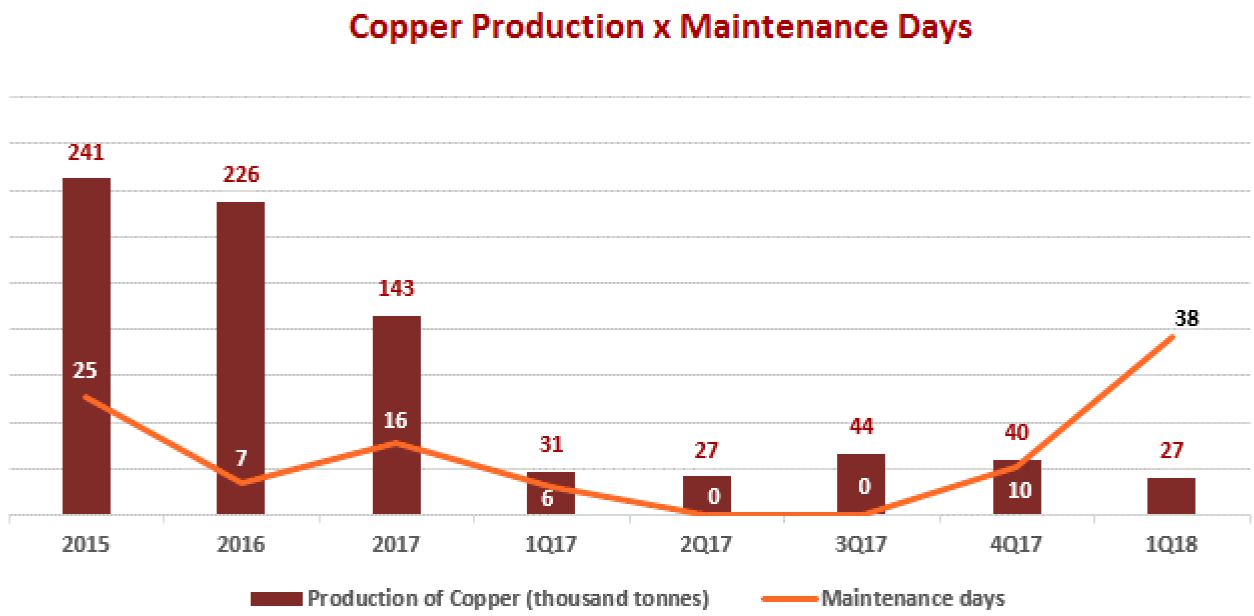
These occurrences affected the result for 1Q18, which recorded negative EBITDA of R$44.2 million. Nevertheless, we emphasize the actions taken on a timely basis to mitigate these impacts, such as reduction of inventory and receivables, reducing Working Capital to R$1,156.8 million, R$99.7 million less than in 4Q17; and the decrease of operating expenses by 16%, compared to 1Q17. In addition, we continue to endeavor efforts seeking to reduce our expenses with contingencies through administrative and legal actions that allowed us to decrease provisions by 40%, when compared to the same period of 2017.

Finally, Management is currently fully committed to restore profitability of its operations by means of increasing operating leverage (greater occupation of plants), resumption of credit facilities, mainly to fund the planned CAPEX, and value generation to its shareholders.

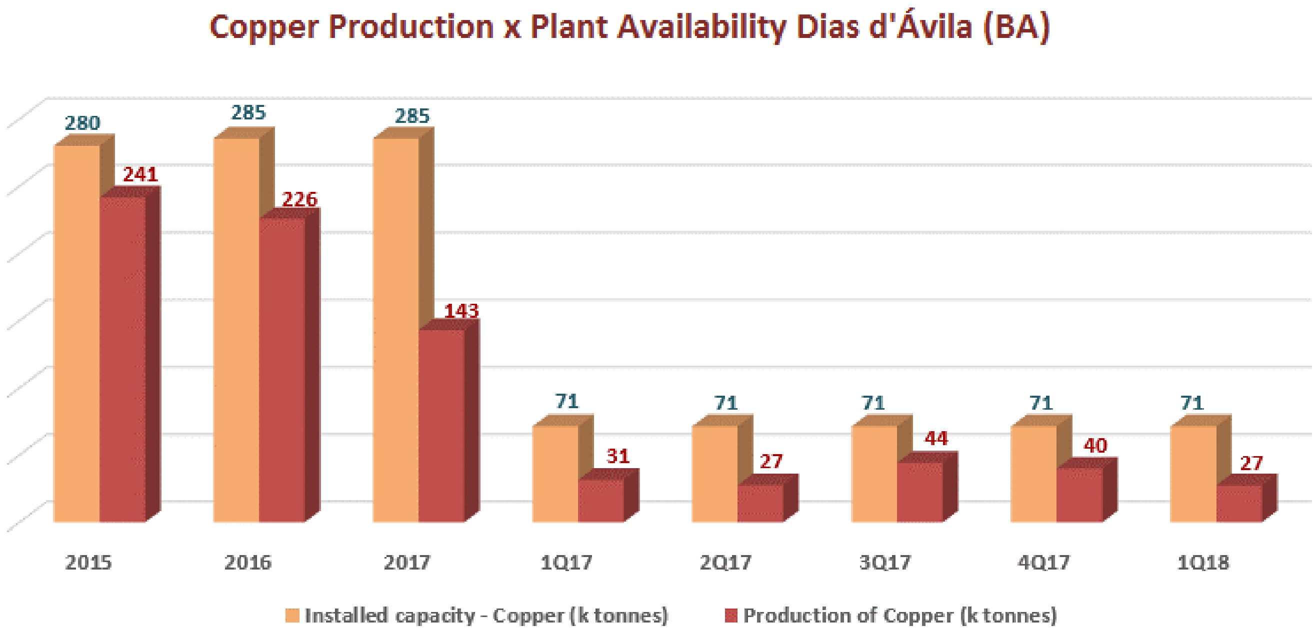
# PRODUCTION PERFORMANCE

## Production volume

In 1Q18, the **Production Volume** in the industrial complex of Dias d'Ávila (BA) was affected by 31 days of interruption of smeltery mainly due to holes in the boiler and by seven days without producing copper anode during March due to the Scheduled Maintenance, whose execution term is about 30 days as of March 25. We point out that, with the Scheduled Maintenance, the Company intends to reestablish the production capacity, increase the efficiency of the manufacturing plants seeking operational excellence.




In 1Q18, **Total Production** was 62.5 thousand tons, a reduction of only 1% in relation to 1Q17. The **Production of Primary Copper** totaled 27.4 thousand tons down 13% from the same quarter of prior year due to unscheduled stops. The Company is importing copper Anode and Blister to cover the electrolysis during the maintenance in Smeltery to minimize the impact on the production of Primary Copper and sales.

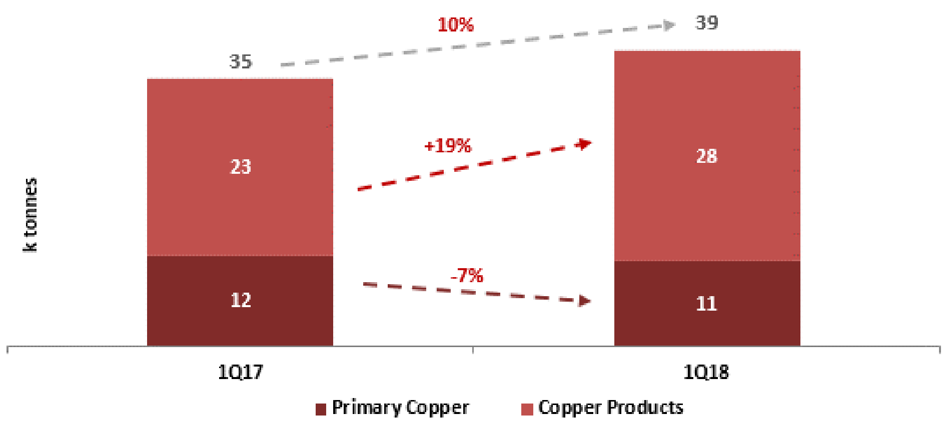



In **Copper Products,** production was 35.1 thousand tons in 1Q18, an increase of 12% in relation to 1Q17, derived from increase of 9% in sales of Rods and Cables and of 20% in the set of Bars, Profiles, Wires, Laminates, Pipes and Connections. The Company gave priority to production in the lines of copper products because they generate higher added value.

In **Byproducts**, we produced 130.1 thousand tons in 1Q18, a reduction of 17% in relation to 1Q17, mainly due to lower production of sulphuric acid caused by intermittences in the plant.

## COMMERCIAL PERFORMANCE

### Volume of sales




The Total Sales Volume in 1Q18 was 39.2 thousand tons, representing a 10% increase when compared to the same quarter of the prior year, derived from a weak recovery in the domestic market, also linked to new commercial strategies which have already recorded evolution since 4Q17.

## Primary Copper

As to Primary Copper, the Company sold 11.3 thousand tons in 1Q18, 7% less than in 1Q17. The foreign market of copper remained strongly booming over this quarter with strong demand for the Company's cathodes (23% increase of exports), particularly in the Chinese market. The commercial agreements entered into during 2017 and the efforts of recovery of production levels as of 3Q17 enabled relevant recovery in export volumes in the beginning of year 2018. Conversely, in the domestic market there was reduction of 60% between the quarters, resulting from the Company's decision to give priority to copper products with higher added value seeking new customers and recovering others.

## Copper products

In Copper Products, 27.9 thousand tons were sold in 1Q18, an increase of 19% compared to 1Q17:

- **Rods, Wire and other**

In the foreign market, sales volumes remained stable in relation to 1Q17 (increase of 2%), with focus on regular customers in South America, where the Company maintains significant market share. Mainly the operations in Argentina, Paraguay and Uruguay, where the Company maintains leadership position. The restriction in the availability of products limited the potential of growth in exports of Rods and Cables in 1Q18, postponing the efforts in the international expansion of this line of products.

In the domestic market, there was significant increase of 26% between the quarters, as result of the continuous increase in the volume and customer base.

- **Bars/Profiles/Wires/Laminates/Pipes/Connections**

In the foreign market, there was strong growth in the volumes of exports, and we recorded a 43% increase as result of commercial efforts in the development of new markets and products, mainly in the lines of industrial pipes. This was possible due to a combination of evolution in the U.S. market, maintenance of important positions in the markets of South America and Israel and also the recovery of market share in Turkey and Italy.

In the domestic market sales remained virtually stable between the quarters. It is important to point out the adjustment of premiums, which improved gross margin.

- **Byproducts**

In Byproducts, sales volume recorded 131.6 thousand tons in 1Q18, a decrease of 32% compared to the same quarter of the prior year.

In the foreign market there was a 43% reduction in the volume of sales of Anodic Slime in view of lower production levels, due to unscheduled downtimes as explained above. In addition, the mix of raw material used during 1Q18 compared to the same period of 2017 contained less precious metals, reducing the volume of Anodic Slime generated.

In the domestic market there was a 32% reduction between the quarters, derived from lower availability of sulphuric acid for sales, due to the production problems mentioned above.

## FINANCIAL PERFORMANCE

## Net income

| *In R$ thd, except otherwise stated* | 1Q17 | 1Q18 | Δ % |
|---|---|---|---|
| **Primary Copper** | **234.193** | **370.819** | ***58%*** |
| *% of Revenue* | *30,2%* | *36,4%* | *6,1 p.p.* |
| **Copper Products** | **416.570** | **565.921** | ***36%*** |
| *% of Revenue* | *53,8%* | *55,5%* | *1,7 p.p.* |
| **Rods, Wires and Others** | **266.900** | **371.505** | ***39%*** |
| **Bars/Profiles/Rolled/Tubes/Fittings** | **149.670** | **194.416** | ***30%*** |
| **Byproducts** | **124.061** | **83.225** | ***-33%*** |
| *% of Revenue* | *16,0%* | *8,2%* | *-7,9 p.p.* |
| **Total Net Revenue** | **774.824** | **1.019.965** | ***32%*** |
| Domestic Market [%] | 47,5% | 39,1% | *-17,9%* |
| Export Market [%] | 51,1% | 59,6% | *16,7%* |
| Toll [%] | 1,4% | 1,4% | *-0,9%* |
| **REINTEGRA[1] Contribution** | **5.421** | **7.071** | ***30%*** |

[1] REINTEGRA: Special Tax Reintegration Regime for Exporting Companies. A tax incentive that enables some Brazilian exporting manufacturing companies, under certain conditions, to recover from 0.1% to 3% of the revenue from exports.

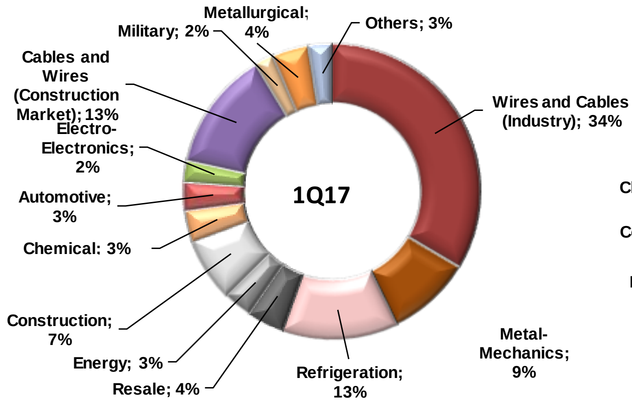
In **Primary Copper**, Net Income increased 58% compared to 1Q17, mainly due to the higher value of copper in reais per ton, overcoming the impact of the lower sales volume, as explained above.

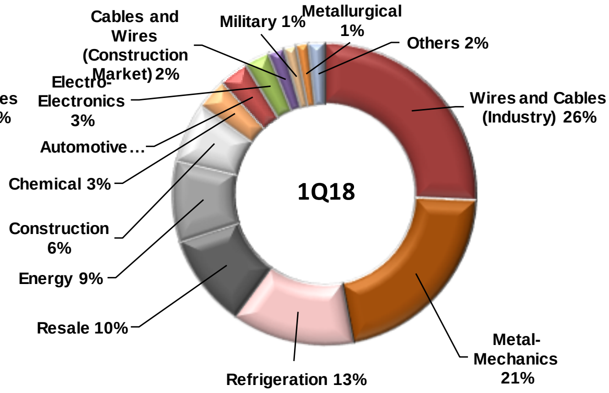
In **Copper Products**, Net Income increased 36% compared to 1Q17. Bars, Profiles, Wires, Laminates, Tubes and Fittings recorded a 30% increase in relation to the same period of 2017 due to the commercial strategy of focusing on higher added value products and development of new markets for exports besides the increase in copper price. Thus, in Rods, Cable and Other, the growth was 39% resulting from a more competitive commercial strategy adopted at the end of 2017.

In **Byproducts**, Net Income decreased 33% compared to 1Q17, derived from lower availability for sales due to the maintenances in the plant mentioned above.

### Domestic Market Income

With regards to domestic market sectors shown below, sales of Wire and Cable (Industry) and Metal Mechanic are more representative. We also point out the growth in the Resales segment (plates, bars, reels, rods of non-ferrous metals) which in 1Q18 represented 10% of total sales.




## Gross profit

| *In R$ thd, except otherwise stated* | 1Q17 | 1Q18 | Δ % |
|---|---|---|---|
| **Net Revenue** | **774.824** | **1.019.965** | ***32%*** |
| **Total COGS** | **(687.515)** | **(996.378)** | ***-45%*** |
| ( - ) Metal Cost | (585.919) | (877.729) | *-50%* |
| ( - ) Transformation Cost | (101.596) | (118.649) | *-17%* |
| COGS Total/tonnes sold | 19,3 | 22,4 | *16%* |
| Metal Cost/tonnes sold | 16,5 | 19,4 | *18%* |
| Transformation Cost/tonnes sold | 2,9 | 3,0 | *6%* |
| **Gross Profit** | **87.309** | **23.587** | ***-73%*** |
| *% of Revenue* | *11,3%* | *2,3%* | *-9,0 p.p.* |
| *TC/RC (reduces metal cost)* | 62.080 | 38.762 | *-38%* |
| *Premiums* | *188.905* | *142.236* | *-25%* |
| *Premium/Net Revenue [%]* | *24,4%* | *13,9%* | *-10,4 p.p.* |
| *Premium/tonnes sold* | *5,31* | *3,63* | *-32%* |

*[1] Unit Cost: The indices do not include the costs/resale volumes of other raw materials*

Despite the increase of 32% in Net Income between the quarters, **Gross Profit** in 1Q18 was affected by the lower production in the period and consequent drop of 38% in “income” from TC/RC (Treatment Charge/Refining Charge), considering that a lower volume of copper concentrate was processed among the quarters, in addition to the reduction in income (loss) in Byproducts due to a lower tenor of precious metals that influenced in income from Anodic Slime and lower quantity of sulphuric acid available. Additionally, due to the intermittences in the Smelter, we rebalanced the purchases of raw material including the sale of 2 lots of copper concentrate in 1Q18, which adversely affected gross margin by 0.6%. This movement was important because it contributed to reduce our inventories by 7% when compared to 4Q17, reducing the working capital used.

Total COGS per ton sold increased 16% in relation to 1Q17, mainly due to the 18% increase in the cost of the metal and also due to the additional maintenance cost generated by the intermittency in the Bahia plant. With the Scheduled Maintenance, the trends is to have fewer occurrences of emergency maintenance and consequently lower maintenance costs.

## EBITDA

| *In R$ thd, except otherwise stated* | 1Q17 | 1Q18 | ∆ % |
|---|---|---|---|
| **Net Profit** | **(43.148)** | **(49.158)** | *-14%* |
| ( + ) Taxes | 3.554 | (10.085) | *-384%* |
| ( + ) Net Financial Result | 2.337 | (21.965) | *-1040%* |
| **EBIT** | **(37.257)** | **(81.208)** | ***-118%*** |
| ( + ) Depreciation and Amortization | 31.928 | 37.031 | *16%* |
| **EBITDA** | **(5.329)** | **(44.177)** | ***-729%*** |
| *% of Revenue* | *-0,7%* | *-4,3%* | *-3,6 p.p.* |

The Company obtained a **Net Financial Income** of R$22.0 million mostly due to hedge strategies adopted for the Company's cash flow.

The Company's **Ebitda** recorded loss of R$44.2 million in 1Q18 against a profit of R$ 5.3 million in the same quarter of the previous year, mainly due to lower production in the period and consequent impact on the Company's gross profit. We point out the decrease of R$3.6 million in General and Administrative Expenses, as well as the reduction of around R$18.4 million in Net Other Operating Expenses, a result of efforts made to solve Company's labor contingencies. The reduction of Other Operating Expenses could have been greater had it not been for the increase of idleness.

In **Attachment I** it is possible to notice a decrease of 16% in total expenses, from R$124.5 million in 1Q17 to R$104.8 million in this quarter, mainly due to Other Operating Expenses, as mentioned above.

## Net income

| *In R$ thd, except otherwise stated* | 1Q17 | 1Q18 | ∆ % |
|---|---|---|---|
| Result before Taxes | (39.594) | (59.243) | *-50%* |
| Income Tax and Social Contribution | (3.554) | 10.085 | *384%* |
| **Net Result** | **(43.148)** | **(49.158)** | ***-14%*** |
| *% of Revenue* | *-5,6%* | *-4,8%* | *0,7 p.p.* |

The change in **Income and Social Contribution Taxes** between the quarters is mainly due to the reduction of temporary provisions and increase of the tax loss balance.

The change in **Net Loss** was 14% between the quarters, mainly due to low production volumes and greater idleness in the period.

## ATTACHMENT I - Operating expenses

| *In R$ thd, except otherwise stated* | 1Q17 | 1Q18 | Δ % |
|---|---|---|---|
| **Total Operating Expenses** | **(124.566)** | **(104.795)** | ***16%*** |
| Sales Expenses | (6.685) | (7.098) | *-6%* |
| G&A Expenses and Management Compensation | (21.664) | (18.057) | *17%* |
| Employee Profit Sharing | (6.387) | (8.211) | *-29%* |
| Other Operating, net | (89.830) | (71.429) | *20%* |
| *Total Expenses/Net Revenue [%]* | *16,1%* | *10,3%* | *-5,8 p.p.* |
| *Recurring Expenses*/Gross Profit [%]* | *42,0%* | *128,4%* | *86,4 p.p.* |
| *Recurring Expenses*/tonnes sold* | *1,03* | *0,77* | *-25%* |
| **Non-recurring items:** | | | |
| Provisions for contingencies * | (28.510) | (17.128) | *40%* |
| Other provisions* | (256) | (93) | *64%* |
| Idle capacity | (59.091) | (57.273) | *3%* |
| **Total Non-recurring Items:** | **(87.857)** | **(74.494)** | ***15%*** |
| **Total Recurring Items:** | **(36.709)** | **(30.301)** | ***17%*** |

** No cash impact during the period*

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The Company follows the rules of the Novo Mercado Arbitration Chamber, as provided for in its By-Laws.

# Balance sheets
## March 31 and December 31
## (In thousands of reais)

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| ASSETS | Notes | 03/31/2018 | 12/31/2017 | 03/31/2018 | 12/31/2017 |
| Cash and cash equivalents | 05 | **248,887** | 343,678 | **257,581** | 345,551 |
| Financial investments | 05 | **42,781** | 38,453 | **42,781** | 38,453 |
| Accounts receivable | 06 | **353,034** | 432,038 | **268,662** | 371,384 |
| Inventory | 07 | **1,422,187** | 1,511,633 | **1,439,336** | 1,546,971 |
| Taxes recoverable | 08 | **57,984** | 76,403 | **61,340** | 88,629 |
| Other current assets | 09.1 | **8,477** | 7,002 | **8,535** | 6,850 |
| Derivative financial instruments | 27 | **72,906** | 85,554 | **72,906** | 85,591 |
| Prepaid expenses | | **17,051** | 9,181 | **17,837** | 10,053 |
| **Total current assets** | | **2,223,307** | 2,503,942 | **2,168,978** | 2,493,482 |
| Financial investments | 05 | **13,737** | 13,906 | **14,474** | 14,632 |
| Accounts receivable | 06 | **203** | 309 | **14,789** | 17,895 |
| Taxes recoverable | 08 | **116,796** | 112,756 | **116,796** | 112,756 |
| Assets held for sale | 10 | **112,105** | 111,548 | **112,105** | 111,548 |
| Deferred income tax and social contribution | 25.1 | **51,322** | 40,283 | **65,966** | 55,381 |
| Legal deposits | 09.2 | **29,399** | 28,248 | **29,399** | 28,248 |
| Other non-current assets | 09.1 | **81,745** | 81,544 | **81,745** | 81,544 |
| Prepaid expenses | | **12,336** | 12,719 | **12,336** | 12,720 |
| | | **417,643** | 401,313 | **447,610** | 434,724 |
| Investments | 11 | **20,852** | 14,332 | **-** | - |
| Other investments | | **2,250** | 2,250 | **2,250** | 2,250 |
| Property, plant and equipment | 12 | **1,283,279** | 1,273,541 | **1,284,293** | 1,274,584 |
| Intangible assets | 12 | **7,204** | 6,451 | **7,204** | 6,451 |
| | | **1,313,585** | 1,296,574 | **1,293,747** | 1,283,285 |
| **Total non-current assets** | | **1,731,228** | 1,697,887 | **1,741,357** | 1,718,009 |
| **Total assets** | | **3,954,535** | 4,201,829 | **3,910,335** | 4,211,491 |

See the accompanying notes to the quarterly information.

## Balance sheets
### March 31 and December 31
### (In thousands of reais)

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| LIABILITIES | Notes | 03/31/2018 | 12/31/2017 | 03/31/2018 | 12/31/2017 |
| Suppliers | 13 | **736,220** | 800,898 | **690,384** | 801,203 |
| Forfaiting and letter of credit operations | 14 | **31,880** | 41,819 | **31,880** | 41,819 |
| Loans and financing | 15 | **162,058** | 120,973 | **162,060** | 120,977 |
| Derivative financial instruments | 27 | **37,088** | 183,670 | **37,098** | 183,670 |
| Payroll and related charges | 16 | **45,818** | 49,606 | **45,948** | 49,767 |
| Taxes payable | 17 | **20,694** | 21,219 | **21,202** | 25,827 |
| Cash and cash equivalents | 19 | **24,790** | 24,429 | **24,790** | 24,429 |
| Advances from clients | 19 | **21,163** | 33,799 | **21,823** | 37,520 |
| Other current liabilities | 19 | **42,700** | 42,906 | **43,026** | 43,769 |
| **Total current liabilities** | | **1,122,411** | 1,319,319 | **1,078,211** | 1,328,981 |
| Suppliers | 13 | **61** | 604 | **61** | 604 |
| Loans and financing | 15 | **1,792,883** | 1,807,001 | **1,792,883** | 1,807,001 |
| Taxes payable | 17 | **107** | 178 | **107** | 178 |
| Legal deposits | 18 | **192,240** | 186,205 | **192,240** | 186,205 |
| **Total non-current liabilities** | | **1,985,291** | 1,993,988 | **1,985,291** | 1,993,988 |
| **Total liabilities** | | **3,107,702** | 3,313,307 | **3,063,502** | 3,322,969 |
| Paid-in capital | 20.a | **1,990,708** | 1,984,751 | **1,990,708** | 1,984,751 |
| Debentures convertible into shares | 20.b | **104,645** | 110,602 | **104,645** | 110,602 |
| Capitalization costs | | **(5,375)** | (5,375) | **(5,375)** | (5,375) |
| Revaluation reserves | 20.I | **214,651** | 218,917 | **214,651** | 218,917 |
| Equity valuation adjustments | 20.h | **(997,807)** | (1,005,276) | **(997,807)** | (1,005,276) |
| Treasury shares | | **(741)** | (741) | **(741)** | (741) |
| Retained earnings | | **(459,248)** | (414,356) | **(459,248)** | (414,356) |
| **Shareholders' equity** | 20 | **846,833** | 888,522 | **846,833** | 888,522 |
| **Total shareholders' equity** | | **846,833** | 888,522 | **846,833** | 888,522 |
| **Total liabilities and equity** | | **3,954,535** | 4,201,829 | **3,910,335** | 4,211,491 |
| **Net equity per share – in Brazilian reais (R$)** | | **1.22** | 1.29 | | |

See the accompanying notes to the quarterly information.

# Statements of income
## Three-month period ended March 31
## (In thousands of Reais, except earnings per share)

| | Notes | Parent company 1 st Quarter 2018 | Parent company 1 st Quarter 2017 | Consolidated 1 st Quarter 2018 | Consolidated 1 st Quarter 2017 |
|---|---|---|---|---|---|
| **Net sales** | 21 | **998,307** | 901,676 | **1,019,965** | 774,824 |
| **Cost of goods sold** | 22 | **(975,201)** | (816,135) | **(996,378)** | (687,515) |
| **Gross income** | | **23,106** | 85,541 | **23,587** | 87,309 |
| Commercial | 22 | **(6,547)** | (6,307) | **(7,098)** | (6,685) |
| General and administrative | 22 | **(16,008)** | (19,155) | **(16,370)** | (19,903) |
| Management fees | 11.4 | **(1,687)** | (1,761) | **(1,687)** | (1,761) |
| Equity | 11.1 | **6,430** | 2,768 | **-** | - |
| General and administrative | | **(8,177)** | (6,377) | **(8,211)** | (6,387) |
| Other expenses | 23 | **(77,450)** | (94,337) | **(77,479)** | (95,170) |
| Other income | 23 | **5,961** | 5,310 | **6,050** | 5,340 |
| **Operating expenses** | | **(97,478)** | (119,859) | **(104,795)** | (124,566) |
| **(Loss) operating profit before financial results** | | **(74,372)** | (34,318) | **(81,208)** | (37,257) |
| Financial expenses | 24 | **(178,630)** | (172,459) | **(183,732)** | (179,915) |
| Financial income | 24 | **192,805** | 168,232 | **205,697** | 177,578 |
| **(Loss) before income and social contribution taxes** | | **(60,197)** | (38,545) | **(59,243)** | (39,594) |
| Income and social contribution tax for the current year | 25.2 | **-** | - | **(500)** | (414) |
| Deferred income and social contribution taxes | 25.2 | **11,039** | (4,603) | **10,585** | (3,140) |
| **Income and social contribution tax** | | **11,039** | (4,603) | **10,085** | (3,554) |
| **Income (Loss) for the period** | | **(49,158)** | (43,148) | **(49,158)** | (43,148) |
| | | | | | |
| **Income (Loss) per share - common** | | **(0.0713)** | (0.1352) | | |
| **Income (Loss) per share - common** | | **(0.0656)** | (0.1352) | | |

See the accompanying notes to the quarterly information.

# Statements of comprehensive income
## Three-month periods ended March 31
## (In thousands of reais)

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 1 st Quarter 2018 | 1 st Quarter 2017 | 1 st Quarter 2018 | 1 st Quarter 2017 |
| **Income (Loss) for the period** | **(49,158)** | (43,148) | **(49,158)** | (43,148) |
| **Other comprehensive income** | | | | |
| **Items to be subsequently reclassified to the result** | | | | |
| | **7,469** | 27,834 | **7,469** | 27,834 |
| Hedge cash flow – Export income ACC(*)/PPE(**) | **(104)** | 20,078 | **(104)** | 20,078 |
| Hedge cash flow – NDF(***) sales income | **7,475** | 7,820 | **7,475** | 7,820 |
| Hedge cash flow – Cost metal x Future stock exchange | **8** | (18) | **8** | (18) |
| Hedge cash flow – Other debts | **-** | (40) | **-** | (40) |
| Earnings from foreign exchange on foreign investment | **90** | (6) | **90** | (6) |
| **Comprehensive income for the year** | **(41,689)** | (15,314) | **(41,689)** | (15,314) |
| **Allocated to:** | | | | |
| Controlling shareholders | | | **(41,689)** | (15,314) |

See the accompanying notes to the quarterly information.

## Statement of changes in shareholders' equity
### Three-month periods ended March 31
### (In thousands of reais)

| | Notes | Paid-in capital | Debentures | Capitalization costs | Treasury shares | Accumulated loss | Equity valuation adjustment | Revaluation reserve | Consolidated shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at December 31, 2016** | | 1,382,990 | - | - | (741) | (286,496) | (1,065,570) | 226,827 | 257,010 |
| Financial instruments, net of taxes | 20.h | - | - | - | - | - | 27,840 | - | 27,840 |
| Earnings and losses from foreign exchange variations-Foreign investment | 20.h | - | - | - | - | - | (6) | - | (6) |
| Equity evaluation adjustment | 20.j | - | - | - | - | 2,225 | - | (2,225) | - |
| Tax on realization of equity evaluation adjustment | 20.j | - | - | - | - | (483) | - | 483 | - |
| **Other comprehensive income** | | - | - | - | - | 1,742 | 27,834 | (1,742) | 27,834 |
| **Loss for the period** | | - | - | - | - | (43,148) | - | - | (43,148) |
| **Balance as at March 31, 2017** | | 1,382,990 | - | - | (741) | (327,902) | (1,037,736) | 225,085 | 241,696 |
| **Balance as at December 31, 2017** | | 1,984,751 | 110,602 | (5,375) | (741) | (414,356) | (1,005,276) | 218,917 | 888,522 |
| Increase of capital | 01 | 5,957 | (5,957) | - | - | - | - | | - |
| **Capital transactions with partners** | | 5,957 | (5,957) | - | - | - | - | - | - |
| Financial instruments, net of taxes | 20.h | - | - | - | - | - | 7,379 | | 7,379 |
| Earnings and losses from foreign exchange variations-Foreign investment | 20.h | - | - | - | - | - | 90 | - | 90 |
| Equity evaluation adjustment | 20.j | - | - | - | - | 5,593 | - | (5,593) | - |
| Tax on realization of equity evaluation adjustment | 20.j | - | - | - | - | (1,327) | - | 1,327 | - |
| **Other comprehensive income** | | - | - | - | - | 4,266 | 7,469 | (4,266) | 7,469 |
| **Loss for the period** | | - | - | - | - | (49,158) | - | - | (49,158) |
| **Balance as at March 31, 2018** | | 1,990,708 | 104,645 | (5,375) | (741) | (459,248) | (997,807) | 214,651 | 846,833 |

See the accompanying notes to the quarterly information.

# Statements of cash flow - Indirect method
## Three-month periods ended March 31
## (In thousands of reais)

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 1 st Quarter 2018 | 1 st Quarter 2017 | 1 st Quarter 2018 | 1 st Quarter 2017 |
| **(Loss) before income and social contribution taxes** | **(60,197)** | (38,545) | **(59,243)** | (39,594) |
| **Adjustments to reconcile net (loss) with resources used in (provided by) operating activities** | | | | |
| Residual value of written-off fixed assets | 5 | 651 | 5 | 651 |
| Depreciation and amortization | 37,004 | 31,909 | 37,031 | 31,928 |
| Equity in net income | (6,430) | (2,768) | - | - |
| Reversal for recoverable value of estimated loss | (173) | (2,215) | (220) | (2,470) |
| Provision of other estimated losses | 315 | - | 315 | - |
| Provision for losses on lawsuits | 17,128 | 28,510 | 17,128 | 28,510 |
| Present value adjustment - receivables and suppliers | (228) | (213) | (619) | (5,064) |
| Gains from financial charges | 30,471 | 23,608 | 30,560 | 23,599 |
| | 17,895 | 40,937 | 24,957 | 37,560 |
| **(Increase) decrease in assets** | | | | |
| Accounts receivable | 79,204 | 157,699 | 106,360 | 77,870 |
| Inventory | 89,333 | 156,857 | 107,522 | 154,006 |
| Taxes recoverable | 14,379 | 6,823 | 18,653 | 5,314 |
| Prepaid expenses | (7,487) | (6,354) | (7,400) | (6,292) |
| Legal deposits | (1,151) | (556) | (1,151) | (556) |
| Derivative financial instruments | 18,934 | 24,265 | 18,971 | 24,277 |
| Assets held for sale | (557) | (138) | (557) | (138) |
| Other current and non-current liabilities | (1,647) | (148,464) | (1,857) | 39,425 |
| **Increase (decrease) in liabilities** | | | | |
| Suppliers | (60,993) | (71,440) | (107,134) | (59,098) |
| Forfaiting and letter of credit operations | (10,071) | (45,152) | (10,071) | (45,152) |
| Taxes payable | (596) | 8,349 | (600) | 8,102 |
| Legal deposits | (11,093) | (11,290) | (11,093) | (11,290) |
| Payroll and related charges | (3,788) | (1,275) | (3,819) | (1,329) |
| Derivative financial instruments | (143,969) | (68,141) | (143,959) | (68,153) |
| Advances from clients | (12,646) | (5,509) | (15,707) | (5,054) |
| Other current and non-current liabilities | (206) | 3,798 | (743) | 3,927 |
| **Net cash used in (provided by) operating activities** | (34,459) | 40,409 | (27,628) | 153,419 |
| **Investing activities** | | | | |
| Financial investments | (328,048) | (49,570) | (328,059) | (378,676) |
| Redemption of financial investments | 323,889 | 106,713 | 323,889 | 436,119 |
| Release linked bank account | - | 12,251 | - | (9,081) |
| Variation of controlled company capital | - | 1 | - | - |
| Fixed assets and intangible additions | (47,816) | (9,859) | (47,816) | (9,856) |
| **Net cash (used in) provided by investing activities** | (51,975) | 59,536 | (51,986) | 38,506 |
| **Financing activities** | | | | |
| Loans and financing | 23,557 | - | 23,557 | - |
| Amortization of loans and financing | (24,508) | (33,594) | (24,507) | (33,594) |
| Amortization of financial charges | (7,406) | (18,619) | (7,406) | (18,619) |
| **Net cash used in financing activities** | (8,357) | (52,213) | (8,356) | (52,213) |
| **(Reduction) increase in cash and cash equivalents** | (94,791) | 47,732 | (87,970) | 139,712 |
| Cash and cash equivalents at the beginning of the year | 343,678 | 139,492 | 345,551 | 142,824 |
| Cash and cash equivalents at the end of the year | 248,887 | 187,224 | 257,581 | 282,536 |
| **(Reduction) increase in cash and cash equivalents** | (94,791) | 47,732 | (87,970) | 139,712 |

See the accompanying notes to the quarterly information.

# Statements of added value
## Three-month periods ended March 31
## (In thousands of reais)

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 1 st Quarter 2018 | 1 st Quarter 2017 | 1 st Quarter 2018 | 1 st Quarter 2017 |
| **Income** | | | | |
| Sales of goods and services | **1,120,460** | 1,009,473 | **1,124,870** | 850,305 |
| Provision of credits for doubtful accounts | **-** | (2,326) | **-** | (2,624) |
| Other income | **5,911** | 4,632 | **5,997** | 4,661 |
| **Inputs acquired from third parties (Including taxes)** | | | | |
| Cost of goods and services sold | **(897,232)** | (767,813) | **(997,241)** | (639,149) |
| Materials, energy, third party services and other | **(134,661)** | (143,157) | **(147,187)** | (145,852) |
| **Gross added value** | **94,478** | 100,809 | **(13,561)** | 67,341 |
| **Retentions** | | | | |
| Depreciation and amortization | **(37,004)** | (31,909) | **(37,031)** | (31,928) |
| **Net added value** | **57,474** | 68,900 | **(50,592)** | 35,413 |
| **Received from third parties** | | | | |
| Equity equivalence result | **6,430** | 2,768 | **-** | - |
| Financial income | **192,805** | 168,232 | **205,697** | 177,578 |
| **Total net added value payable** | **256,709** | 239,900 | **155,105** | 212,991 |
| | | | | |
| **Net added value payable** | **256,709** | 239,900 | **155,105** | 212,991 |
| Personnel and charges | **60,128** | 54,928 | **60,610** | 55,760 |
| Taxes and contributions | **62,772** | 48,762 | **(44,654)** | 13,400 |
| Interest and rent | **182,967** | 179,358 | **188,307** | 186,979 |
| Loss for the period | **(49,158)** | (43,148) | **(49,158)** | (43,148) |

See the accompanying notes to the quarterly information.

**In Thousand of Reais, except when otherwise indicated.**

## 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, n° 3.700, West Industrial Area, Prédio Administrativo I, Complexo Petroquímico de Camaçari - COPEC.

The Individual and Consolidated Quarterly Information includes the Company and its Subsidiaries. The Company and its subsidiaries are engaged in industrial activities related to the transformation and processing of ores and their byproducts, and metallurgical activities related to ferrous and non-ferrous products such as laminates, bars and profiles, tubes, rods, casts, manufactured and semi-manufactured industrial parts and components intended for the domestic and export markets.

The Company's Individual and Consolidated Quarterly Information for the period ended March 31, 2018 was prepared based on the assumption of operational continuity in line with the business plan, which includes the projected cash flow. Several financial and business assumptions were used for the purpose of these projections, which include the recovery of primary copper production and the gradual increase of copper products production.

In 2017, the Company completed the process of strengthening its capital structure and debt reprofiling. The actions taken included a public offering of shares with restricted primary distribution efforts, fully capitalized and paid up, and public offering of debentures with restricted placement efforts.

Of the total of 360,003,818 debentures, 255,358,478 have already been translated into shares (249,402,021 on October 10, 2017 and 5,956,456 on March 6, 2018), with the remaining balance of 104,645,347 not yet translated.

| | Debentures | | | | Shares | | | |
|---|---|---|---|---|---|---|---|---|
| | Total Debentures | Converted in 10/04/2017 | Converted in 03/06/2018 | Pending Conversion | Equivalent in shares | Converted in 10/04/2017 | Converted in 03/06/2018 | Pending Conversion |
| Merrill Lynch International | 39,450,975 | 39,450,975 | | - | 22,760,182 | 22,760,182 | | - |
| Sumitomo Mitsui Banking Corp, Ny Branch | 38,884,228 | 20,522,231 | | 18,361,997 | 22,433,213 | 11,839,751 | | 10,593,462 |
| Banco Latinoamericano De Com Ext S.A | 30,305,442 | 15,994,538 | | 14,310,904 | 17,483,912 | 9,227,620 | | 8,256,292 |
| Cargill Financial Services Internat, Inc | 152,404,143 | 80,435,519 | | 71,968,624 | 87,925,485 | 46,405,115 | | 41,520,370 |
| China Construc Bank Bra Bco Multiplo Sa | 12,613,670 | 6,657,214 | 5,956,456 | - | 7,277,119 | 3,840,702 | 3,436,417 | - |
| Fundo De Recuperacao De Ativos - Fidc Np | 82,401,612 | 82,401,611 | | 1 | 47,539,400 | 47,539,400 | | - |
| The Bank Of Nova Scotia | 3,939,928 | 3,939,927 | | 1 | 2,273,035 | 2,273,035 | | - |
| Other Investors | 3,820 | - | | 3,820 | 2,204 | - | | 2,204 |
| Treasury | - | 7 | | - | | 4 | | - |
| | **360,003,818** | **249,402,022** | **5,956,456** | **104,645,347** | **207,694,550** | **143,885,809** | **3,436,417** | **60,372,328** |

Paranapanema's shares have been listed and traded on B3 S.A – Bolsa de Valores, Mercadorias e Futuros since 1971, and in the "New Market" segment since 2012 under the code PMAM3.

In line with the business plan, on March 26, 2018 the Company began, the Scheduled Maintenance in the industrial complex of Dias d´Ávila – Bahia, estimated to last 30 days, primarily aimed at recovering the efficiency of the Smelter (copper casting plant), ensuring full compliance with production planning for the next years, as well as adjustments to regulatory standards, this maintenance will ensure greater security and compliance with environmental requirements of the Company's operations.

In Thousand of Reais, except when otherwise indicated.

**Group entities – "Subsidiaries"**

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

| Subsidiaries | 03/31/2018 | 12/31/2017 |
|---|---|---|
| **CDPC-Centro de Distrib. de Produtos de Cobre Ltda**<br>Company with its 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. (*)**<br>Company with its headquarters in the Cayman Islands, established on July 8, 2005. | 100.00% | 100.00% |
| **Paraibuna Agropecuária Ltda. (*)**<br>Company with its 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. (*)**<br>Company with its headquarters in the city of Amsterdam, the Netherlands, established on April 09, 2014. | 100.00% | 100.00% |
| **Rio Negro Mineração e Com Ltda (*)**<br>Company with its headquarters in the city of Santo Andre, state of São Paulo, Brazil, | 99.99% | 99.99% |

(*) The Company is currently inactive.

## 02. Preparation basis

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

The individual and consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), IAS 34 - Interim Financial Reporting, CPC 21 (R1) - Interim Statements and include all information relevant to the quarterly information, and only such information, which is consistent with that used by Management in the course of its duties.

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. Thus, for IFRS purposes, this statement is presented as supplementary information, and not as part of the required set of quarterly information.

The issuance of the individual and consolidated quarterly information was authorized by the Company's Board of Directors at a meeting held on April 26, 2018.

Measurement basis

The individual and consolidated quarterly information was prepared 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; and
- Land, buildings and machines were adjusted to their deemed costs as at the date of transition

to IFRS/CPC.

***B)*** Functional and presentation currency

This individual and consolidated Quarterly Information is 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 thousand, except where otherwise indicated.

***C)*** Use of estimates and judgments

The preparation of individual and consolidated quarterly 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 may differ from these estimates.

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

The critical judgment relates to the application of hedge accounting and the critical accounting assumptions referenced in section D) below.

***D)*** Uncertainty regarding accounting and critical assumptions and estimates

Information on uncertainties related to assumptions and accounting estimates that carry a significant risk of resulting in material adjustments to the critical accounts for the year ended March 31, 2018 are included in the following notes:

- Note 12 - Property, plant and equipment: main assumptions regarding the recoverable values of assets and a substantive analysis of their useful lives;

- Note 18 - Provision for judicial claims: Main assumptions regarding the probability and size of cash disbursements;

- Note 25 - Deferred income and social contribution taxes: Availability on future taxable profits to compensate accumulated losses;

- Note 27 – Derivative financial instruments: fair values of derivatives.

## 03. Measuring the fair value

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

Financial assets and liabilities recorded at fair value are classified and disclosed according to the fair value hierarchy (Note 27.4).

***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 the market interest rates of similar instruments as at 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 US$ 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). Changes in future prices are reflected at each production stage considering the estimated time required 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 the principal and future cash flow, discounted using the market interest rate at 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 with reference to similar lease agreements.

## 04. Significant accounting policies

The interim financial information was prepared following the accounting principles, methods and policies, except where indicated, regarding those presented in the last fiscal year as at December 31, 2017.

New standards, changes and interpretations became effective as of January 2018. The impacts of the adoption of these new standards are described below:

***a)*** IFRS 9 (CPC 48) – "Financial Instruments"

IFRS 9 (CPC 48) replaced the existing guidance contained in IAS 39 (CPC 38) – "Financial Instruments":

"Recognition and Measurement". IFRS 9 (CPC 48) included 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 regarding hedge accounting. The new standard maintained the existing guidance on the recognition and derecognition of financial instruments in IAS 39.

The Company adopted the standard from January 1, 2018, and the principal changes involved:

- Add information to the notes to the financial statements related to the adjustments of the six prior financial assets categories into two categories indicated by the standard (as Note 27.4).

- Change in the effectiveness testing format. There will be no impacts on P&L because market risk management is made to maximize the possible effect of hedging instruments on the hedged object. Upon adoption of this new methodology, the possibility to maximize the possible effect increases, reducing the possibility of recognizing hedge instrument ineffectiveness in the P&L.

***b)*** IFRS 15 (CPC 47) – "Revenue from Contracts with Customers"

IFRS 15 (CPC 47) introduced a comprehensive framework for determining whether and when income is recognized, and how it is measured. IFRS 15 (CPC 47) replaced 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".

The Company has not identified any impact on the Quarterly Information resulting from the transition to CPC 47 – "Revenue from Contracts with Customers", because revenue have already been recognized when the performance obligation is fulfilled. In Paranapanema, this event occurs when transferring control of the asset to the customer.

Regarding the expected loss estimation, the history of effective losses in recent years, represents 0.014% of the annual billing amount. We do not expect major risks of default other than those already recognized from prior years.

***c)*** 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 joint venture. There was no impact on its Quarterly Information.

<u>New standards and interpretations not yet adopted</u>

***d)*** IFRS 16 Leases - IFRS 16 establishes that in all leases with terms longer than 12 months, with limited exceptions, the lessee must recognize a lease liability in the balance sheet at the present value of the payments, plus directly allocable costs, and at the same time recognize a right of use corresponding to the underlying asset. During the term of the lease, the lease liability is adjusted to reflect the financial costs and payments made and the rights of use are amortized, similar to financial lease rules in accordance with IAS 17. This pronouncement will become effective for annual periods beginning on or after January 1, 2019. The Company does not have relevant lease agreements, and no relevant impact is expected on its Quarterly Information.

There are no other IFRS or IFRIC interpretations affecting the Quarterly Information of the Company on a relevant basis in 2018.

In Thousand of Reais, except when otherwise indicated.

## 05. Cash and cash equivalents and interest-earning bank deposits

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | Notes | 03/31/2018 | 12/31/2017 | 03/31/2018 | 12/31/2017 |
| Cash and banks | | **109,413** | 174,864 | **118,106** | 176,737 |
| Foreign exchange received | (a) | **50** | - | **50** | - |
| Interest-earning bank deposits | (b) | **139,424** | 168,814 | **139,425** | 168,814 |
| **Cash and cash equivalents** | | **248,887** | 343,678 | **257,581** | 345,551 |
| Interest-earning bank deposits | (c) | **56,518** | 52,359 | **57,255** | 53,085 |
| **Interest-earning bank deposits** | | **56,518** | 52,359 | **57,255** | 53,085 |
| | | **305,405** | 396,037 | **314,836** | 398,636 |
| **Interest-earning bank deposits current assets** | | **42,781** | 38,453 | **42,781** | 38,453 |
| **Interest-earning bank deposits non-current assets** | | **13,737** | 13,906 | **14,474** | 14,632 |

a) Cash held in foreign currency

Refer to receivables abroad to be recorded in Reais.

b) Interest-earning bank deposits classified as cash and cash equivalents

Refer to bank deposit certificates reflecting normal market conditions. They are highly liquid and have low interest fluctuation risk. On March 31, 2018, these investments yielded an average of 95.49% of the CDI (98.52% on December 31, 2017), measured at fair value through P&L.

c) Interest-earning bank deposits

Refers to bank deposit certificates and buyback debentures reflecting normal market conditions as at the financial statement closing dates, and yields an average of 98.52% of the CDI as at March 31, 2018 (98.52% as at December 31, 2017) in the consolidated, measured at fair value.

As at March 31, 2018, the Company had a consolidated balance of R$56,518 (R$52,359 as at December 31, 2017) of Interest-earning bank deposits given as guarantees for electrical power purchase transactions in the free market, purchases of US Dollar futures and bank guarantees.

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

In Thousand of Reais, except when otherwise indicated.

## 06. Trade accounts receivable

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | Notes | 03/31/2018 | 12/31/2017 | 03/31/2018 | 12/31/2017 |
| **Domestic clients:** | | | | | |
| Third parties | | **160,675** | 183,152 | **246,511** | 260,582 |
| Adjustment to present value - Third parties | | **(299)** | (394) | **(5,611)** | (6,071) |
| Related parties | 11.2 | **146,064** | 110,483 | **-** | - |
| AVP related parties | 11.2 | **(1,160)** | (1,132) | **-** | - |
| Estimated loss on recoverable value | | **(76,776)** | (76,501) | **(82,199)** | (81,971) |
| **Foreign clients:** | | | | | |
| Third parties | | **118,844** | 218,064 | **118,844** | 218,064 |
| Third parties | | **6,704** | | **6,721** | |
| Adjustment to present value | | **(431)** | (493) | **(431)** | (493) |
| Estimated loss on recoverable value | | **(384)** | (832) | **(384)** | (832) |
| | | **353,237** | 432,347 | **283,451** | 389,279 |
| **Current assets** | | **353,034** | 432,038 | **268,662** | 371,384 |
| **Non-current assets** | | **203** | 309 | **14,789** | 17,895 |

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

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/2018 | 12/31/2017 | 03/31/2018 | 12/31/2017 |
| Due in more than 120 days | **1,210** | 1,630 | **22,546** | 25,215 |
| Due in 91 to 120 days | **3,013** | 4,023 | **3,763** | 4,773 |
| Due in 61 to 90 days | **38,532** | 51,707 | **12,541** | 43,328 |
| Due in 31 to 60 days | **178,475** | 172,632 | **78,046** | 87,558 |
| Due in 30 days | **112,862** | 178,840 | **150,062** | 203,095 |
| Overdue up to 30 days | **9,721** | 25,542 | **9,743** | 30,422 |
| Overdue from 31 to 60 days | **1,947** | 594 | **1,947** | 594 |
| Overdue from 61 to 90 days | **2,740** | 75 | **2,740** | 75 |
| Overdue from 91 to 120 days | **30** | 12 | **30** | 12 |
| Overdue for more than 120 days | **10,189** | 807 | **11,649** | 2,267 |
| | **358,719** | 435,862 | **293,067** | 397,339 |
| Adjustment to present value | **(1,890)** | (2,019) | **(6,042)** | (6,564) |
| Other | **(3,592)** | (1,496) | **(3,574)** | (1,496) |
| | **353,237** | 432,347 | **283,451** | 389,279 |
| **Current assets** | **353,034** | 432,038 | **268,662** | 371,384 |
| **Non-current assets** | **203** | 309 | **14,789** | 17,895 |

The Company is exposed to credit risk due to defaults on sales of products (accounts receivable). The Company mitigates this risk by applying policies and standards for credit monitoring and the collection of overdue trade notes. There is an estimated loss 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, 2017 | (77,333) | (82,803) |
| Reversals for the year | **173** | **173** |
| Realized | **-** | 47 |
| **Balance as at March 31, 2018** | **(77,160)** | **(82,583)** |

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

In Thousand of Reais, except when otherwise indicated.

The collateral balance amounts to R$14,419 as at March 31, 2018 (R$2,354 as at December 31, 2017) overdue for more than 60 days, not subject to provision because there were guarantees or credits on behalf of the debtor. The formation or reversal of the estimated impairment is recorded in the statements of income, under the caption “Sales deductions”.

**Accounts receivable pledged as guarantees**

The Company and Banco do Brasil entered into a private instrument for the assignment of credit receivables, from accounts receivable, aimed at ensuring the payment of all the obligations assumed and to be assumed from the bank. The value of the global limit of the instrument is US$16,150,000 (sixteen million, one hundred and fifty thousand US Dollars), translated at the selling exchange rate of 3.3238 on March 31, 2018 equivalent to R$53,679.

In 2014 and 2015, the Company entered into private instruments for the assignment of credit receivables, from the accounts receivable, with Banco Safra, to ensure the payment of BNDES Automático’s operations. On March 31, 2018, the amount of R$2,710 (R$3,107 as at December 31, 2017) pledged as collateral, represents 70% of the updated debt balance.

## 07. Inventory

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **03/31/2018** | **12/31/2017** | **03/31/2018** | **12/31/2017** |
| Raw materials | **682,112** | 571,723 | **682,112** | 571,723 |
| Work in progress | **381,980** | 301,147 | **381,980** | 301,147 |
| Finished products | **150,421** | 227,665 | **150,421** | 227,665 |
| Imports in transit | **179,582** | 283,679 | **179,582** | 283,679 |
| Advances to suppliers for purchases of raw materials | **1,176** | 104,825 | **1,176** | 104,825 |
| Maintenance materials and others | **20,882** | 19,104 | **20,882** | 19,104 |
| Resale materials | **4,095** | 1,715 | **21,244** | 37,053 |
| Raw materials in transit | **2,378** | 2,222 | **2,378** | 2,222 |
| Estimated loss in recoverable value | **(439)** | (447) | **(439)** | (447) |
| **Current assets** | **1,422,187** | 1,511,633 | **1,439,336** | 1,546,971 |

Inventory is initially measured at historical cost, and subsequently under the inventory hedge accounting program (see Note 27.6.3); the portion related to the cost of metals (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 US$ to R$ is made using the availability of foreign exchange hedges, marked-to-market at the closing exchange rate for the month, in the hedge accounting program for the fair value of inventory.

The formation or reversal of inventory losses is recorded in the statement of income under the caption "Other operating income". The balance of estimated losses in the amount of R$ 439 as at March 31, 2018 (R$ 447 as at December 31, 2017) was established based on the assessment of materials and products with no turnover for more than two years.

The Company offered 255 tons of electrolytic copper rods as a guarantee for a tax lawsuit which, on March 31, 2018, totaled R$5,837 (R$5,622 as at December 31, 2017). In the case of an unfavorable decision, the full amount will be paid in cash.

In Thousand of Reais, except when otherwise indicated.

## 08. Recoverable taxes and contributions

Parent company

| | Notes | 03/31/2018 Current assets | 03/31/2018 Non-current assets | 12/31/2017 Current assets | 12/31/2017 Non-current assets |
|---|---|---|---|---|---|
| Value-added tax on sales and services–ICMS | (a) | **27,176** | **104,800** | 28,709 | 104,800 |
| Taxes on fixed assets recoverable | | **13,835** | **17,903** | 11,602 | 13,860 |
| Income and social contribution taxes to be refunded | (b) | **2,700** | **12,364** | 111 | 12,364 |
| Reintegra | (c) | **11,390** | **-** | 20,289 | - |
| Credit retirement | (e) | **-** | **-** | 7,105 | - |
| Contribution for social security funding–COFINS | (d) | **992** | **-** | 2,257 | 3 |
| Social integration program - PIS | (d) | **215** | **1,719** | 490 | 1,719 |
| Social integration program–PIS - Export | (d) | **-** | **-** | 310 | - |
| Withholding income tax–IRRF | | **320** | **-** | 2,480 | - |
| Excise tax–IPI | | **1,356** | **271** | 1,187 | 271 |
| Estimated loss on recoverable value | (f) | **-** | **(20,261)** | - | (20,261) |
| Other | | **-** | **-** | 1,863 | - |
| | | **57,984** | **116,796** | 76,403 | 112,756 |

Consolidated

| | Notes | 03/31/2018 Current assets | 03/31/2018 Non-current assets | 12/31/2017 Current assets | 12/31/2017 Non-current assets |
|---|---|---|---|---|---|
| Value-added tax on sales and services–ICMS | (a) | **29,060** | **104,800** | 33,036 | 104,800 |
| Taxes on fixed assets recoverable | | **13,835** | **17,903** | 11,602 | 13,860 |
| Income and social contribution taxes to be refunded | (b) | **3,001** | **12,364** | 111 | 12,364 |
| Reintegra | (c) | **11,390** | **-** | 20,289 | - |
| Credit retirement | (e) | **-** | **-** | 7,105 | - |
| Contribution for social security funding–COFINS | (d) | **1,732** | **-** | 4,529 | 3 |
| Social integration program - PIS | (d) | **381** | **1,719** | 987 | 1,719 |
| Social integration program–PIS - Export | (d) | **-** | **-** | 310 | - |
| Withholding income tax–IRRF | | **320** | **-** | 4,311 | - |
| Excise tax–IPI | | **1,356** | **271** | 1,187 | 271 |
| Prepaid income and social contribution taxes | | **265** | **-** | 3,300 | - |
| Estimated loss on recoverable value | (f) | **-** | **(20,261)** | - | (20,261) |
| Other | | **-** | **-** | 1,862 | - |
| | | **61,340** | **116,796** | 88,629 | 112,756 |

a) Refers substantially to the tax credit balance from 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 in initiatives to use these tax credits or to reduce generation of additional credits. Such initiatives include the import of copper cathodes using the Government tax free “drawback” benefit to address tax free exports of copper products; and formalize requests (e-CredAc) to the State of São Paulo to authorize the sale of these tax credits to tax payer Companies. The Company opted to maintain the estimated provision for impairment losses in the amount of R$ 7,897, formed on December 31, 2016, as a negative goodwill estimated for the trading of these credits in the future, according to item (f).

b) Refers to income tax (IT) and social contribution (CSLL 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 awaiting a decision to compensate or receive the amount. The amount of R$ 12,364, classified in non-current assets, is subject to provision as a loss, since realization is not certain (refer to item (f) below).

c) Special Tax Reintegration Regime for Exporting Companies amounts were calculated in accordance with the parameters defined in Law 12,546/2011, with amendments from Law 12,844/2013.

d) 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.

**In Thousand of Reais, except when otherwise indicated.**

e) The amount recorded on December 31, 2017 refers to credits arising from past employer contributions to social security on employees' constitutional holiday supplements and the first 15 days of sick leave/accidents. The value was reversed in March 2018 in view of the change in the status of the process from virtually certain to probable in relation to the social contribution over the additional one-third salary paid as a vacation benefit, due to the general repercussion of the theme declared by the STF in RE 1,072,485/PR.

f) The provision for losses on income tax credits in respect of several lawsuits in the amount of R$12,364 (item "b"). 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 reviewed annually to ensure that any eventual change in the collection prospects is reflected in the Company's financial statements.

## 09. Other current and non-current assets

09.1 - Other current and non-current assets

**Parent company**

| | Note | 03/31/2018 Current assets | 03/31/2018 Non-current assets | 12/31/2017 Current assets | 12/31/2017 Non-current assets |
|---|---|---|---|---|---|
| Municipal writs of payment | (a) | **-** | **64,932** | - | 64,106 |
| City of Manaus | (b) | **-** | **12,422** | - | 12,281 |
| Federal writs of payment | (c) | **-** | **2,062** | - | 3,282 |
| Collective Plan Brasilprev Recovery | (d) | **3,949** | **-** | 4,127 | - |
| Advances to employees | | **1,641** | **-** | 1,780 | - |
| Amount receivable - Disposal of Cibrafértil | | **-** | **1,001** | - | 1,001 |
| Advances to suppliers | | **711** | **-** | 712 | - |
| Accounts receivable from insurance | | **37** | **-** | - | - |
| Margin call deposits | (e) | **1,733** | **-** | - | - |
| Other | | **406** | **1,328** | 383 | 874 |
| | | **8,477** | **81,745** | 7,002 | 81,544 |

**Consolidated**

| | Note | 03/31/2018 Current assets | 03/31/2018 Non-current assets | 12/31/2017 Current assets | 12/31/2017 Non-current assets |
|---|---|---|---|---|---|
| Municipal writs of payment | (a) | **-** | **64,932** | - | 64,106 |
| City of Manaus | (b) | **-** | **12,422** | - | 12,281 |
| Federal writs of payment | (c) | **-** | **2,062** | - | 3,282 |
| Collective Plan Brasilprev Recovery | (d) | **3,949** | **-** | 4,127 | - |
| Advances to employees | | **1,642** | **-** | 1,782 | - |
| Amount receivable - Disposal of Cibrafértil | | **-** | **1,001** | - | 1,001 |
| Advances to suppliers | | **711** | **-** | 385 | - |
| Accounts receivable from insurance | | **37** | **-** | - | - |
| Margin call deposits | (e) | **1,733** | **-** | - | - |
| Other | | **463** | **1,328** | 556 | 874 |
| | | **8,535** | **81,745** | 6,850 | 81,544 |

a) Refers to writs of payment from the Cities of São Paulo, Santo André and Manaus, to be received starting in 2019.

In Thousand of Reais, except when otherwise indicated.

b) Refers to the lawsuit from 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. A decision on the motion to deny filed by the municipality, which challenges the method used to restate the amounts owed to the Company, is pending.

c) Value of federal bonds issued to cover court-order debt payments to be received in connection with the tax repayment action.

d) Refers to the collective account of the private pension plan managed by BrasilPrev, the sum total of which was formed using the amounts not released by the Company according to the criteria described in Note 30. 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.

e) The line "Margin call deposits" refers to amounts that are deposited with Metal Brokers to cover the Company's exposure when limits are exceeded. The Company is limited to operating with several Brokers and, because of the contracted volumes, and changes in commodities prices (copper/zinc/tin/lead) according to the quotes published by the LME, this limit can be exceeded, and when this occurs the margin is called.

The Company offered a guarantee on a tax lawsuit, a portion of municipal court-ordered debt payments which, on March 31, 2018, totaled R$ 63,905 R$ 63,093 as at December 31, 2017). If there is an unfavorable decision, the amount will be paid in cash.

09.2 Deposits for judicial claims

| | Parent company/Consolidated | |
|---|---|---|
| | **03/31/2018** | **12/31/2017** |
| Labor | **14,181** | 14,709 |
| Tax | **9,362** | 8,981 |
| Social Security | **1,073** | 1,073 |
| Writs of payment | **3,453** | 2,155 |
| Civil | **827** | 827 |
| Other | **503** | 503 |
| **Non-current assets** | **29,399** | 28,248 |

## 10. Assets held-for-sale

These are represented by properties available for sale in the amount of R$112,105 as at March 31, 2018, (R$ 111,548 as at December 31, 2017) measured at the acquisition cost less accumulated depreciation, which is lower than the expected realization value. This group of assets includes real estate no longer used in the Company's operations, and real estate legally confiscated from customers who defaulted against the Company. These assets are available for immediate sale as is, and the Company has intensified actions to monetize these properties, as they are part of the plan to readjust its capital structure after the debt reprofiling.

The Company has engaged a specialized consulting firm to assist it with the structuring and development of a project aimed at seeking the best conditions for the marketing of such assets. The Company also has an internal committee that, together with a contracted consulting firm, studies possible alternatives for the sale of the assets.

In Thousand of Reais, except when otherwise indicated.

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 subject of the Transaction is an area of land of approximately 150,000m² covering the municipalities of Santo Andre and Maua on which the old Capuava plant was installed, and where a new residential condo project will be developed.

The Company, together with Plano & Plano, has proceeded to the next contractual phases, including working with public institutions to develop the condo project.

Guarantee:

The Company offered real estate properties as guarantees to financial institutions, as a lien, to be released within 180 days, in the amount of R$78,283, and two real estate properties worth R$19,973 as guarantees for the administrative process related to the collection of social contribution on net profit (CSLL), and five Real Estate assets as guarantees of loans in the amount of R$7,560. If there is an unfavorable decision, the amount will be paid in cash.

## 11. Investments and related parties

11.1 Summary information and investment movements as at March 31, 2018

| | CDPC - Centro Distrib. Prods. Cobre Ltda. | CINC - Caraiba International | Paraibuna Agropec. Ltda. | Total |
|---|---|---|---|---|
| **Summarized financial information of subsidiaries** | | | | |
| Current assets | 132,742 | 3,322 | - | **136,064** |
| Non-current assets | 30,383 | - | 598 | **30,981** |
| Current liabilities | 147,722 | (1,529) | - | **146,193** |
| Equity | 15,403 | 4,851 | 598 | **20,852** |
| Capital | 27,000 | 3 | 6,400 | **33,403** |
| Income from sales of goods and/or services | 338,551 | 114,481 | - | **453,032** |
| Cost of goods and/or services sold | (335,403) | (117,149) | - | **(452,552)** |
| **Gross income** | **3,148** | **(2,668)** | **-** | **480** |
| Operating expenses or income | (877) | (9) | - | **(886)** |
| **Loss before financial income (loss) and taxes** | **2,271** | **(2,677)** | **-** | **(406)** |
| Financial income (loss) | 535 | 7,256 | - | **7,791** |
| **Loss before income tax** | **2,806** | **4,579** | **-** | **7,385** |
| Income and social contribution taxes | (954) | - | - | **(954)** |
| **Net Income (loss) for the period** | **1,852** | **4,579** | **-** | **6,431** |
| | | | | |
| **Balance as at December 31, 2017** | 13,552 | 182 | 598 | 14,332 |
| Foreign exchange variations on foreign investment | - | 90 | - | **90** |
| Equity in net income of subsidiaries | 1,851 | 4,579 | - | **6,430** |
| **Balance as at March 31, 2018** | **15,403** | **4,851** | **598** | **20,852** |

In Thousand of Reais, except when otherwise indicated.

11.2 Balances of parent company's transactions with related parties:

| Direct subsidiaries | CDPC -Centro de Distr. de Prods. Cobre Ltda. | Glencore International Investments Ltd | Caixa Econômica Federal |
|---|---|---|---|
| **Current assets** | | | |
| Accounts receivable | 144,904 | 11,120 | - |
| Derivative financial instruments | | 10,688 | - |
| Other current assets | 59 | - | - |
| | **144,963** | **21,808** | **-** |
| **Current liabilities** | | | |
| Suppliers | **45,489** | 573,864 | - |
| Derivative financial instruments | | 15,963 | - |
| Loans and financing | - | - | 3,576 |
| | **45,489** | **589,827** | **3,576** |
| **Current liabilities** | | | |
| Loans and financing | - | - | 193,745 |
| | **-** | **-** | **193,745** |
| **Gross income** | | | |
| Sales of goods and services | 317,207 | 236,623 | - |
| Purchases of goods and services | (114,167) | (579,609) | - |
| | **203,040** | **(342,986)** | **-** |

11.3 Business with Related Parties

The Board of Directors, following the Policy of Related Party Transactions, authorized transactions that are agreed at arm's-length market conditions, with amounts, terms and usual fees applied to transactions with non-related parties.

a) Caixa Econômica Federal

Credit facilities 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 holding 17.41% of the total shares. The contract is bound by the terms and conditions offered by CEF, which are equal to or more competitive than the other credit lines available to the Company.

On March 31, 2018 the Company had loans related to the anticipation of foreign currency contracts (ACC), with Caixa Econômica Federal, in the amount of R$ 197,321 (US$ 59,366 thousand at the rate of 3.3238), R$ 194,695 as at December 31, 2017 (US$ 58,856 thousand at the rate of 3.3080).

b) Glencore International Investments Ltd

The Company signed agreements with Glencore whereby Paranapanema commits to: i) purchase 180 thousand tons of copper concentrate during 2018, and sell the equivalent volume of refined copper with the same financial liquidation dates, and ii) sell 100% of anode slime produced by the Company in 2018.

On March 31, 2018, the Company had R$579,139 payable to Glencore, and recorded in the line of suppliers in the amount of R$573,864 and in the line of financial instruments in the amount of R$5,275, and a balance receivable of R$11,120 recognized in the line of trade notes receivable.

In Thousand of Reais, except when otherwise indicated.

c) CDPC – Centro de Distribuição de Produtos de Cobre Ltda.

The Company signed a cost sharing agreement on January 2, 2015 with its subsidiary CDPC, which provides for the charging of expenses, costs and 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 shared services and costs.

11.4 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 Fiscal Council. The Company has no controlling shareholder and no Shareholders' Agreement.

| | | 1 st Quarter 2018 | | | | 1 st Quarter 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Statutory Board | Administrative Council | Supervisory Board | Total | Statutory Board | Administrative Council | Supervisory Board | Total |
| Salary or pro labore | | 633 | 374 | 139 | 1,146 | 516 | 360 | 172 | 1048 |
| Labor benefits | | 130 | - | - | 130 | 78 | - | - | 78 |
| Compensation for participation in Committee | | - | 152 | - | 152 | - | - | - | - |
| Social burden | | 126 | 105 | 28 | 259 | 103 | 72 | 34 | 209 |
| **Fixed remuneration** | | 889 | 631 | 167 | 1,687 | 697 | 432 | 206 | 1,335 |
| Post-employment benefit | | - | - | - | - | 27 | - | - | 27 |
| Others | | - | - | - | - | 399 | - | - | 399 |
| **Other remuneration** | | - | - | - | - | 426 | - | - | 426 |
| **Management fees** | | 889 | 631 | 167 | 1,687 | 1,123 | 432 | 206 | 1,761 |
| Bonus (ICP) | 31 | 1,662 | - | - | 1,662 | 1,160 | - | - | 1,160 |
| Bonus (ILP) | 31 | 2 | - | - | 2 | 2 | - | - | 2 |
| Social Burdens | | 332 | - | - | 332 | 232 | | | 232 |
| **Variable remuneration** | 31 | 1,996 | - | - | 1,996 | 1,394 | - | - | 1,394 |
| **Total remuneration** | | 2,885 | 631 | 167 | 3,683 | 2,517 | 432 | 206 | 3,155 |

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

In Thousand of Reais, except when otherwise indicated.

## 12. Property, plant and equipment and intangible assets

Parent company

| | Average depreciation rate | 12/31/2017 | Additions | Write-offs | Transfers | Provision for losses | Depreciation Amortization | 03/31/2018 |
|---|---|---|---|---|---|---|---|---|
| **PROPERTY, PLANT AND EQUIPMENT** | | | | | | | | |
| Land | | 119,684 | - | - | - | - | - | 119,684 |
| Industrial landfill | | 8,573 | - | - | - | - | - | 8,573 |
| Improvements | | 15,435 | - | - | - | - | - | 15,435 |
| Buildings | | 273,545 | - | - | - | - | - | 273,545 |
| Installations | | 49,980 | - | - | 1,914 | - | - | 51,894 |
| Machinery and equipment | | 1,560,559 | - | - | 14,755 | - | - | 1,575,314 |
| Furniture and fixtures | | 20,284 | - | (35) | 10 | - | - | 20,259 |
| Vehicles | | 1,375 | - | - | - | - | - | 1,375 |
| Property, plant and equipment in progress | | 137,120 | 46,633 | - | (18,134) | - | - | 165,619 |
| Provision for impairment losses | | (27,009) | - | - | - | (324) | - | (27,333) |
| Spare parts | | 59,070 | 1,191 | - | - | - | - | 60,261 |
| **Cost** | | 2,218,616 | **47,824** | **(35)** | **(1,455)** | **(324)** | **-** | **2,264,626** |
| Industrial landfill | 25% | (8,573) | - | - | - | - | - | (8,573) |
| Improvements | 4% | (9,574) | - | - | - | - | (113) | (9,687) |
| Buildings | 3% | (75,149) | - | - | - | - | (2,467) | (77,616) |
| Installations | 11% | (12,008) | - | - | - | - | (859) | (12,867) |
| Machinery and equipment | 7% | (823,577) | - | - | - | - | (32,487) | (856,064) |
| Furniture and fixtures | 11% | (15,166) | - | 30 | - | - | (353) | (15,489) |
| Vehicles | 20% | (1,028) | - | - | - | - | (23) | (1,051) |
| **Accumulated depreciation:** | | (945,075) | **-** | **30** | **-** | **-** | **(36,302)** | **(981,347)** |
| **Total assets** | | 1,273,541 | **47,824** | **(5)** | **(1,455)** | **(324)** | **(36,302)** | **1,283,279** |
| | | | | | | | | |
| **INTANGIBLES** | | | | | | | | |
| ERP/Software | | 56,033 | - | - | 1,455 | - | - | 57,488 |
| **Cost** | | 56,033 | **-** | **-** | **1,455** | **-** | **-** | **57,488** |
| ERP/Software | 20% | (49,582) | - | - | - | - | (702) | (50,284) |
| **Accumulated amortization:** | | (49,582) | **-** | **-** | **-** | **-** | **(702)** | **(50,284)** |
| **Intangible assests** | | 6,451 | **-** | **-** | **1,455** | **-** | **(702)** | **7,204** |

Consolidated

| | Average depreciation rate | 12/31/2017 | Additions | Write-offs | Transfers | Provision for losses | Depreciation Amortization | 03/31/2018 |
|---|---|---|---|---|---|---|---|---|
| **PROPERTY, PLANT AND EQUIPMENT** | | | | | | | | |
| Land | | 120,283 | - | - | - | - | - | 120,283 |
| Industrial landfill | | 8,573 | - | - | - | - | - | 8,573 |
| Improvements | | 15,927 | - | - | - | - | - | 15,927 |
| Buildings | | 273,545 | - | - | - | - | - | 273,545 |
| Installations | | 49,980 | - | - | 1,914 | - | - | 51,894 |
| Machinery and equipment | | 1,560,658 | - | - | 14,755 | - | - | 1,575,413 |
| Furniture and fixtures | | 20,352 | - | (35) | 10 | - | - | 20,327 |
| Vehicles | | 1,375 | - | - | - | - | - | 1,375 |
| Property, plant and equipment in progress | | 137,120 | 46,631 | - | (18,134) | - | - | 165,617 |
| Provision for impairment losses | | (27,009) | - | - | - | (324) | - | (27,333) |
| Spare parts | | 59,073 | 1,191 | - | - | - | - | 60,264 |
| **Cost** | | 2,219,877 | **47,822** | **(35)** | **(1,455)** | **(324)** | **-** | **2,265,885** |
| Industrial landfill | 25% | (8,573) | - | - | - | - | - | (8,573) |
| Improvements | 4% | (9,664) | - | - | - | - | (138) | (9,802) |
| Buildings | 3% | (75,149) | - | - | - | - | (2,467) | (77,616) |
| Installations | 11% | (12,008) | - | - | - | - | (859) | (12,867) |
| Machinery and equipment | 7% | (823,638) | - | - | - | - | (32,489) | (856,127) |
| Furniture and fixtures | 11% | (15,231) | - | 30 | - | - | (353) | (15,554) |
| Vehicles | 20% | (1,030) | - | - | - | - | (23) | (1,053) |
| **Accumulated depreciation:** | | (945,293) | **-** | **30** | **-** | **-** | **(36,329)** | **(981,592)** |
| **Total assets** | | 1,274,584 | **47,822** | **(5)** | **(1,455)** | **(324)** | **(36,329)** | **1,284,293** |
| | | | | | | | | |
| **INTANGIBLES** | | | | | | | | |
| ERP/Software | | 56,033 | - | - | 1,455 | - | - | 57,488 |
| **Cost** | | 56,033 | **-** | **-** | **1,455** | **-** | **-** | **57,488** |
| ERP/Software | 20% | (49,582) | - | - | - | - | (702) | (50,284) |
| **Accumulated amortization:** | | (49,582) | **-** | **-** | **-** | **-** | **(702)** | **(50,284)** |
| **Intangible assests** | | 6,451 | **-** | **-** | **1,455** | **-** | **(702)** | **7,204** |

The amount in consolidated of R$37,031 in the period, of which R$36,329 related to depreciation expenses and R$702 related to amortization, was recognized in the result as follows:

In Thousand of Reais, except when otherwise indicated.

| | Consolidated | |
|---|---|---|
| | 1 st Quarter 2018 | 1 st Quarter 2017 |
| Cost of goods sold | **35,645** | 30,169 |
| Commercial expenses | **515** | 691 |
| General and administrative expenses | **871** | 1,068 |
| **Total depreciation and amortization expenses** | **37,031** | 31,928 |

12.1. Property, plant and equipment in progress

As at March 31, 2018, the balance of the account of property, plant and equipment in progress presented in the parent company and consolidated was R$165,617 (R$137,120 at December 31, 2017), and was substantially represented by:

12.1.1. The unit of Dias D'Ávila-BA that had a balance of R$124,241 as at March 31, 2018 (R$98,983 as at December 31, 2017), referring to several projects arising from the need to improve the production of copper cathodes. The main projects were: i) Scheduled Maintenance for the improvement of operating activities; ii) Purchase of refractories; iii) Revamping of the electric furnace and boiler; iv) Installation of new emergency chimney; v) Purchase of intermediary absorption tower; vi) Upgrade of casting cooling system; and vii) Technological updating and operational maintenance of the factory.

12.1.2. The Santo André-SP unit had a balance of R$41,376 as at March 31, 2018 (R$ 38,137 as at December 31, 2017), and part of the amount was recorded as a provision for losses in accordance with explanatory Note 12.1.3. The main projects are aimed at maintaining and improving operational activities and corporate safety.

12.1.3. As at March 31, 2018, the Company has a provision for losses of R$25,083 for projects in progress which had equipment purchased but not yet installed as a result of the cash restraining actions which reduced investments in Capex.

12.2. Losses from the impairment of fixed and intangible assets

In compliance with the requirements in IAS 36/CPC 01 (R1) – "Impairment of Assets", the Company ran the annual impairment testing on its fixed assets, which found that the estimated market value is in excess of the net book value on the assessment date.

On March 31, 2018, the Company had an allowance for losses of R$2,250 regarding idle machines and equipment.

12.3. Fixed assets in guarantee

The Company offered assets from its asset base as guarantees for fiscal lawsuits, the financing of expansion projects and production line technological updates, and loans under the debt reprofiling process. As at March 31, 2018, total guarantees were R$ 1,179,388 as shown in the table below:

In Thousand of Reais, except when otherwise indicated.

| Guarantees for lawsuits | Assets Type | Modality | Plant and equipment |
|---|---|---|---|
| Tributary | Machines | Stock | 4,864 |
| Fiduciary assignment of rights - CSLL | Installations - Utinga | Fiduciary alienation contract | 1,392 |
| Fiduciary assignment of rights - CSLL | Machines and Equipment - Utinga | Fiduciary alienation contract | 64,073 |
| **Total** | | | **70,329** |

| Guarantees for lawsuits | Assets Type | Modality | Plant and equipment |
|---|---|---|---|
| FINAME | Machines | Stock | 41,426 |
| FINEN | Buildings and improvements | First-degree mortgage | 5,737 |
| FINEN | Land | First-degree mortgage | 4,545 |
| FNE | Buildings and improvements | First-degree mortgage | 89,853 |
| FNE | Land | First-degree mortgage | 106,831 |
| FINIMP | Machines | Stock | 76,511 |
| **Sub-total (previous to restructuring)** | | | **324,903** |
| Mortgage (Post debt reprofiling) | Land improvements - Dias D'Ávila | First-degree mortgage | 89 |
| Mortgage (Post debt reprofiling) | Buildings / Civil work- Dias D'Ávila | First-degree mortgage | 86,645 |
| Mortgage (Post debt reprofiling) | Land - Dias D'Ávila | First-degree mortgage | 8,308 |
| Pledge (Post debt reprofiling) - Dias D'ávila | Asset under construction | Equipment pledge | 101,365 |
| Pledge (Post debt reprofiling) - Dias D'ávila | Installations | Equipment pledge | 11,923 |
| Pledge (Post debt reprofiling) - Dias D'ávila | Machines and Equipment | Equipment pledge | 388,026 |
| Pledge (Post debt reprofiling) - Dias D'ávila | Furniture and fixture | Equipment pledge | 2,054 |
| Pledge (Post debt reprofiling) - Dias D'ávila | Spare parts - Asset | Equipment pledge | 32,368 |
| Pledge (Post debt reprofiling) - Utinga | Asset under construction | Equipment pledge | 35,687 |
| Pledge (Post debt reprofiling) - Utinga | Installation | Equipment pledge | 15,841 |
| Pledge (Post debt reprofiling) - Utinga | Machines and Equipment | Equipment pledge | 95,036 |
| Pledge (Post debt reprofiling) - Utinga | Furniture and fixture | Equipment pledge | 468 |
| Pledge (Post debt reprofiling) - Utinga | Spare parts - Asset | Equipment pledge | 4,917 |
| Pledge (Post debt reprofiling) - Utinga | Vehicles | Equipment pledge | 97 |
| Pledge (Post debt reprofiling) - Serra | Machines and Equipment | Equipment pledge | 1,332 |
| **Sub-total (Mortgaged/Pledged post debt reprofiling)** | | | **784,156** |
| **Total Loan Guarantees** | | | **1,109,059** |
| | | | |
| **Total Guarantees** | | | **1,179,388** |

## 13. Suppliers

| | Notes | Parent company 03/31/2018 | Parent company 12/31/2017 | Consolidated 03/31/2018 | Consolidated 12/31/2017 |
|---|---|---|---|---|---|
| **Domestic** | | | | | |
| Goods | | **39,769** | 36,411 | **39,774** | 36,417 |
| Freight and transportation | | **10,520** | 20,752 | **11,642** | 21,684 |
| Services | | **8,255** | 16,757 | **8,312** | 16,881 |
| Electric power/Water and sewage/Gas | | **7,251** | 6,651 | **7,251** | 6,651 |
| Insurance | | **3,749** | 4,574 | **3,749** | 4,574 |
| Others | | **2** | 405 | **2** | 405 |
| Related parties | 11.2 | **45,489** | 756 | **-** | - |
| Adjustment to present value | | **(128)** | (133) | **(129)** | (134) |
| | | **114,907** | 86,173 | **70,601** | 86,478 |
| **Foreign** | | | | | |
| Goods | (a) | **621,374** | 715,329 | **619,844** | 715,329 |
| | | **621,374** | 715,329 | **619,844** | 715,329 |
| | | **736,281** | 801,502 | **690,445** | 801,807 |
| **Current liabilities** | | **736,220** | 800,898 | **690,384** | 801,203 |
| **Non-current liabilities** | | **61** | 604 | **61** | 604 |

a) As at March 31, 2018, the Company had R$ 579,139 (R$ 603,142 as at December 31, 2017) of concentrate purchases pursuant to an agreement entered with Glencore (Note 11.3.b).

In Thousand of Reais, except when otherwise indicated.

## 14. Forfait and letter of credit operations

These operations relate to signed copper concentrate purchase contracts with suppliers that use banking operations called “forfaiting” and letters of credit. In such transactions, suppliers transfer their securities 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 an awareness of how the Company's suppliers are funding their operations, the amounts related to these transactions are presented in a specific line item. The terms and conditions are presented below:

Parent company/Consolidated

| | | | 03/31/2018 | | 12/31/2017 | |
|---|---|---|---|---|---|---|
| | Interest rate | Deadline | US$ | R$ | US$ | R$ |
| Letter of credit | VC + 3.1% to 3.9% p.y. | **up to 360 days** | 9,591 | 31,880 | 12,642 | 41,819 |
| | | | **9,591** | **31,880** | **12,642** | **41,819** |

## 15. Loans and financing

The main conditions renegotiated in the debt reprofiling process in 2017 on a common basis for all creditors are total payment terms up to seven years, with a grace period of two years for principal amortization and annual interest payments.

Transaction costs directly attributable to the process of debt reprofiling, mainly involving the contracting of legal and financial advisors, external audit services, costs for the preparation of prospectuses and reports as well as fees, commission and registries are calculated in a contra-account of liabilities as shown in the table below:

Parent company

| | | 03/31/2018 | | 12/31/2017 | |
|---|---|---|---|---|---|
| | | Current liabilities | Non-current liabilities | Current liabilities | Non-current liabilities |
| **Contracted in Currency US$** | | | | | |
| Import financing | LIBOR 06 + 1.7% p.y | **26,154** | **5,486** | 29,986 | 10,921 |
| Foreign trade loans | LIBOR 12 + 1.75% p.y | **35,128** | **577,487** | 5,584 | 574,742 |
| Loans in foreign currency | LIBOR 12 + 1.75% p.y | **27,140** | **1,029,009** | 14,216 | 1,024,118 |
| Bank Credit Notes | LIBOR 12 + 1.75% p.y | **641** | **66,830** | 630 | 65,756 |
| | | **89,063** | **1,678,812** | 50,416 | 1,675,537 |
| **Contracted in Currency R$** | | | | | |
| Project financing | 2.5% to 18.5% p.y | **13,108** | **6,188** | 13,790 | 9,159 |
| Banco do Nordeste do Brasil – FNE | TJLP + 5% to 10% p.y | **26,175** | **66,830** | 22,877 | 73,201 |
| Working capital | CDI + 0.5% p.m | **38,071** | **65,025** | 38,249 | 74,166 |
| Credit Export Notes - NCE | 8% p.y | **-** | **-** | - | - |
| | | **77,354** | **138,043** | 74,916 | 156,526 |
| **Transaction Costs - reprofiling** | | **(4,359)** | **(23,972)** | (4,359) | (25,062) |
| | | **162,058** | **1,792,883** | 120,973 | 1,807,001 |

In Thousand of Reais, except when otherwise indicated.

Consolidated

| | | 03/31/2018 | | 12/31/2017 | |
|---|---|---|---|---|---|
| | | Current liabilities | Non-current liabilities | Current liabilities | Non-current liabilities |
| **Contracted in Currency US$** | | | | | |
| Import financing | LIBOR 06 + 1.7% p.y | **26,154** | **5,486** | 29,986 | 10,921 |
| Foreign trade loans | LIBOR 12 + 1.75% p.y | **35,128** | **577,487** | 5,584 | 574,742 |
| Loans in foreign currency | LIBOR 12 + 1.75% p.y | **27,140** | **1,029,009** | 14,216 | 1,024,118 |
| Bank Credit Notes | LIBOR 12 + 1.75% p.y | **641** | **66,830** | 630 | 65,756 |
| | | **89,063** | **1,678,812** | 50,416 | 1,675,537 |
| **Contracted in Currency R$** | | | | | |
| Project financing | 2.5% to 18.5% p.y | **13,110** | **6,188** | 13,794 | 9,159 |
| Banco do Nordeste do Brasil – FNE | TJLP + 5% to 10% p.y | **26,175** | **66,830** | 22,877 | 73,201 |
| Working capital | CDI + 0.5% p.m | **38,071** | **65,025** | 38,249 | 74,166 |
| Credit Export Notes - NCE | 8% p.y | **-** | **-** | - | - |
| | | **77,356** | **138,043** | 74,920 | 156,526 |
| **Transaction Costs - reprofiling** | | **(4,359)** | **(23,972)** | (4,359) | (25,062) |
| | | **162,060** | **1,792,883** | 120,977 | 1,807,001 |

Long-term installments on March 31, 2018 mature as follow (Reais):

| | Parent company/Consolidated |
|---|---|
| 2018........ | - |
| 2019........ | 47,336 |
| 2020........ | 383,052 |
| 2021........ | 367,566 |
| 2022........ | 562,871 |
| 2023........ | 216,123 |
| 2024........ | 215,935 |
| | **1,792,883** |

The table below shows the debt breakdown by financial institution after the debt reprofile.

In Thousand of Reais, except when otherwise indicated.

| Modality | Bank | Payment | Maturities Principal | Tax | 03/31/2018 Current liabilities Principal | 03/31/2018 Current liabilities Interest | 03/31/2018 Non-current liabilities | Em US$ Current liabilities Principal | Em US$ Current liabilities Interest | Em US$ Non-current liabilities |
|---|---|---|---|---|---|---|---|---|---|---|
| **Contracted in Currency R$** | | | | | | | | | | |
| FINAME | Banco Abc Brasil S.A. | Monthly | 2018 to 2019 | 2.5% to 18.5% p.y | 928 | 2 | 174 | - | - | - |
| FINAME | Banco Safra S.A. | Monthly | 2018 to 2020 | 2.5% to 18.5% p.y | 1,897 | 8 | 362 | - | - | - |
| BNDES AUT. | Banco Safra S.A. | Monthly | 2018 to 2020 | 2.5% to 18.5% p.y | 2,304 | 16 | 1,551 | - | - | - |
| FINEM | Banco Safra S.A. | Monthly | 2018 to 2019 | 2.5% to 18.5% p.y | 7,906 | 45 | 4,099 | - | - | - |
| FINEP | Finep | Monthly | 2018 to 2023 | 5% p.y | 1,534 | 40 | 7,029 | - | - | - |
| FNE | Banco do Nordeste do Brasil S.A. | Monthly | 2018 to 2021 | 10% p.y | 24,000 | 601 | 59,802 | - | - | - |
| GIRO | Banco do Nordeste do Brasil S.A. | Monthly | 2018 to 2021 | CDI + 0.5% p.m | 36,056 | 924 | 64,845 | - | - | - |
| | | | | **Total contracted in Currency BRL** | **74,625** | **1,636** | **137,862** | **-** | **-** | **-** |
| **Contracted in Currency US$** | | | | | | | | | | |
| FINIMP | HSBC Bank Brasil S.A. | Semester | 2018 to 2019 | LIBOR 06 + 1.7% p.y | 10,973 | - | 5,486 | 3,302 | - | 1,651 |
| FINIMP | Mercantil Commercebank | Quarterly | 2018 | 5.54% p.y | 15,147 | 35 | - | 4,557 | 11 | - |
| ACC | Banco Bnp Paribas Brasil S.A. | Semester | 2020 to 2022 | LIBOR 12 + 1.75% p.y | - | 1,718 | 93,066 | - | 517 | 28,000 |
| ACC | Banco Do Brasil S.A. | Semester | 2020 to 2022 | LIBOR 12 + 1.75% p.y | - | 1,718 | 93,066 | - | 517 | 28,000 |
| ACC | Caixa Economica Federal | Semester | 2020 to 2022 | LIBOR 12 + 1.75% p.y | - | 3,576 | 193,745 | - | 1,076 | 58,290 |
| ACC | China Construction Bank | Semester | 2020 to 2022 | LIBOR 12 + 1.75% p.y | - | 565 | 30,589 | - | 170 | 9,203 |
| ACC | Ing Bank N.V. | Semester | 2020 to 2022 | LIBOR 12 + 1.75% p.y | - | 1,227 | 66,476 | - | 369 | 20,000 |
| ACC | Scotiabank | Semester | 2020 to 2022 | LIBOR 12 + 1.75% p.y | - | 1,856 | 100,545 | - | 558 | 30,250 |
| ACC | Banco Banrisul | | | | 24,328 | 141 | - | 7,319 | 42 | |
| PPE | Banco Sumitomo Mitsui Br. S.A. | Semester | 2020 to 2024 | LIBOR 12 + 3.25% p.y | - | 3,097 | 117,430 | - | 932 | 35,330 |
| PPE | Scotiabank | Semester | 2020 to 2024 | LIBOR 12 + 3.25% p.y | - | 314 | 11,899 | - | 94 | 3,580 |
| PPE | Ing Bank N.V. | Semester | 2020 to 2024 | LIBOR 12 + 3.25% p.y | - | 762 | 28,903 | - | 229 | 8,696 |
| PPE | China Construction Bank | Semester | 2020 to 2024 | LIBOR 12 + 3.25% p.y | - | 1,005 | 38,093 | - | 302 | 11,461 |
| PPE | Cargill Incorporated | Semester | 2020 to 2024 | LIBOR 12 + 3.25% p.y | - | 12,139 | 460,251 | - | 3,652 | 138,471 |
| PPE | Banco Bradesco S.A. | Semester | 2020 to 2024 | LIBOR 12 + 3.25% p.y | - | 5,029 | 190,664 | - | 1,513 | 57,363 |
| PPE | Banco Do Brasil S.A. | Semester | 2020 to 2024 | LIBOR 12 + 3.25% p.y | - | 2,380 | 90,248 | - | 716 | 27,152 |
| PPE | Bladex Representação Ltda | Semester | 2020 to 2024 | LIBOR 12 + 3.25% p.y | - | 2,414 | 91,522 | - | 726 | 27,535 |
| CCB | Banco Itaú Bba S.A. | Semester | 2020 to 2024 | LIBOR 12 + 3.25% p.y | - | 1,732 | 67,010 | - | 521 | 20,161 |
| | | | | **Total contracted in Currency USD** | **50,448** | **39,708** | **1,678,993** | **15,178** | **11,945** | **505,143** |
| Transaction Costs - reprofiling | | | | | **(4,359)** | **-** | **(23,972)** | **-** | **-** | **-** |
| | | | | **Total** | **120,714** | **41,344** | **1,792,883** | **15,178** | **11,945** | **505,143** |

## Guarantees:

As at March 31, 2018, loans and financing were guaranteed by property, plant and equipment items of R$1,179,388, as described in Note 12.3.

## Covenants:

In relation to financial covenants, the Company is obliged to meet the following ratios:

a) Net Debt/EBITDA

- Equal to or less than -50.9x on December 31, 2017;
- Equal to or less than 63.1x on June 30, 2018;
- Equal to or less than 16.6x on December 31, 2018;
- Equal to or less than 14.6x on June 30, 2019;
- Equal to or less than 10.4x on December 31, 2019;
- Equal to or less than 9.0x on June 30, 2020;
- Equal to or less than 7.0x on December 31, 2020;
- Equal to or less than 6.5x on June 30, 2021;
- Equal to or less than 5.8x on December 31, 2021;
- Equal to or less than 5.8x on June 30, 2022;
- Equal to or less than 5.2x on December 31, 2022;
- Equal to or less than 5.0x on June 30, 2023;
- Equal to or less than 4.3x on December 31, 2023;
- Equal to or less than 4.6x on June 30, 2024; and
- Equal to or less than 3.9x on December 31, 2024.

For the purposes of this item (a), the Parties agree that any breach of the financial index arising from the quotient of the division of the Net Debt by the Recurring and Unadjusted EBITDA, on a consolidated basis, found as at December 31, 2017, June 30, 2018 and December 31, 2018 shall not give rise to the acceleration of the Definitive Agreements. Without prejudice for breaching this covenant, the Company is, in this case, required to, within (15) days of such a breach, submit to the Lenders a detailed report containing the reasons for such breach, and describing the Company's financial condition, as well as making itself available to hold a meeting or conference call, on a Business Day and during regular working hours, with the Creditors to present the causes and the action plan to remedy such a breach.

In Thousand of Reais, except when otherwise indicated.

The Company was compliant with the applicable covenants on March 31, 2018, although it does not wish the early maturity for any case of noncompliance with the financial indices by December 31, 2018, as described above.

b) Current liquidity

The Company must also present the current liquidity ratio based on the quotient of the division of Current Assets by Current Liabilities equal to or higher than 1.0x (one), as assessed on June 30 and December 31 of each year, in accordance with the accounting principles generally accepted in Brazil, based on the financial information published by the Company after the first publication of Quarterly Information reviewed after the ratio calculation hereof.

c) (Minimum limits on inventory and receivables)

For the quarter ending September 30, 2017 (including that day), the Company must deliver to the Creditors correspondence showing the detailed calculation of the Minimum Limit of Inventory and Receivables for the corresponding fiscal period, based on the financial information disclosed on a quarterly basis by the Company, under the terms of the Brazilian Securities Exchange Commission – CVM (i.e. Quarterly Financial Information - ITRs for the quarters ended in March, June and September, and annual financial information for the quarter ended in December).

## 16. Salaries and social security charges

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/2018 | 12/31/2017 | 03/31/2018 | 12/31/2017 |
| Provision for vacations | **22,803** | 23,862 | **22,860** | 23,929 |
| Profit sharing | **11,040** | 18,414 | **11,081** | 18,483 |
| Provision for 13th month's salary | **3,626** | - | **3,638** | - |
| Social security | **6,596** | 5,378 | **6,612** | 5,393 |
| Contribution to the Severance Indemnity Fund | **1,195** | 1,412 | **1,198** | 1,416 |
| Social security | **444** | 408 | **444** | 410 |
| Other | **114** | 132 | **115** | 136 |
| **Current liabilities** | **45,818** | 49,606 | **45,948** | 49,767 |

In Thousand of Reais, except when otherwise indicated.

## 17. Taxes and contributions payable

| | Notes | Parent company 03/31/2018 | Parent company 12/31/2017 | Consolidated 03/31/2018 | Consolidated 12/31/2017 |
|---|---|---|---|---|---|
| Contribution for social security funding–COFINS | | **3,570** | 6,375 | **3,570** | 6,375 |
| Value-added tax on sales and services - ICMS | | **7,803** | 7,919 | **7,807** | 7,927 |
| Social Integration Program–PIS | | **770** | 1,371 | **770** | 1,371 |
| Property tax urban | | **2,153** | 69 | **2,153** | 69 |
| Excise Tax - IPI | | **2,328** | 1,838 | **2,328** | 1,838 |
| Withholding income tax–IRRF | | **2,944** | 2,367 | **2,946** | 2,371 |
| Income tax and social contribution | 25.2 | **-** | - | **500** | 4,596 |
| Withheld PIS, COFINS, income tax and social contribution | | **533** | 728 | **534** | 728 |
| ISS - Service Tax | | **495** | 704 | **496** | 704 |
| Other | | **205** | 26 | **205** | 26 |
| | | **20,801** | 21,397 | **21,309** | 26,005 |
| **Current liabilities** | | **20,694** | 21,219 | **21,202** | 25,827 |
| **Non-current liabilities** | | **107** | 178 | **107** | 178 |

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.

## 18. Provision for judicial claims

### 18.1. Accrued risks

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

The balances of the allowances, net of judicial deposits related to the respective claims, are given below:

Parent company/Consolidated

| | 03/31/2018 Provision | 03/31/2018 Judicial Claims | 03/31/2018 Net Balance | 12/31/2017 Provision | 12/31/2017 Judicial Claims | 12/31/2017 Net Balance |
|---|---|---|---|---|---|---|
| Labor | **185,688** | **(6,705)** | 178,983 | 179,350 | (6,831) | 172,519 |
| Tax | **1,253** | **-** | 1,253 | 1,875 | - | 1,875 |
| Civil | **5,299** | **(34)** | 5,265 | 4,980 | (34) | 4,946 |
| | **192,240** | **(6,739)** | **185,501** | **186,205** | **(6,865)** | **179,340** |

The movement of provisions has progressed as shown below:

Parent company/Consolidated

| | Notes | Labor | Civil | Tax | Total |
|---|---|---|---|---|---|
| Balance as at December 31, 2017 | | 179,350 | 4,980 | 1,875 | 186,205 |
| Provision (Reversal) | | 17,322 | 319 | (513) | 17,128 |
| Write-offs | | (10,984) | - | (109) | (11,093) |
| **Balance as at March 31, 2018** | | **185,688** | **5,299** | **1,253** | **192,240** |

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.

### 18.2. Risks assessed as possible

In Thousand of Reais, except when otherwise indicated.

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

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 03/31/2018 | 12/31/2017 | 03/31/2018 | 12/31/2017 |
| Labor | **104,949** | 108,870 | **104,949** | 108,870 |
| Tax | **634,070** | 635,889 | **634,395** | 636,211 |
| Social security | **22,988** | 22,796 | **22,988** | 22,796 |
| Civil | **1,246,825** | 1,194,087 | **1,246,825** | 1,194,087 |
| | **2,008,832** | 1,961,642 | **2,009,157** | 1,961,964 |

Lawsuits with a risk of loss assessed as possible are summarized below.

Most relevant proceedings are of a civil and tax nature, and are commented on in items from "a", "b" and “c”:

a) <u>Social contribution on net income - CSLL</u>

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 7689/88.

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 that the decision that canceled the right of Caraíba Metais S.A. not to pay CSLL cannot be retroactively applied to the years before 2010. For this reason, the incorporated entity Caraíba Metais S.A. has not recorded a provision for this contribution since 1994. 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 five infraction notices related to the non-payment of CSLL for the calendar years 1996-2008. Three 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 March 31, 2018, the Company estimated non-provisioned amounts of R$ 308,503 (R$ 306,683 as at December 31, 2017). The legal advisors assessed an amount of R$ 216,488 for possible risks of loss, and R$ 92,015 as remote risks.

b) <u>Isolated IPI and IRPJ fine</u>

The Brazilian Federal Internal Revenue Service filed an infraction notice to collect a one-off fine related to undue compensation of IPI and IRPJ debits between 2004 and 2006, performed by Caraíba Metais SA (an incorporated company). This compensation was made by the Company before the final court ruling on the validity of credit use.

On August 24, 2010, Caraíba Metais S.A. had partial success in the Appeal Court, recognizing the lack of a legal basis for the enforcement of an “isolated/non-cumulative” fine before the editing of Law 11196/2005.

The Company, supported by its legal counsel, believes that this collection is not due in accordance with the decision issued by the Supreme Court of Justice in special appeal nº 1.164.452/MG, where the set jurisprudence allows the final ruling to be used only for lawsuits 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 lowest court level, where the collection of the fine is being contested by the Company through the suspension of fiscal execution.

On March 31, 2018, the Company estimated the updated amount not subject to provision as being R$105,197 (R$104,320 as at December 31, 2017). The 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 the total amount of R$208,500, adjusted under the terms of the swap 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). The judgment issued by this body, 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 instances, determining the annulment of the decision by CAM-CCBC. The annulment action is pending a judgment on 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 proceeding before the CAM-CCBC. The new arbitration was established with 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 R$631,693. The reported value may be reassessed at any time in the course of the arbitration.

As at March 31, 2018, the Company estimated the total amount based on Santander's non-provisioned claim of R$730,816 (R$700,442 on December 31, 2017), assessing the risk of loss as being possible.

In Thousand of Reais, except when otherwise indicated.

## 19. Other current liabilities

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | Notes | 03/31/2018 | 12/31/2017 | 03/31/2018 | 12/31/2017 |
| Dividends payable | (a) | **24,790** | 24,429 | **24,790** | 24,429 |
| Advances from customers | (d) | **21,163** | 33,799 | **21,823** | 37,520 |
| Attorneys' fees and services | | **11,005** | 11,718 | **11,005** | 11,718 |
| Various provisions | | **14,206** | 13,711 | **14,210** | 13,916 |
| Sales commission | | **8,997** | 8,883 | **9,156** | 9,041 |
| Provisions for environmental expenses | (b) | **6,874** | 6,874 | **6,874** | 6,874 |
| Customer credits | (c) | **542** | 617 | **705** | 1,115 |
| Others | | **1,076** | 1,103 | **1,076** | 1,105 |
| **Current liabilities** | | **88,653** | 101,134 | **89,639** | 105,718 |
| | | | | | |
| **Dividends payable** | | **24,790** | 24,429 | **24,790** | 24,429 |
| **Advances from customers** | | **21,163** | 33,799 | **21,823** | 37,520 |
| **Other current liabilities** | | **42,700** | 42,906 | **43,026** | 43,769 |
| | | **88,653** | 101,134 | **89,639** | 105,718 |

a) Mandatory minimum dividend equivalent to 25% of the net income in 2015, adjusted by the legal reserve, with inflation adjustments based on the IGP-M (General Inflation index), as shown in Note 20k.

b) Refers to expenditure forecast to fulfill the obligations under the Conduct Adjustment Agreement (TAC – Termo de Ajuste de Conduta) signed on December 4, 2015 between the Public Ministry of Bahia, Paranapanema and other companies. The objective of the agreement is to implement mitigation, reparation and compensation measures related to environmental impacts within the Ilha da Maré area.

c) Customer Credits refer to adjustments between price parameters, volumes and/or metal content yields charged temporarily upon invoicing, and final transaction parameters.

d) Advances from customers (mainly from export sales) where the final sales price is later adjusted to reflect the volume, metal yields or quality as verified by customers.

## 20. Shareholders' equity

a) Capital

The subscribed and paid-up capital, as at March 31, 2018, corresponds to R$1,990,707,732.30 (one billion, nine hundred ninety million, seven hundred and seven thousand, seven hundred thirty-two Reais and thirty Centavos) represented by 692,370,186 (six hundred ninety-two million, three hundred seventy thousand and one hundred eighty-six), and on December 31, 2017 it corresponded to R$1,984,751,277.56 (one billion, nine hundred eighty-four million, seven hundred fifty-one thousand, two hundred seventy-seven Reais and fifty-six Centavos) represented by 688,933,769 (six hundred eighty-eight million, nine hundred thirty-three thousand, seven hundred sixty-nine) book-entry shares, all common, registered and with no par value. The increase refers to 5,956,456 debentures translated into 3,436,417 shares, according to Note 1.

The Company's capital was increased, within the limit of the authorized capital ("Capital Increase"), pursuant to Article 5, paragraph 4, of the Company's By-Laws.

In Thousand of Reais, except when otherwise indicated.

The ownership structure of the Company is as follows:

| | % | 03/31/2018 | % | 12/31/2017 |
|---|---|---|---|---|
| Caixa de Previd. dos Func. do Banco do Brasil - PREVI | 20.21 | **139,917,303** | 21.94 | 151,147,203 |
| Caixa Econômica Federal | 17.41 | **120,514,214** | 18.19 | 125,316,514 |
| Fundo de recuperação de ativos - FIDC NP | 6.87 | **47,539,400** | 6.90 | 47,539,400 |
| Cargill Financial Services Internat, Inc | 6.70 | **46,405,116** | 6.74 | 46,405,116 |
| Bonsucex Holding S.A. | 6.27 | **43,437,178** | 6.30 | 43,437,178 |
| Glencore International Investiments Ltd | 6.11 | **42,307,692** | 6.14 | 42,307,692 |
| Fund. Petrobras de Seguridade Social - PETROS | 5.45 | **37,702,021** | 5.47 | 37,702,021 |
| Mineração Buritirama S.A. | 4.63 | **32,051,282** | 4.65 | 32,051,282 |
| Merril Lynch Intenational | 3.29 | **22,760,182** | 3.30 | 22,760,182 |
| Treasury shares | 0.00 | **24,509** | 0.00 | 24,509 |
| Market | 23.07 | **159,711,289** | 20.36 | 140,242,672 |
| **Total shares outstanding** | | **692,370,186** | | 688,933,769 |

b) Debentures into Shares

On August 29, 2017, the Board of Directors approved the launch of the public offering of debentures, mandatorily convertible into the Company's shares. As described in Note 1.b., the release of a debenture public offering with restricted placement efforts, these debentures are mandatorily convertible into Company shares, and are issued in two series, unsecured, without any additional guarantees, for public distribution, and with restricted placement efforts under CVM 476 instructions terms. Banco Modal S.A. is the fiduciary agent together with Pentágono S.A. Distribuidora de Titulos e Valores Imobiliarios. Banco Bradesco S.A. is the underwriter agent. The unit value of debentures is R$1.00. 334,216,991 series 1 debentures and 25,786,827 series 2 debentures were issued. Series 1 debentures mature on September 1, 2019, and series 2 debentures mature on September 1, 2021. The subscription amount was R$360,004 of debentures, convertible into 207,694,550 shares. As at September 22, 2017, the investors converted their debts into debentures, as described in Note 1.c. Debentures can be converted into shares at any moment. As at March 31, 2018, the total debentures converted into shares amounted to R$255,359, against R$249,402 as at December 31, 2017. The balance to be reversed on March 31, 2018 totals R$ 104,645, as outlined in Note 1.b.

c) Authorized capital

The Company's Management is authorized to increase its capital without a decision of a Shareholders' Meeting, up to the limit of R$2,500,000 (two billion, five hundred million Reais), through a resolution of the Board of Directors, which will also establish issuance and placement conditions for the said securities among the assumptions permitted by law.

d) 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. Shareholders are also entitled to voting rights with all shares that comprise the capital, which is fully subscribed and paid-in.

In accordance with the B3 S.A. New Market segment regulations, 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%).

In Thousand of Reais, except when otherwise indicated.

e) 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.

f) Treasury shares

As at March 31, 2018, the Company had 24,509 treasury shares (24,509 as at December 31, 2016), all common shares. The market value of total treasury shares, calculated based on the last Exchange quotation as at March 31, 2018, is R$ 37 (R$ 39 as at December 31, 2017).

g) 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 tax benefit is established under the Regulation of Tax Incentives of the Northeast Development Superintendence (SUDENE), as established by the Minister of National Integration (MIN) No. 283 of July 4, 2013 (the Regulation). This profit is calculated based on the net income for the period, excluding the tax benefits of: (i) financial results; and (ii) capital gains.

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 affect net income, because it does not arise from the delivery of goods or services by the Company.

h) Equity valuation adjustments

The reserve for equity valuation adjustments includes:

- Net changes 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 27); and
- 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 | | | | | |
|---|---|---|---|---|---|---|
| | Export revenue ACC/PPE | NDF sales revenue | Metal cost x exchange future | Other debts | Exchange variation investment exterior | Total |
| Balance as at December 31, 2017 | (433,145) | (147,526) | 81 | (424,584) | (102) | (1,005,276) |
| Other comprehensive income | (104) | 7,475 | 8 | - | 90 | 7,469 |
| **Balance as at March 31, 2018** | **(433,249)** | **(140,051)** | **89** | **(424,584)** | **(12)** | **(997,807)** |

i) Market value of the Company’s shares.

The market value of the Company’s shares, in accordance with the last average quotation of shares traded on B3 S.A., corresponded as at March 31, 2018 to R$ 1,038,555 (R$ 1,081,626 as at December 31, 2017). As at March 31, 2018, the Company had shareholders' equity of R$ 846,333

In Thousand of Reais, except when otherwise indicated.

(R$ 888,522 as at December 31, 2017), and the shares' book value was R$ 1.22 (R$ 1.29 as at December 31, 2017).

j) Loss per share

The basic calculation of the income (loss) 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) 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 in the event of the conversion of all common shares with dilutive potential into common shares.

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

| | 1 st Quarter 2018 | 1 st Quarter 2017 |
|---|---|---|
| **Loss per common share** | | |
| Loss for the period | (49,158) | (43,148) |
| Weighted average of shares outstanding(*) | 689,144,631 | 319,152,437 |
| Loss per common share | (0.07133) | (0.13520) |
| | | |
| **Loss per diluted common share** | | |
| Loss for the period | (49,158) | (43,148) |
| Weighted average of shares outstanding(*) | 689,144,631 | 319,152,437 |
| Convertible Debentures | 60,372,328 | - |
| Weighted average of shares diluted with convertible debentures | 749,516,959 | 319,152,437 |
| Loss per diluted common share | (0.06559) | (0.13520) |

(*) 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 other transactions involving common shares or potential common shares between the balance sheet date and the date of completion of this quarterly information.

k) Profit allocation

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

l) Revaluation reserve

The balance of the Revaluation Reserve refers to values recognized prior to the coming into effect of Law 11,638/07, and will be maintained until its effective realization. The realization of the reserve is reflected in the account of accumulated income or loss. The same treatment is given to the reversal of deferred taxes and contributions, which were recorded upon the revaluation accounting.

As at March 31, 2018, the balance of the Revaluation Reserve, net of accrued taxes, totaled R$214,651 (R$218,917 as at December 31, 2017). The effect on retained earnings or losses in the period, due to the realization of reserve through depreciation was R$ 4,266 (R$ 1,742 in the same period in 2017).

In Thousand of Reais, except when otherwise indicated.

m) 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 inflation adjustments based on the inflation index IGP-M from June 24, 2016 to the effective payment date.

## 21. Net sales

a) Breakdown of net income

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | | 1 st Quarter 2018 | 1 st Quarter 2017 | 1 st Quarter 2018 | 1 st Quarter 2017 |
| **Gross sales** | | **1,129,354** | 1,024,437 | **1,135,386** | 862,482 |
| Domestic market | | **625,109** | 616,341 | **511,865** | 454,386 |
| Foreign market | | **504,245** | 408,096 | **623,521** | 408,096 |
| **Taxes and sales deductions** | | **(131,047)** | (122,761) | **(115,421)** | (87,658) |
| Excise Tax - IPI | | **(6,428)** | (5,616) | **(6,428)** | (5,616) |
| Value-added tax on sales and services - ICMS | | **(65,738)** | (60,605) | **(53,618)** | (42,474) |
| Tax Incentive Fiscal ICMS - Desenvolve | (I) | **18,641** | 21,863 | **18,641** | 21,863 |
| Social Integration Program–PIS | | **(9,213)** | (9,211) | **(7,589)** | (6,701) |
| Contribution for social security funding–COFINS | | **(42,436)** | (42,426) | **(34,955)** | (30,867) |
| Other taxes and sales deductions | | **(25,873)** | (26,766) | **(31,472)** | (23,863) |
| **Net revenue from sales** | | **998,307** | 901,676 | **1,019,965** | 774,824 |
| | | | | | |
| **Net revenue - DM** | | **505,394** | 506,126 | **412,571** | 379,274 |
| **Net revenue - FM** | | **492,913** | 395,550 | **607,394** | 395,550 |

(I). The industrial headquarters located in Dias D'Ávila, in the State of Bahia, was granted a tax incentive for ICMS, within the scope of the Industrial Development and Economic Integration Program of the State of Bahia (Desenvolve). In August 2016, through 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 – income from clients abroad

| | Parent company / Consolidated | |
|---|---|---|
| | 1 st Quarter 2018 | 1 st Quarter 2017 |
| America | **250,638** | 126,243 |
| Europe | **349,276** | 138,990 |
| Asia | **20,283** | 139,736 |
| Africa | **3,324** | 3,127 |
| | **623,521** | 408,096 |

Exports to Europe and Asia mainly represent sales to trading companies, where the main destination was China.

In Thousand of Reais, except when otherwise indicated.

## 22. Expenses per type

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | | 1 st Quarter 2018 | 1 st Quarter 2017 | 1 st Quarter 2018 | 1 st Quarter 2017 |
| Metal cost | | **(858,079)** | (714,583) | **(877,730)** | (585,919) |
| Personnel and benefits | (b) | **(58,799)** | (55,353) | **(59,273)** | (56,204) |
| Depreciation | | **(37,004)** | (31,909) | **(37,031)** | (31,928) |
| Electricity/water/gas/fuel and lube oil | | **(33,858)** | (27,279) | **(33,884)** | (27,305) |
| Services rendered by third parties and others | | **(11,383)** | (14,824) | **(11,484)** | (15,041) |
| Maintenance | | **(28,570)** | (21,274) | **(28,576)** | (21,229) |
| Petrochemicals stock used/absorbed | | **(12,631)** | (21,789) | **(14,147)** | (21,692) |
| Rent | | **(4,337)** | (6,899) | **(4,575)** | (7,064) |
| Issues institutional and legal | | **(3,914)** | (2,966) | **(3,925)** | (2,975) |
| Informatics/telecommunications | | **(2,607)** | (1,944) | **(2,623)** | (1,958) |
| Other expenses | | **(2,203)** | (1,048) | **(2,215)** | (1,056) |
| Travel expenses | | **(806)** | (590) | **(806)** | (591) |
| Sales and marketing | | **(837)** | (230) | **(850)** | (232) |
| Transfer idleness for expense | (a) | **57,272** | 59,091 | **57,273** | 59,091 |
| | | **(997,756)** | (841,597) | **(1,019,846)** | (714,103) |
| **Cost of products sold** | | **(975,201)** | (816,135) | **(996,378)** | (687,515) |
| **Sales expenses** | | **(6,547)** | (6,307) | **(7,098)** | (6,685) |
| **Administrative and general expenses** | | **(16,008)** | (19,155) | **(16,370)** | (19,903) |
| | | **(997,756)** | (841,597) | **(1,019,846)** | (714,103) |

a) Idleness derives mainly from the lower production volume due to unscheduled downtime caused by operating problems in the smelter and due to the Scheduled Maintenance in its industrial complex of Dias D'Ávila (BA), estimated to last 30 days, beginning on March 26, 2018, aimed to reestablish the production capacity, increase the efficiency of the production units and reach operational excellence (see Note 1). The transfer to other operating expenses is in accordance with the Company's accounting practices.

b) The amounts related to personnel and benefits include salaries, vacations, 13$^{th}$ month's salary, social security and private pension, medical and dental care, meals and transportation.

## 23. Other income (expenses)

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | Notes | 1 st Quarter 2018 | 1 st Quarter 2017 | 1 st Quarter 2018 | 1 st Quarter 2017 |
| Sundry recoveries | | **426** | 4,320 | **426** | 4,320 |
| Energy sales revenue | a) | **4,522** | 477 | **4,522** | 477 |
| Tax recoveries | | **139** | - | **139** | 29 |
| Sundry sales | | **555** | 234 | **555** | 234 |
| Leasing of property and equipment | | **65** | 50 | **65** | 50 |
| Other income | | **254** | 229 | **343** | 230 |
| **Total of other income** | | **5,961** | 5,310 | **6,050** | 5,340 |
| Idle capacity | 22 | **(57,273)** | (59,091) | **(57,273)** | (59,091) |
| Provision for judicial claims | 18 | **(17,128)** | (28,510) | **(17,128)** | (28,510) |
| Provision for estimated doubtful accounts | 06 | **-** | (2,326) | **-** | (2,624) |
| Severance pay | | **(869)** | (1,789) | **(869)** | (1,789) |
| PIS and COFINS on other income | | **(746)** | (1,421) | **(754)** | (1,653) |
| Write-off of property, plant and equipment | | **(5)** | (651) | **(5)** | (651) |
| Provision for judicial claims | | **(93)** | (257) | **(93)** | (257) |
| Fines from infraction notices | | **(133)** | (75) | **(153)** | (141) |
| Sundry sales costs | | **(46)** | (28) | **(46)** | (28) |
| Other estimated losses | | **(324)** | - | **(324)** | - |
| Other expenses | | **(833)** | (189) | **(834)** | (426) |
| **Total of other expenses** | | **(77,450)** | (94,337) | **(77,479)** | (95,170) |
| **Total of other income (expenses), net** | | **(71,489)** | (89,027) | **(71,429)** | (89,830) |

a) Income from sales of surplus electricity not used in production.

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## 24. Financial income (expenses)

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | Note | 1 st Quarter 2018 | 1 st Quarter 2017 | 1 st Quarter 2018 | 1 st Quarter 2017 |
| Liability foreign exchange fluctuations | a | **(63,292)** | (69,521) | **(63,292)** | (69,521) |
| Derivative financial instruments | | **(3,926)** | (10,598) | **(3,935)** | (10,598) |
| Interest expenses | | **(38,752)** | (30,355) | **(40,096)** | (34,864) |
| Adjustment to present value | | **(1,738)** | (4,796) | **(5,200)** | (7,479) |
| Hedge on fair value of inventory | | **(65,540)** | (54,820) | **(65,540)** | (54,820) |
| Bank expenses/IOF | | **(1,315)** | (1,319) | **(1,345)** | (1,401) |
| Liability monetary variation | | **(195)** | (331) | **(195)** | (331) |
| Other financial expenses | | **(3,872)** | (719) | **(4,129)** | (901) |
| **Total financial expenses** | | **(178,630)** | (172,459) | **(183,732)** | (179,915) |
| Asset foreign exchange fluctuations | a | 68,526 | 87,921 | **68,526** | 87,921 |
| Derivative financial instruments | | 11,488 | 22,665 | **11,452** | 22,689 |
| Adjustment to present value | | 5,799 | 6,337 | **7,878** | 10,671 |
| Interest income | | 2,781 | 5,049 | **2,993** | 9,809 |
| Hedge on fair value of inventory | | 102,090 | 42,587 | **109,510** | 42,587 |
| Monetary variation – assets | | 367 | 788 | **367** | 788 |
| Other financial income | | 1,754 | 2,885 | **4,971** | 3,113 |
| **Total financial income** | | **192,805** | 168,232 | **205,697** | 177,578 |
| **Total financial result** | | **14,175** | (4,227) | **21,965** | (2,337) |

a) Exchange-rate change: Refers to the restatement of assets and liabilities exposed in foreign currency, mainly in US$, the appreciation of which against the R$ during the period generated considerable exchange-rate changes, on both the asset and liability sides. Despite this, in practice the consolidated result of the Company's exchange-rate change is neutralized during the periods, as shown below:

| | Parent company / Consolidated | |
|---|---|---|
| | 1 st Quarter 2018 | 1 st Quarter 2017 |
| Negative exchange variation | **(63,292)** | (69,521) |
| Exchange variation gain | **68,526** | 87,921 |
| **Net effect of exchange rate variation** | **5,234** | 18,400 |

## 25. Deferred income and social contribution taxes

25.1 Deferred income and social contribution taxes

Deferred income and social contribution taxes have the following sources:

| | | 03/31/2018 | | | 12/31/2017 | | |
|---|---|---|---|---|---|---|---|
| | Note | Parent company | Parent company | Consolidated | Parent company | Parent company | Consolidated |
| Rate | | **25%** | **34%** | | 25% | 34% | |
| Credits on tax losses | | **1,079,165** | **32,772** | **1,111,937** | 979,183 | 33,410 | 1,012,593 |
| **Income tax over fiscal loss** | **a)** | **269,791** | **11,143** | **280,934** | 244,796 | 11,359 | 256,155 |
| Net exchange variations | | **(782,857)** | **-** | **(782,857)** | (783,478) | - | (783,478) |
| Estimated losses (reversals) on allowance for doubtful assets | | **77,160** | **5,424** | **82,584** | 77,333 | 5,471 | 82,804 |
| Provision for lawsuits | | **192,240** | **-** | **192,240** | 186,205 | - | 186,205 |
| Estimated loss (reversal) on recoverable inventory sums | | **1,962** | **-** | **1,962** | (1,150) | - | (1,150) |
| Estimated sundry losses (reversals) | | **20,348** | **-** | **20,348** | 20,348 | - | 20,348 |
| Provision (Reversals) for financial instruments and others | | **(94,878)** | **635** | **(94,243)** | (26,955) | 899 | (26,056) |
| Management profit sharing and others | | **3,825** | **28** | **3,853** | 6,760 | 57 | 6,817 |
| Provision for adjustment to present value | | **1,704** | **4,210** | **5,914** | 1,860 | 4,571 | 6,431 |
| **Total Temporary differences** | | **(580,496)** | **10,297** | **(570,199)** | (519,077) | 10,998 | (508,079) |
| **Income tax on temporary differences** | **b)** | **(145,124)** | **3,501** | **(141,623)** | (129,769) | 3,739 | (126,030) |
| Deferred income tax and social contribution | | **124,667** | **14,644** | **139,311** | 115,027 | 15,098 | 130,125 |
| Tax on revaluation reserve | **c)** | **(73,345)** | **-** | **(73,345)** | (74,744) | - | (74,744) |
| | | **51,322** | **14,644** | **65,966** | 40,283 | 15,098 | 55,381 |
| **Non-current assets** | | **51,322** | **14,644** | **65,966** | 40,283 | 15,098 | **55,381** |

a) The Company has consolidated tax losses generated in Brazil in the amount of R$1,111,937 (R$1,012,593 as at December 31, 2017), subject to offsetting against future taxable income. In

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Brazil, the offsetting of fiscal losses has no statute of limitations, being limited to the offsetting of 30% of the annual profits.

b) On March 31, 2018, the Company has, under the caption “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) The realization of deferred income tax on equity valuation adjustment is proportional to the revaluation reserve realization.

In addition, based on a technical study of the generation of future taxable income, the Group expects to recover tax credits in the amount of R$ 6,669 within the next 12 months and the remainder within up to ten years.

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

The 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.

25.2 Reconciliation of income and social contribution tax expense

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 | |
|---|---|---|---|---|
| | 1 st Quarter 2018 | 1 st Quarter 2017 | 1 st Quarter 2018 | 1 st Quarter 2017 |
| **(Loss) before income and social contribution taxes** | **(60,197)** | (38,545) | **(59,243)** | (39,594) |
| Nominal combined statutory rates | **25%** | 25% | **25% e 34%** | 25% e 34% |
| Income tax | **-** | - | **954** | 1,587 |
| Permanent additions | **(2,813)** | (1,573) | **(2,807)** | (1,573) |
| Realization of revaluation reserve (depreciation/write-off) | **1,398** | 633 | **1,398** | 633 |
| Provision for doubtful credit | **(43)** | 554 | **(59)** | 641 |
| Provision for litigation | **1,509** | 4,305 | **1,509** | 4,305 |
| Other deductible provision | **(16,976)** | (3,159) | **(17,198)** | (1,602) |
| Net exchange variance (cash basis) | **155** | (9,072) | **155** | (9,072) |
| Tax loss and negative basis of social contribution | **26,410** | 3,152 | **24,734** | 970 |
| Deferred income tax on revaluation reserve | **1,399** | 557 | **1,399** | 557 |
| **Current income tax credits** | **11,039** | (4,603) | **10,085** | (3,554) |
| Income tax for the current year | **-** | - | **(366)** | (302) |
| Social contribution for the current year | **-** | - | **(134)** | (112) |
| **Current taxes** | **-** | - | **(500)** | (414) |
| Deferred income tax | **9,640** | (5,160) | **9,306** | (4,085) |
| Deferred social contribution | **-** | - | **(120)** | 388 |
| Deferred income tax on revaluation reserve | **1,399** | 557 | **1,399** | 557 |
| **Deferred taxes** | **11,039** | (4,603) | **10,585** | (3,140) |
| **Credit (expense) from income and social contribution taxes** | **11,039** | (4,603) | **10,085** | (3,554) |
| **Total effective rate** | **-18.34%** | 11.94% | **-17.02%** | 8.98% |
| Current effective rate | **0.00%** | 0.00% | **0.84%** | 1.05% |

## 26. 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.

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| | Consolidated | |
|---|---|---|
| | 1 st Quarter 2018 | 1 st Quarter 2017 |
| **Primary Copper** | 370,826 | 234,193 |
| *% of Revenue* | *36.4%* | *30.2%* |
| **Copper Products** | 565,914 | 416,570 |
| *% of Revenue* | *55.5%* | *53.8%* |
| Rods, Wires and Others | 371,498 | 266,900 |
| Bars/Profiles/Rolled/Tubes/Fittings | 194,416 | 149,670 |
| **Byproducts** | 83,225 | 124,061 |
| *% of Revenue* | *8.2%* | *16.0%* |
| **Total Net Revenue** | 1,019,965 | 774,824 |

## 27. Financial instruments

27.1 Market risk management policy

The Company recognizes that certain financial risks such as changes in commodities prices, foreign exchange (FX) rates and interest rates are inherent to its business. However, the Company's policy is to avoid unnecessary risks and to implement guarantees 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 a Finance, Risks and Contingencies Committee to assist with the establishment of risk management policies and to 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 follow:

- Interest rate risk from Company's debts.
- Foreign exchange risk and commodities price risk deriving from raw materials and sold products, forecast 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.

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

Derivative instruments are only used for hedging purposes, as they limit the financial exposure associated with the risks identified in certain of the Company's assets and liabilities. The use of derivatives is not automatic, nor is it 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, as defined by the CVM Resolution No. 763 (CPC 48). Not all hedge transactions with derivatives are accounted for by applying the hedge accounting rules.

27.2 Fair value methodologies

Derivative financial instruments are measured at fair value and recognized in the respective Statement of Financial Position accounts. The methodology for fair value evaluation involves verifiable parameters extracted from B3 S.A. (Foreign Exchange Coupon and Fixed Coupon), LME (copper, zinc, tin and lead) and LBMA (gold and silver), British Bankers' Association (LIBOR), Reuters, and Bloomberg (US$ spot).

The Company measures the fair value of its FX derivatives by calculating the present value of the future price discounted by the market curve (Pre- and FX Coupon), all values published by Bloomberg and B3 S.A. The fair values of embedded derivatives are calculated based on the average of the spot price published by LME and LBMA.

27.3 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 48, the cash flow adjustment of payments indexed to raw materials prices (such as copper, for example) embedded in financial liabilities 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 for hedge accounting purposes, 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 a final price based on the monthly average copper price at the 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 sale of products with a provisional price contains an embedded derivative that must be separate from the main contract and calculated as a separate derivative in the income (loss).

27.4 Classification of financial instruments

Financial assets and liabilities are classified into two measurement categories: assets and liabilities at fair value through profit or loss or at amortized cost.

The classification of financial assets and liabilities is as follows:

In Thousand of Reais, except when otherwise indicated.

Parent company

| | Notes | At fair value through profit or loss | Amortized cost method | Book value 03/31/2018 | Fair value 03/31/2018 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 05 | - | 248,887 | 248,887 | 248,887 |
| Interest earning bank deposits | 05 | - | 56,518 | 56,518 | 56,518 |
| Trade accounts receivable | 06 | 353,237 | - | 353,237 | 353,237 |
| Financial instr. - Hedge accounting | 27 | 8,037 | - | 8,037 | 8,037 |
| Financial instr. - Other derivatives | 27 | 64,869 | - | 64,869 | 64,869 |
| **Total assets** | | 426,143 | 305,405 | 731,548 | 731,548 |
| **Financial liabilities** | | | | | |
| Suppliers | 13 | - | 736,281 | 736,281 | 736,281 |
| Securitization of accounts payable | 14 | - | 31,880 | 31,880 | 31,880 |
| Advances from customers | 19 | - | 21,163 | 21,163 | 21,163 |
| Customer credit | 19 | - | 542 | 542 | 542 |
| Loans and financing | 15 | - | 1,954,941 | 1,954,941 | 1,954,941 |
| Financial instr. - Other derivatives | 27 | 37,088 | - | 37,088 | 37,088 |
| **Total liabilities** | | 37,088 | 2,744,807 | 2,781,895 | 2,781,895 |

Parent company

| | Notes | At fair value through profit or loss | Amortized cost method | Book value 12/31/2017 | Fair value 12/31/2017 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 05 | - | 343,678 | 343,678 | 343,678 |
| Interest earning bank deposits | 05 | - | 52,359 | 52,359 | 52,359 |
| Trade accounts receivable | 06 | 432,347 | - | 432,347 | 432,347 |
| Financial instr. - Other derivatives | 27 | 85,554 | - | 85,554 | 85,554 |
| **Total assets** | | 517,901 | 396,037 | 913,938 | 913,938 |
| **Financial liabilities** | | | | | |
| Suppliers | 13 | - | 801,502 | 801,502 | 801,502 |
| Securitization of accounts payable | 14 | - | 41,819 | 41,819 | 41,819 |
| Advances from customers | 19 | - | 33,799 | 33,799 | 33,799 |
| Customer credit | 19 | - | 617 | 617 | 617 |
| Loans and financing | 15 | - | 1,927,974 | 1,927,974 | 1,927,974 |
| Financial instr. - Hedge accounting | 27 | 44,034 | - | 44,034 | 44,034 |
| Financial instr. - Other derivatives | 27 | 139,636 | - | 139,636 | 139,636 |
| **Total liabilities** | | 183,670 | 2,805,711 | 2,989,381 | 2,989,381 |

In Thousand of Reais, except when otherwise indicated.

Consolidated

| | Notes | At fair value through profit or loss | Amortized cost method | Book value 03/31/2018 | Fair value 03/31/2018 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 05 | - | 257,581 | 257,581 | 257,581 |
| Interest earning bank deposits | 05 | - | 57,255 | 57,255 | 57,255 |
| Trade accounts receivable | 06 | 283,451 | - | 283,451 | 283,451 |
| Financial instr. - Hedge accounting | 27 | 8,037 | - | 8,037 | 8,037 |
| Financial instr. - Other derivatives | 27 | 64,869 | - | 64,869 | 64,869 |
| **Total assets** | | 356,357 | 314,836 | 671,193 | 671,193 |
| **Financial liabilities** | | | | | |
| Suppliers | 13 | - | 690,445 | 690,445 | 690,445 |
| Securitization of accounts payable | 14 | - | 31,880 | 31,880 | 31,880 |
| Advances from customers | 19 | - | 21,823 | 21,823 | 21,823 |
| Customer credit | 19 | - | 705 | 705 | 705 |
| Loans and financing | 15 | - | 1,954,943 | 1,954,943 | 1,954,943 |
| Financial instr. - Other derivatives | 27 | 37,098 | - | 37,098 | 37,098 |
| **Total liabilities** | | 37,098 | 2,699,796 | 2,736,894 | 2,736,894 |

Consolidated

| | Notes | At fair value through profit or loss | Amortized cost method | Book value 12/31/2017 | Fair value 12/31/2017 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 05 | - | 345,551 | 345,551 | 345,551 |
| Interest earning bank deposits | 05 | - | 53,085 | 53,085 | 53,085 |
| Trade accounts receivable | 06 | 389,279 | - | 389,279 | 389,279 |
| Financial instr. - Other derivatives | 27 | 85,591 | - | 85,591 | 85,591 |
| **Total assets** | | 474,870 | 398,636 | 873,506 | 873,506 |
| **Financial liabilities** | | | | | |
| Suppliers | 13 | - | 801,807 | 801,807 | 801,807 |
| Securitization of accounts payable | 14 | - | 41,819 | 41,819 | 41,819 |
| Advances from customers | 19 | - | 37,520 | 37,520 | 37,520 |
| Customer credit | 19 | - | 1,115 | 1,115 | 1,115 |
| Loans and financing | 15 | - | 1,927,978 | 1,927,978 | 1,927,978 |
| Financial instr. - Hedge accounting | 27 | 44,034 | - | 44,034 | 44,034 |
| Financial instr. - Other derivatives | 27 | 139,636 | - | 139,636 | 139,636 |
| **Total liabilities** | | 183,670 | 2,810,239 | 2,993,909 | 2,993,909 |

Fair value hierarchy

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

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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 has Level 3 category characteristics.

The parent company and consolidated assets and liabilities measured at fair value as at March 31, 2018 and December 31, 2017 are as follow:

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | Notes | Level 2 | 03/31/2018 | Level 2 | 03/31/2018 |
| **Financial assets** | | | | | |
| Financial instr. - Hedge accounting | 27 | 8,037 | 8,037 | 8,037 | 8,037 |
| Financial instr. - Other derivatives | 27 | 64,869 | 64,869 | 64,869 | 64,869 |
| **Total assets** | | 72,906 | 72,906 | 72,906 | 72,906 |
| **Financial liabilities** | | | | | |
| Suppliers | 13 | 736,281 | 736,281 | 690,445 | 690,445 |
| Forfait and letter of credit operations | 14 | 31,880 | 31,880 | 31,880 | 31,880 |
| Loans and financing | 15 | 1,954,941 | 1,954,941 | 1,954,943 | 1,954,943 |
| Advances from customers | 19 | 21,163 | 21,163 | 21,823 | 21,823 |
| Customer credit | 19 | 542 | 542 | 705 | 705 |
| Financial instr. - Other derivatives | 27 | 37,088 | 37,088 | 37,098 | 37,098 |
| **Total liabilities** | | 2,781,895 | 2,781,895 | 2,736,894 | 2,736,894 |

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | Notes | Level 2 | 12/31/2017 | Level 2 | 12/31/2017 |
| **Financial assets** | | | | | |
| Financial instr. - Other derivatives | 27 | 85,554 | 85,554 | 85,591 | 85,591 |
| **Total assets** | | 85,554 | 85,554 | 85,591 | 85,591 |
| **Financial liabilities** | | | | | |
| Suppliers | 13 | 801,502 | 801,502 | 801,807 | 801,807 |
| Forfait and letter of credit operations | 14 | 41,819 | 41,819 | 41,819 | 41,819 |
| Loans and financing | 15 | 1,927,974 | 1,927,974 | 1,927,978 | 1,927,978 |
| Advances from customers | 19 | 33,799 | 33,799 | 37,520 | 37,520 |
| Customer credit | 19 | 617 | 617 | 1,115 | 1,115 |
| Financial instr. - Hedge accounting | 27 | 44,034 | 44,034 | 44,034 | 44,034 |
| Financial instr. - Other derivatives | 27 | 139,636 | 139,636 | 139,636 | 139,636 |
| **Total liabilities** | | 2,989,381 | 2,989,381 | 2,993,909 | 2,993,909 |

In Thousand of Reais, except when otherwise indicated.

## Summary of consolidated derivative financial instruments

Consolidated

| Instrument | Position | Index | Reference Value 03/31/2018 | Reference Value 12/31/2017 | Fair value 03/31/2018 | Fair value 12/31/2017 |
|---|---|---|---|---|---|---|
| **Designated for hedge accounting** | | | | | | |
| **Risk of commodity prices** | | | | | | |
| NDF | Purchased | Copper | 6,845 tonnes | 5,234 tonnes | 2,037 | 10,409 |
| Firm commitment for sales | Sold | Copper | (6,845) tonnes | (5,234) tonnes | (2,037) | (10,409) |
| NDF | Sold | Copper | (25,256) tonnes | (14,691) tonnes | 15,943 | (8,397) |
| NDF | Sold | Gold | (8,800) Oz | (8,776) Oz | 221 | 534 |
| NDF | Sold | Silver | (439,442) Oz | (87,251) Oz | 278 | 245 |
| NDF | Sold | Zinc/Tin/Lead | (1,710) tonnes | (1,852) tonnes | 1,487 | 272 |
| Embedded derivative | Sold | Copper | (10,453) tonnes | (38,157) tonnes | (9,970) | (38,947) |
| Embedded derivative | Sold | Gold | (2,491) Oz | (9,658) Oz | (9) | 591 |
| Embedded derivative | Sold | Silver | (125,262) Oz | (526,914) Oz | 87 | 1,668 |
| **Total** | | | | | **8,037** | **(44,034)** |
| **Total derivatives designated for hedge accounting** | | | | | **8,037** | **(44,034)** |
| **Not designated for hedge accounting** | | | | | | |
| **Risk of commodity prices** | | | | | | |
| Firm commitment for sales | Purchased | Copper | - tonnes | - tonnes | 380 | (46) |
| NDF | Sold | Copper | (14,607) tonnes | - tonnes | 25,567 | 16,162 |
| NDF | Sold | Gold | (6,422) Oz | - Oz | (1,282) | (3,301) |
| NDF | Purchased | Silver | 28,112 Oz | - Oz | 10 | (2,056) |
| NDF | Sold | Zinc/Tin/Lead | (10) tonnes | - tonnes | (197) | (1,157) |
| Embedded derivative | Purchased | Copper/Gold;Silver | - tonnes | - tonnes | 2,985 | (68,698) |
| Embedded derivative | Purchased | Anodic mud | - tonnes | - tonnes | - | 4,896 |
| **Total** | | | | | **27,463** | **(54,200)** |
| **Economic Hedge - Exchange Rate US$ / BRL** | | | | | | |
| MTM options | | | | | (76) | |
| BM&F Futures | Purchased | US$ Futuro | - | - | 173 | - |
| **Total** | | | | | **97** | **-** |
| **Risk of interest rate** | | | | | | |
| Swap | Purchased | LIBOR 3M/6M + VC | 6,603 US$ | 6,603 US$ | 22,193 | 22,202 |
| Swap | Sold | Pre+Foreign exchange variation | (6,603) US$ | (6,603) US$ | (21,982) | (22,047) |
| **Total** | | | - | - | **211** | **155** |
| **Total other derivatives** | | | | | **27,771** | **(54,045)** |
| **Total** | | | | | **35,808** | **(98,079)** |
| **Current Assets** | | | | | **72,906** | **85,591** |
| **Current liabilities** | | | | | **(37,098)** | **(183,670)** |

In Thousand of Reais, except when otherwise indicated.

## 27.5 Market risks

### 27.5.1 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 currencies.

The Policy establishes that risk management has as its objective hedging against the exchange risk of the forecast cash flow denominated in foreign currency using over-the-counter operations (NDFs), stock exchange futures, zero cost collars and non-derivative financial instruments (liabilities indexed in US Dollars).

The foreign currency exposure is shown in the table below:

| | | Parent company / Consolidated | |
|---|---|---|---|
| | | 03/31/2018 | 12/31/2017 |
| | Position | US$ | US$ |
| **Object** | | | |
| Accounts receivable | Purchased | 1,191,643 | 1,206,643 |
| Inventory | Purchased | 306,808 | - |
| **Instrument designated as hedge accounting** | | | |
| NDF - | Sold | (206,823) | (221,823) |
| Loans and financing | Sold | (803,055) | (624,934) |
| Suppliers | Sold | (488,573) | (359,886) |
| **Derivatives not designated as hedge accounting** | | | |
| NDF (US$/R$) | Sold | (73,200) | (27,000) |
| Option Call (US$/R$) | Sold | (130,000) | - |
| Option Put (US$/R$) | Purchased | 130,000 | - |
| Future (Pre x US$) | Sold | (5,000) | - |
| Loans and financing | Sold | (353,438) | (356,422) |
| **Total net exposure** | | **(431,638)** | **(383,422)** |

### 27.5.2 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 are comprised of LIBOR x Fixed rate transactions, as cash flow hedges.

In Thousand of Reais, except when otherwise indicated.

Exposure to interest rates is shown in the table below:

| | | Parent company/Consolidated 03/31/2018 | 12/31/2017 |
|---|---|---|---|
| **Designated to hedge accounting** | | | |
| Loans and financing | LIBOR | (1,106,982) | (1,112,650) |
| Derivatives – Swap | LIBOR | 10,973 | 21,841 |
| | | **(1,096,009)** | **(1,090,809)** |
| **Not designated to hedge accounting** | | | |
| Loans and financing | TJLP | (18,068) | (19,399) |
| | | **(18,068)** | **(19,399)** |
| Loans and financing | Interest rate Res.635/87 | (5,638) | (6,537) |
| | | **(5,638)** | **(6,537)** |
| Investments | PRE | 184,270 | 145,615 |
| Loans and financing | PRE | (100,902) | (110,125) |
| | | **83,368** | **35,490** |

27.5.3 Commodities risk

Paranapanema's business activities include acquiring raw materials and selling products, both benchmarked against the amounts of metals contained therein, and prices of these metals on the international exchanges LME and LBMA.

The origin of commodity risk is the mismatch between the selling and buying prices of the metals contained in the products and raw materials.

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

To manage this exposure, the Company has a strategy of keeping all inventory metal costs being marked-to-market in US$, and only fixing the metal prices when they are sold and the price can be known.

**Parent company/Consolidated**

| Copper | Position | 03/31/2018 Reference value | | 03/31/2018 Exposure | 12/31/2017 Reference value | | 12/31/2017 Exposure |
|---|---|---|---|---|---|---|---|
| Assets, net | Purchased | 52,541 | tonnes | 1,167,436 | 45,939 | tonnes | 1,087,618 |
| **Designated for hedge accounting** | | | | | | | |
| Embedded derivatives | Sold | (10,232) | tonnes | (227,356) | (22,900) | tonnes | (542,154) |
| Firm commitments | Sold | (7,603) | tonnes | (168,940) | (5,234) | tonnes | (123,917) |
| NDF | Sold | (33,018) | tonnes | (733,636) | (14,416) | tonnes | (341,304) |
| **Not designated for hedge accounting** | | | | | | | |
| Embedded derivatives | Sold | (153) | tonnes | (3,401) | (26) | tonnes | (606) |
| Firm commitments | Sold | (1,823) | tonnes | (40,505) | (5,085) | tonnes | (120,396) |
| **Total net exposure** | | **(288)** | **tonnes** | **(6,402)** | **(1,722)** | **tonnes** | **(40,759)** |

**Parent company/Consolidated**

| Gold | Position | 03/31/2018 Reference value | | 03/31/2018 Exposure | 12/31/2017 Reference value | | 12/31/2017 Exposure |
|---|---|---|---|---|---|---|---|
| Assets, net | Purchased | 13,742 | Oz | 60,467 | 12,016 | Oz | 51,534 |
| **Designated for hedge accounting** | | | | | | | |
| Embedded derivatives | Sold | (2,864) | Oz | (12,602) | (5,502) | Oz | (23,599) |
| NDF | Sold | (8,800) | Oz | (38,721) | (8,776) | Oz | (37,640) |
| **Not designated for hedge accounting** | | | | | | | |
| Embedded derivatives | Purchased | 4,503 | Oz | 19,813 | 8,238 | Oz | 35,330 |
| Firm commitments | Purchased | 109 | Oz | 479 | 2,452 | Oz | 965 |
| NDF | Sold | (6,422) | Oz | (28,261) | (11,588) | Oz | (49,697) |
| **Total net exposure** | | **268** | **Oz** | **1,175** | **(3,160)** | **Oz** | **(23,107)** |

In Thousand of Reais, except when otherwise indicated.

Parent company/Consolidated

| Silver | Position | 03/31/2018 Reference value | | 03/31/2018 Exposure | 12/31/2017 Reference value | | 12/31/2017 Exposure |
|---|---|---|---|---|---|---|---|
| Assets, net | Purchased | 559,629 | Oz | 30,282 | 503,925 | Oz | 28,114 |
| **Designated for hedge accounting** | | | | | | | |
| Embedded derivatives | Purchased | 22,108 | Oz | 1,196 | (78,218) | Oz | (4,364) |
| NDF | Sold | (439,442) | Oz | (23,779) | (87,251) | Oz | (4,868) |
| **Not designated for hedge accounting** | | | | | | | |
| Firm commitments | Purchased | 2,187 | Oz | 118 | 37,345 | Oz | 2,083 |
| NDF | Purchased | 28,112 | Oz | 1,521 | (363,511) | Oz | (20,280) |
| **Total net exposure** | | **172,594** | **Oz** | **9,338** | **12,290** | **Oz** | **685** |

Parent company/Consolidated

| Other | Position | 03/31/2018 Reference value | | 03/31/2018 Exposure | 12/31/2017 Reference value | | 12/31/2017 Exposure |
|---|---|---|---|---|---|---|---|
| Assets, net | Purchased | 1,955 | tonnes | 24,322 | 1,774 | tonnes | 21,452 |
| **Designated for hedge accounting** | | | | | | | |
| NDF | Sold | (1,720) | tonnes | (21,557) | (1,685) | tonnes | (20,295) |
| **Not designated for hedge accounting** | | | | | | | |
| Firm commitments | Sold | (78) | tonnes | (905) | (78) | tonnes | (892) |
| NDF | Purchased | - | tonnes | - | (25) | tonnes | (206) |
| **Total net exposure** | | **157** | **tonnes** | **1,860** | **(14)** | **tonnes** | **59** |

### 27.5.4 Sensitivity analysis

In order to measure the impact on the Company’s net income (loss) and shareholders’ equity arising from changes in financial market rates, stress scenarios were constructed in relation to the rates effective as at March 31, 2018. As required by CVM Instruction No. 475/08, the Company carried out a sensitivity analysis using the probable scenario, and scenarios involving a 25% and 50% decrease and increase.

In Thousand of Reais, except when otherwise indicated.

Parent company/Consolidated

| | Notional | Unit | Risk factors | Probable scenario | Falling scenario 25% | Falling scenario 50% | Rising scenario 25% | Rising scenario 50% |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Impact on profit or loss |
| **Foreign exchange rate risk** | | | | | | | | |
| **Subject to hedge** | | | | | | | | |
| Accounts receivable | $ 1,191,643 | US$ | US$ | 3,960,782 | (990,196) | (1,980,391) | 990,196 | 1,980,391 |
| Inventory | $ 306,808 | US$ | US$ | 1,019,770 | (254,943) | (509,885) | 254,943 | 509,885 |
| **Hedge instrument** | | | | | | | | |
| NDF - Cash flow hedge | $ -206,823 | US$ | US$ | (140,051) | - | - | - | - |
| Suppliers | $ -488,573 | US$ | US$ | (424,584) | 106,933 | 213,866 | (106,933) | (213,866) |
| Loans | $ -803,055 | US$ | US$ | (433,249) | 148,010 | 296,019 | (148,010) | (296,019) |
| **Other non-derivatives financial instruments** | | | | | | | | |
| Liabilities | $ -353,438 | US$ | US$ | (1,174,757) | 293,689 | 587,379 | (293,689) | (587,379) |
| **Other derivativess** | | | | | | | | |
| NDF (US$/R$) | $ -73,200 | US$ | US$ | (2,210) | 59,942 | 119,840 | (59,942) | (119,840) |
| Option Call (US$/R$) | $ -130,000 | US$ | US$ | (3,805) | - | - | - | - |
| Option Put (US$/R$) | $ 130,000 | US$ | US$ | 4,164 | 103,305 | 211,328 | (103,305) | (211,328) |
| Future (Pre x US$) | $ -5,000 | US$ | US$ | (137) | 4,150 | 8,300 | (4,150) | (8,300) |
| **Total** | (431,638) | | | 2,805,923 | (529,110) | (1,053,544) | 529,110 | 1,053,544 |
| | | | | | | | | |
| **Interest rate risk** | | | | | | | | |
| **Subject to hedge** | | | | | | | | |
| Liabilities | $ -333,047 | US$ | LIBOR | (1,210,939) | 6,903 | 14,604 | (8,499) | (16,201) |
| **Hedge instrument** | | | | | | | | |
| Swap - Cash flow hedge | $ 3,301 | US$ | LIBOR | 21,772 | (47) | (95) | 47 | 95 |
| **Other non-derivatives financial instruments** | | | | | | | | |
| Liabilities | $ -18,068 | R$ | TJLP | (21,051) | 683 | 1,375 | (673) | (1,337) |
| Assets | $ 184,270 | R$ | PRÉ | 183,830 | (114) | (451) | 549 | 873 |
| Liabilities | $ -100,902 | R$ | PRÉ | (92,580) | 2,047 | 4,294 | (2,125) | (4,065) |
| **Total** | $ -264,446 | | | (1,118,968) | 9,472 | 19,727 | (10,701) | (20,635) |
| | | | | | | | | |
| **Commodity price risk** | | | | | | | | |
| **Hedge instrument** | | | | | | | | |
| NDF (Copper) - Fair value hedge | (7,603) | tonnes | Copper | (168,940) | 42,235 | 84,470 | (42,235) | (84,470) |
| NDF (Copper) - Fair value hedge Inventory | (33,018) | tonnes | Copper | (733,636) | 183,409 | 366,818 | (183,409) | (366,818) |
| Embedded derivatives ( Cooper) - Fair Value Hedge | (10,232) | tonnes | Copper | (227,356) | 56,839 | 113,678 | (56,839) | (113,678) |
| **Not designated for hedge accounting** | | | | | | | | |
| Embedded derivatives | (153) | tonnes | Copper | (3,401) | 850 | 1,700 | (850) | (1,700) |
| **Total** | (51,006) | | | (1,133,333) | 283,333 | 566,666 | (283,333) | (566,666) |
| | | | | | | | | |
| **Not designated for hedge accounting** | | | | | | | | |
| NDF | (6,422) | Oz | Gold | (28,261) | 7,065 | 14,131 | (7,065) | (14,131) |
| **Hedge instrument** | | | | | | | | |
| NDF | (8,800) | Oz | Gold | (38,721) | 9,680 | 19,361 | (9,680) | (19,361) |
| Embedded derivatives | 1,639 | Oz | Gold | 7,211 | (1,803) | (3,606) | 1,803 | 3,606 |
| **Total** | (13,583) | | | (59,771) | 14,942 | 29,886 | (14,942) | (29,886) |
| | | | | | | | | |
| **Not designated for hedge accounting** | | | | | | | | |
| NDF | 28,112 | Oz | Silver | 1,521 | (380) | (761) | 380 | 761 |
| **Hedge instrument** | | | | | | | | |
| NDF | (439,442) | Oz | Silver | (23,779) | 5,945 | 11,890 | (5,945) | (11,890) |
| Embedded derivatives | 22,108 | Oz | Silver | 1,196 | (299) | (598) | 299 | 598 |
| **Total** | (389,222) | | | (21,062) | 5,266 | 10,531 | (5,266) | (10,531) |
| | | | | | | | | |
| **Hedge instrument** | | | | | | | | |
| NDF (Zinc, Lead and Tin) | (1,720) | tonnes | Other Metals | (21,557) | 5,389 | 10,779 | (5,389) | (10,779) |
| **Not designated for hedge accounting** | | | | | | | | |
| **Total** | (1,720) | | | (21,557) | 5,389 | 10,779 | (5,389) | (10,779) |
| | | | | | | | | |
| **Premises** | | | | | | | | |
| Exchange tax | Ptax - US$/R$ | | | 3.3238 | 2.49285 | 1.6619 | 4.1548 | 4.9857 |
| Copper Price | Official Price Cash LME | | | $6,685 | 5013.75 | $3,343 | $8,356 | $10,028 |
| Gold Price | Official Price Cash LBMA | | | $1,324 | 992.90625 | $662 | $1,655 | $1,986 |
| Silver Price | Official Price Cash LBMA | | | $16 | 12.21 | $8 | $20 | $24 |
| Price Zinc | Official Price Cash LME | | | $3,332 | 2499 | $1,666 | $4,165 | $4,998 |
| Tin Price | Official Price Cash LME | | | $21,125 | 15843.75 | $10,563 | $26,406 | $31,688 |
| Lead Price | Official Price Cash LME | | | $2,411 | 1808.25 | $1,206 | $3,014 | $3,617 |

## 27.6 Hedge accounting

Paranapanema adopted the following hedge accounting programs:

### 27.6.1 US Dollar Income Cash Flow Hedge

The program's purpose is to ensure that a percentage of income equivalent to the sales premium pegged to the US$ is not impacted by exchange-rate changes. 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 income equivalent to the highly probable future sales premium indexed to the US Dollar. The hedging instruments contracted for this program are US$/R$ (NDF) currency contracts. Besides the derivative instruments, the Company also, as authorized by CVM Resolution 604/09, uses changes in the exchange rates of non-derivative financial instruments such as Advance on Exchange Contracts (ACC), Prepayment of Exports (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 from November 2013 for the ACC and PPE instruments, and from December 2013 for the other debts such as hedge instruments.

The exchange-rate change on debt in US$ is credited in Other Comprehensive Income (OCI) and debited from loans and financing when the adjustment is positive. In the case of a negative adjustment, the loans and financing account is credited, and the Equity Valuation Adjustment account is debited. The corresponding balance in OCI is recognized within operating profit or loss only when the hedged item (the income percentage equivalent to the sales premium) matures, and the hedge relationship is effective.

Based on CPC 48, hedge instruments can be rolled over until the hedged item's expected realization month. The realization month is defined at the hedge designation date.

### 27.6.2 Firm Sales Commitment Fair Value Hedge

The purpose of the Firm Sales Commitment hedge is to protect the 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 subject to fixed sales commitments. The hedging instruments are copper derivatives quoted on the London Metal Exchange (LME).

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

### 27.6.3 Inventory Fair Value Hedge

The purpose of the Inventory Fair Value hedge is to hedge the Company's highest cost item, which is the metal portion (copper, zinc, lead, tin, gold and silver) of inventory, maintaining the metal value at market prices (price of metal in Reais) until the effective sale. The costs of transformation of metals (labor force and inputs) are not material compared to the total inventory cost, and are denominated in Reais, and therefore are not the object of metal price hedges or exchange hedges.

Hedging instruments of the metal price are embedded derivatives of copper concentrate supply contracts, which were separated from the contracts. This program was implemented from December 2013. On June 1, 2014, an inventory fair value hedge was implemented using mercantile exchange derivatives as hedging instruments to protect against changes in the monthly average spot prices. The same strategy was implemented on May 1, 2014 with derivatives on the stock exchange for the metals zinc, lead and tin. The same strategy was implemented on June 1, 2014 with derivatives on the stock exchange for gold and silver. On January 1, 2016, the prices of metals in Reais were marked-to-market by means of the designation of financial instruments as foreign exchange hedges.

The mark-to-market effects of derivative instruments against the fair value of inventory are subject to retrospective and prospective effectiveness testing, respecting the limits of 80% - 125% of effectiveness to maintain the hedge relationship. The ineffective portion is recorded directly in the result.

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

27.6.4 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 based on price references (LME) that are identical or close to the price references of income from the sale of copper. This hedge, together with the inventory fair value hedge program, allows the US$ cost of metals in COGS to be similar to the R$ metal price in income.

The item to be hedged is the cost of copper in the products sold in a particular month. The hedge instrument consists of forward contracts for copper, the objective of which is to swap references of average copper prices. This program has been implemented since April 2014.

The mark-to-market adjustments to the metal prices on derivative contracts designated as hedges are credited to the 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 the operating profit or loss when the hedged item matures.

27.6.5 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-rate changes. 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 US$/R$, CAD/R$ and EUR/R$.

In compliance with the documentation requirements that are defined in CPC 38 and IAS 39, the Company made the formal designation of its hedge operations subject to hedge accounting by documenting the following:

In Thousand of Reais, except when otherwise indicated.

i. The hedge relationship;
ii. The objective and strategy of the risk management of the Company in carrying out hedging activities;
iii. The identification of the 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; and
viii. The prospective and retrospective statement of the hedge's effectiveness.

The transactions which Paranapanema designated as cash flow hedges are highly probable. The deferral of unrealized gains and losses on derivative and non-derivative financial instruments designated for hedging against exchange and interest rates was carried out in OCI within shareholders' equity.

| | Parent company/Consolidated | |
|---|---|---|
| | Equity | |
| | 03/31/2018 | 12/31/2017 |
| **Derivatives designated for hedge accounting** | | |
| Commodities risk | **89** | 81 |
| Foreign exchange risk | **(140,051)** | (147,526) |
| | **(139,962)** | (147,445) |
| **Non-derivatives designated to hedge accounting** | | |
| Foreign exchange risk - Outstanding operations | **(857,833)** | (857,729) |
| | **(857,833)** | (857,729) |

27.7 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 for 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 quantitative and qualitative evaluations of the clients, as well as considering the industry in which they operate. This analysis takes into consideration the client's past performance, a forecast of its economic-financial robustness, the client's 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 limits per individual client are among the procedures adopted to minimize delays and defaults on accounts receivable. In addition to performing credit limit checking procedures, individual client balances are limited to 10% of the Company's total income. Thus, the Company spreads the credit risk among several clients.

As regards the credit risk associated to interest-earning bank deposits, the Company always invests with low-risk institutions, as evaluated by independent ratings agencies.

In Thousand of Reais, except when otherwise indicated.

| Credit risks | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | Notes | 03/31/2018 | 12/31/2017 | 03/31/2018 | 12/31/2017 |
| **Assets** | | | | | |
| Cash and cash equivalents | 05 | **248,887** | 343,678 | **257,581** | 345,551 |
| Interest earning bank deposits | 05 | **56,518** | 52,359 | **57,255** | 53,085 |
| Trade accounts receivable | 06 | **353,237** | 432,347 | **283,451** | 389,279 |
| Other assets | 09 | **90,222** | 88,546 | **90,280** | 88,394 |
| Derivative financial instruments | 27 | **72,906** | 85,554 | **72,906** | 85,591 |
| | | **821,770** | 1,002,484 | **761,473** | 961,900 |

## 27.8 Liquidity risk

a) The risk management policy implies maintaining a safe level of cash and cash equivalents and access to credit lines. The Company's investments have immediate liquidity, at amounts sufficient to cover the possible necessity to settle accounts with suppliers, loans or financing.

b) Liquidity risk represents a shortage of funds intended to pay debts and interest (see Note 1).

The estimate of the existing debt contract payments, as at March 31, 2018, is as follows:

Presented amounts include estimated principal amounts and interest calculated using the US Dollar rate prevailing on March 31, 2018 (R$3.3238/US$ 1.0000) for debts denominated in US Dollars (PPE, ACC and FINIMP) and the prevailing contracts' interest rates.

| Liquidity risk | | | | | Parent company/Consolidated | |
|---|---|---|---|---|---|---|
| | Notes | Amount | Up to 1 year | 1 – 2 years | 2 – 5 years | Over 5 years |
| **Assets** | | | | | | |
| Cash and cash equivalents | 05 | 257,581 | 257,581 | - | - | - |
| Interest earning bank deposits | 05 | 57,255 | 42,781 | 14,474 | - | - |
| Trade accounts receivable | 06 | 283,451 | 268,662 | 14,789 | - | - |
| Other assets | 09 | 90,280 | 8,535 | 81,745 | | |
| Derivative financial instruments | 27 | 72,906 | 72,906 | - | - | - |
| | | 761,473 | 650,465 | 111,008 | - | - |
| **Liabilities** | | | | | | |
| Loans and financing | 16 | (1,954,943) | (162,060) | (47,336) | (1,313,489) | (432,058) |
| Advances from customers | 19 | (21,823) | (21,823) | - | - | - |
| Customer credit | 19 | (705) | (705) | - | - | - |
| Derivative financial instruments | 27 | (37,098) | (37,098) | - | - | - |
| Suppliers | 13 | (690,384) | (690,384) | - | - | - |
| Forfait and credit card operations | 14 | (31,880) | (31,880) | - | - | - |
| | | (2,736,833) | (943,950) | (47,336) | (1,313,489) | (432,058) |
| **Net position** | | (1,975,360) | (293,485) | 63,672 | (1,313,489) | (432,058) |

## 27.9 Book value/fair value

Management considers that the fair value is equal to the book value for short-term transactions, provided that the carrying value for 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 27.4 chart giving the classification of financial instruments.

## 27.10 Capital management

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

In Thousand of Reais, except when otherwise indicated.

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.

| | | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | Notes | 03/31/2018 | 12/31/2017 | 03/31/2018 | 12/31/2017 |
| Loans and financing | 15 | 1,954,941 | 1,927,974 | 1,954,943 | 1,927,978 |
| Derivatives financial instruments payable | 27 | 3,620 | 157,303 | 3,620 | 157,266 |
| (-) Cash and cash equivalents | 05 | (248,887) | (343,678) | (257,581) | (345,551) |
| (-) Interest earning bank deposits | 05 | (56,518) | (52,359) | (57,255) | (53,085) |
| (-) Derivatives financial instruments receivable | 27 | (46,348) | (83,332) | (46,338) | (83,332) |
| **(=) Net debt (cash)** | | **1,606,808** | **1,605,908** | **1,597,389** | **1,603,276** |
| Derivatives financial instruments payable | 27 | 33,478 | 26,404 | 33,478 | 26,404 |
| (-) Derivatives financial instruments receivable | 27 | (26,568) | (2,259) | (26,568) | (2,259) |
| **(=) Net debt on embedded derivatives** | | **1,613,718** | **1,630,053** | **1,604,299** | **1,627,421** |
| Equity | 20 | 846,833 | 888,522 | 846,833 | 888,522 |
| Leverage ratio | | 65.49% | 64.38% | 65.35% | 64.34% |
| Leverage ratio with embedded derivative | | 65.58% | 64.72% | 65.45% | 64.68% |

## 28. Assumed commitments

The Company has a contractual commitment with a supplier for the coming years regarding the outsourcing of the 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 follow:

| | 03/31/2018 | 12/31/2017 |
|---|---|---|
| Up to one year | 1,285 | 1,304 |
| From two to four years | 2,365 | 2,397 |
| Over four years | 2,044 | 2,326 |
| | 5,694 | 6,027 |

## 29. 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 March 31, 2018, the amounts insured and coverage limits contracted within its respective insurance segments were as follow:

In Thousand of Reais, except when otherwise indicated.

| Type | Endangered Declared Value | Maximum Limit Indemnified |
|---|---|---|
| Operational Risks | R$ 1,348,203 | R$ 200,000 |
| General Liability | R$ 11,000 | R$ 22,000 |
| Liability (D&O) | | R$ 65,000 |
| Transport (National territory) | R$ 15,000,000 | R$ 15,000,000 |
| Export Credit Insurance | USD 70.000 | USD 4.312 |
| Transports (international territory) | USD 2,400,000 | USD 2,400,000 |
| Judicial and Financial Actions | | Stipulated value for cause defended |
| Vehicles | | 100% of the vehicle's value (Based on FIPE table) |
| Group Life insurance | | 30 x base salary |

## 30. Private pension

The private pension plans offered by the Company and its subsidiaries include 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 contributions for 120 months and reaching 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, or in the case of death or permanent disability. In the case of termination by the Company before becoming eligible, the beneficiary shall be entitled to withdraw up to 80% of the amount deposited by the Company, respecting a policy which provides for a rate of 1% per month of contributions.

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 value of the contributions made to the plans by the Company and subsidiaries in the period was R$531 (R$533 in the same period of 2017).

## 31. Variable remuneration plan

***General terms and conditions***

***Beneficiaries:*** All of the Company’s executives holding positions such as Director, Manager or Chief are eligible for the Variable Remuneration Program. consisting of short (ICP) and long-term (ILP) incentives. The ICP and ILP are linked to pre-determined collective and individual goals.

Until 2016, the ILP was based on the Company’s shares using the concept of “Phantom Shares”, whereby, at the end of each period, the goals achieved in the period between January and December were converted into units (URVs) based on the performance, changes in value of Company’s shares (PMAM3), distributed in the respective 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 the definition of ILP, revoking the calculation based on the performance of phantom shares. ILP is now calculated on salary multiples and based on collective goals established by the Board of Directors, and on previously agreed individual goals.

The 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 executives.

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

***The contract provides the following eligibility conditions for 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 the 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 payments of 50% of salary multiples per year, being the first payment due for the year following the ILP acquisition. The amount to be granted will be based on the salary multiple as at December 31 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 (proportionate of ¼ 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, with 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 the results in the last social year and forecast to the current social year:*** The Company completed in the first quarter of 2017 the second evaluation cycle referring to 2016, where phantom shares, which will be deferred over four years, 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 Quarterly Information. The provisioned amount in the period was R$ 516 (R$2 in 2017).

In Thousand of Reais, except when otherwise indicated.

## 32. Additional information regarding cash flow

a) Transactions on investment and financing activities not involving cash

| | 1 st Quarter 2018 | 1 st Quarter |
|---|---|---|
| **Investing activities** | | |
| Residual value of written-off fixed assets | 5 | 651 |
| Depreciation and amortization | 37,031 | 31,928 |
| Gains from financial charges | (8) | 31 |
| Provision for impairment losses | 324 | - |
| Fixed assets and intangible additions | 37,352 | 32,610 |
| | | |
| **Financing activities** | | |
| ACC paid with exports | - | (8,969) |
| Forfait operations refinanced as Finimp | - | 49,744 |
| Financial charges | 35,321 | (12,149) |
| | 35,321 | 28,626 |

b) Reconciliation of the net debt

| | 03/31/2018 | 12/31/2017 |
|---|---|---|
| Loans and financing | **1,954,943** | 1,927,978 |
| Forfaiting and letter of credit operations | **31,880** | 41,819 |
| Derivative financial instruments | **(35,808)** | 98,079 |
| **Indebtedness** | **1,951,015** | 2,067,876 |
| | | |
| Cash and cash equivalents | **257,581** | 345,551 |
| Financial investments | **57,255** | 53,085 |
| **Total Cash** | **314,836** | 398,636 |
| | | |
| **Net Debt** | **1,636,179** | 1,669,240 |

| | Loans and financing | Forfait and letter of credit operations | Derivative Financial Instruments | Indebtedness | Total Cash | Net Debt |
|---|---|---|---|---|---|---|
| Net debt at December 31, 2017 | **1,927,978** | **41,819** | **98,079** | **2,067,876** | **398,636** | **1,669,240** |
| Transactions with cash impact | **(8,356)** | **(10,071)** | **(131,709)** | **(150,136)** | **(83,800)** | **(66,336)** |
| Transactions without cash impact | **35,321** | **132** | **(2,178)** | **33,275** | **-** | **33,275** |
| Financial charges and exchange rate variations | 35,321 | 132 | (2,178) | 33,275 | - | 33,275 |
| **Net debt at March 31,2018** | **1,954,943** | **31,880** | **(35,808)** | **1,951,015** | **314,836** | **1,636,179** |

## 33. Subsequent Events

On April 17, 2018, The Company communicated to the Market that it had signed an agreement to sell copper cathode to and purchase copper concentrate from Glencore International AG. These contracts are valid through December 2018 with a total financial volume of approximately US$880 million. The Company can still purchase copper concentrate from suppliers other than Glencore.

The Company also disclosed to the Market on April 23, 2018 the sale of 100% of its 2018 anodic slime production to Glencore International AG. The contract is valid through December 2018 with a total financial volume of approximately US$99 million.

Glencore International Investments Ltd. (“Glencore”) is a Shareholder of the Company with approximately 6% of the total shares, has a seat on the Company Board of Directors, and holds Glencore International AG as a company within the Glencore Group.

# Report on review of quarterly information
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 March 31, 2018, comprising the balance sheet at March 31, 2018 and the statements of income, comprehensive income, statements of changes in equity and cash flows for the quarter 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**

**Emphasis - Lawsuits with possible risk of loss**

We draw attention to Note 19.2 to these interim accounting information, in which the Company discloses that it has several lawsuits arising from its operations amounting to R$ 2,008,832 thousand (consolidated - R $ 2,009,157 thousand), whose risk of loss is classified as possible based on the opinion of its legal counsel, and therefore, no related provision is recorded. The main lawsuits refers to the court decision about the right to collect the Social Contribution Taxes 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 of 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 quarter ended March 31, 2018. These statements are the responsibility of the Company's management, and 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.

Barueri, April 26th, 2018

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Sérgio Eduardo Zamora
CRC 1SP168728/ O-5

PARANAPANEMA S.A.
EIN 60.398.369/0004-79 – NIRE 29.300.030.155

PUBLICLY-HELD COMPANY

## Statement of the Executive Officers on the Financial Statements

In compliance with article 25, paragraph 1, subsection VI, of CVM Instruction No. 480/2009, the Executive Board declares that it has reviewed, discussed and agreed to the Company's financial statements "parent company and consolidated", for the fiscal year ended March 31, 2018.

Dias d’Ávila, April 26, 2018.

**CEO**
Marcos Paletta Camara

**Finance and Investor Relations Director**
André Luis da Costa Gaia

**Chief Legal Officer**
Paulo Rodrigo Chung

**PARANAPANEMA S.A.**
**EIN 60.398.369/0004-79 – NIRE 29.300.030.155**

**PUBLICLY-HELD 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 April 26, 2018 by PRICEWATERHOUSECOOPERS, the Independent Auditors of the Company and its subsidiaries, regarding the "Parent company and Consolidated" financial statements, related to the quarter ended March 31, 2018.

Dias D'Ávila, April 26, 2018.

**CEO**
Marcos Paletta Camara

**Finance and Investor Relations Director**
André Luis da Costa Gaia

**Chief Legal Officer**
Paulo Rodrigo Chung