



EARNINGS RELEASE – 2Q18

Dias d'Ávila, July 26, 2018 – PARANAPANEMA S.A. ("Paranapanema" or "Company", B3 S.A Brasil, Bolsa, Ticker symbol: PMAM3), Brazil's largest non-integrated producer of refined copper and its byproducts (rods, drawn wires, laminates, bars, pipes, connections and their alloys) hereby presents its results for the second quarter of 2018 (2Q18). The consolidated quarterly information and annual financial statements are prepared in compliance with the International Financial Reporting Standards (IFRS) issued by IASB and are presented in reais, Brazil's official currency and the Company's functional currency.

Main highlights

2018 Scheduled Maintenance

Scheduled maintenance performed successfully, recording a CAPEX of R\$176.0 million in the first semester of 2018. We continued the process to restore the Company's production capacity, which has already resulted in increased efficiency at the plant, reaching 80% in June 2018.

Net income

In 2Q18, Net Income totaled R\$951.8 million, an increase of 48% compared to 2Q17, driven by the larger sales volume (+5%) and the higher price of copper in reais (+36%).

Total production volume

The Production Volume reached 65.9 thousand tons, an increase of 11% compared to the same quarter of the prior year, despite the scheduled maintenance performed.

Cash Generated by Operations

In 2Q18, the cash generated by the Company's operations totaled R\$31.0 million, arising mainly from extended credit from Suppliers.

Provision for contingencies

Decrease of 48% in expenses incurred with contingencies, through administrative and judicial proceedings, compared to 2Q17. This represents a saving of R\$12.3 million in the period.

Idleness of the plant

Decrease of 16% in expenses with idleness, which totaled R\$40.8 million in 2Q18.

Earnings Release Conference Call in Portuguese with simultaneous translation into English



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Connection:
+55 (11) 3193 - 1001 ou 55 11 2820-4001 (Brazil)
+1 646 828-8246 (EUA)
Code: Paranapanema

Webcast:
<http://cast.comunique-se.com.br/Paranapanema/2T18>

Press Relations:
paranapanema@prconsultingamericas.com
Tel: 55 (11) 3078-7272

B3: PMAM3
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Investor Relations
André Gaia (CFO and IR)
Fred / Milene / Sandra

Phone: +55 (11) 2199-7604
ri@paranapanema.com.br
<http://ri.paranapanema.com.br>

MESSAGE FROM THE BOARD

In the second quarter of 2018, we made progress in relation to two key topics for Paranapanema's future. We completed the 2018 Scheduled Maintenance, which was performed at the Dias d'Ávila (state of Bahia) plant and was a major step in our process to restore the Company's production capacity and we also made progress in terms of the Santander Agreement arising from a dispute in court, eliminating a potential contingency of R\$731 million.

We successfully completed the scheduled maintenance at the end of April, and in June 2018 we already achieved OEE of 80% (Level of Efficiency of the Plant), which is the highest level since April 2016, at the Bahia Unit, and achieved a 16% reduction in Idleness Expenses. Idleness was not lower this quarter due to the Scheduled Maintenance which impacted 31 days with no operations and the slowest process to recover the production.

In this maintenance, several improvements have been made to reestablish the operating capacity of the unit. With a CAPEX of R\$176.0 million in the first semester of this year, the replacement of assets at the end of their useful lives, enabling an increase in the plant's production and efficiency.

Despite the fewer production days and the truckers' strike in 2Q18, we highlight a significant improvement of 48% in Net Income compared to 2Q17 is due to a larger total sales volume in tons (+5%) and partly by the 36% increase in the price of copper in reais. Out of the total sales volume, 6% refers to the domestic market and 3% to the foreign market.

We continue to adopt a conservative approach to cash management combined with greater use of operating assets and the streamlining of costs and expenses. This quarter, the cash generated by the Company's operations totaled R\$31.0 million, arising mainly from extended credit from Suppliers.

We continued to focus on the reduction of our expenses with contingencies, through administrative and judicial proceedings, achieving a reduction of 48% in comparison with the same period in 2017. This translates into savings of R\$12.3 million for Paranapanema, which has a direct impact on EBITDA.

In addition, since 2008, the Company and Santander have been parties to a lawsuit involving an adjusted amount of R\$731 million (not recognized in the Balance Sheet a possible loss). In accordance with a significant event notice released on June 13, 2018, the Company and Santander entered into an agreement totaling R\$150 million, with annual payments over a ten-year period, bringing this dispute to an end with a reduced impact on the Company's cash flows. After all conditions precedent are met, the operation will be recognized in the balance sheet.

The Company's Net Result was negative by R\$288 million, of which R\$426.2 million refers to expenses not affecting cash, especially exchange rate changes in our debt totaling R\$347.5 million and expenses incurred with Derivatives totaling R\$58.3 million. On the other hand, there was financial income of R\$120.9 million with an effect on cash, referring to exchange rate changes in the period.

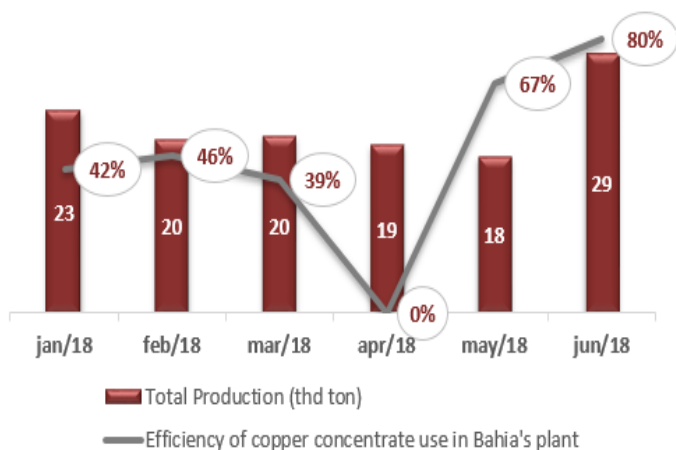
Finally, Management remains fully committed to restoring the profitability of operations, by increasing operational gearing, restoring credit facilities, especially to fund CAPEX and generate value for the shareholders.

André Gaia - CFO and Investor Relations Officer

PRODUCTION PERFORMANCE

Total production volume in thousand tons

Total Production (thd ton) x Efficiency of copper concentrate usage in Bahia's plant

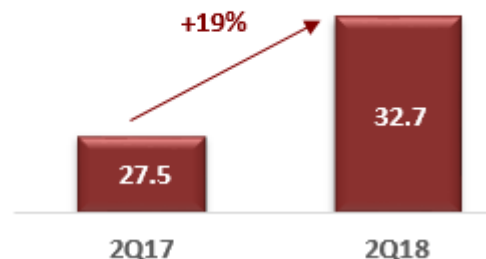


In 2Q18, the Production Volume at the Dias d'Ávila (BA) plant was impacted during 31 days, when the production of copper anode was halted for 31 days due to the Scheduled Maintenance. In addition, the resumption process was slightly slower than planned due to a few operating adjustments necessary to resume the production process of the plant. Despite these impacts, the Total Production reached 65.9 thousand tons, an increase of 11.2% in relation to the same quarter of the prior year. On June 2018, we managed to increase to 80% the efficiency of the use of copper concentrate in Bahia's plant. Without the impact of the Scheduled Maintenance of April on the production of Primary Copper, the total produced would be 48.3 thousand tons, an increase of 76.7% compared to 1Q18.

Primary copper

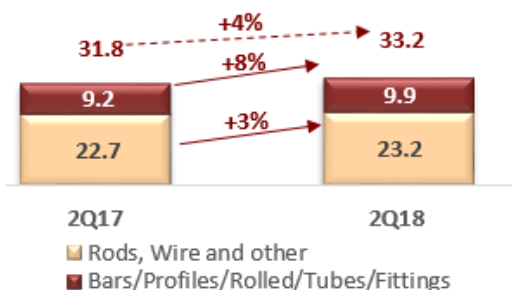
In this quarter, after the Scheduled Maintenance, it was possible to attain higher OEE levels than in year 2017 (in June, we reached the highest OEE since April 2016).

Primary Copper Production (thd ton)



Copper products

Copper Products Production (thd ton)



As regards Copper Products, the 4% increase in production reflects an upturn in the demand for materials with greater value added on the foreign market during the period. Another highlight was the increase in the volume of rods sold (+30% in 2Q18 vs. 2Q17) followed by an increase in the volume of bars sold (+40% in 2Q18 vs. 2Q17).

Byproducts

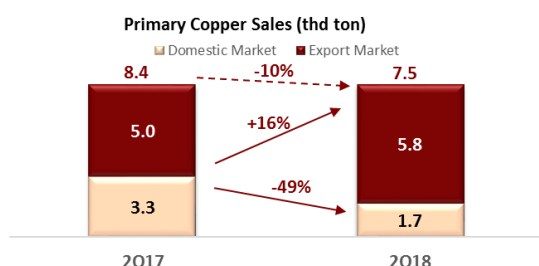
In relation to byproducts, the sales volume reached 128.4 thousand tons in 2Q18, a decrease of 19% compared to the same quarter of the prior year. In addition to the scheduled maintenance that impacted the production of sulfuric acid, there was a decrease in sales of slags, due to the low demand in the civil construction market.

COMMERCIAL PERFORMANCE

Sales volume in thousand tons

In 2Q18, the Total Sales Volume was 32.6 thousand tons, which represented a 5% increase in comparison with the same quarter of the prior year.

Primary copper

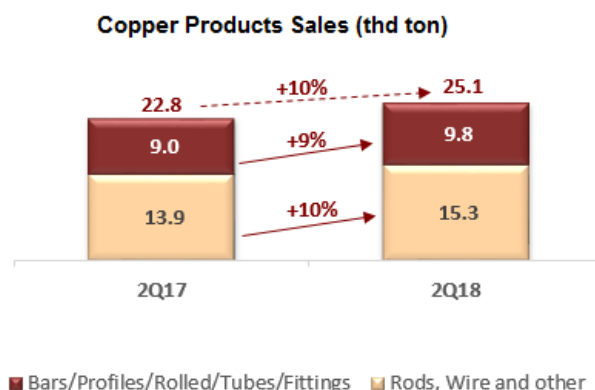


Despite the instability created by the changes in trade tariffs introduced by Donald Trump, the world trade did not succumb in this period and maintained copper process at higher levels compared to 2Q17. The volume exported by the Company during this quarter increased by 16% compared to 2Q17. On the other hand, there was a decrease of 48% on the domestic market in the comparison between the quarters, caused by the Company's decision to prioritize efforts aimed at the copper products with the highest value added, by attracting new customers and bringing back old ones.

Copper product

Rods, Wire and other

Due to the Scheduled Maintenance, there was a restriction in the volume available for sale in 2Q18, nevertheless the available volume increased around 10% compared to the same period last year. Sales in the domestic market grew 29% between quarters, whereas sales in the foreign market were 20% lower compared to the same period of the former quarter, so as to optimize the mix of sales.



Bars/Profiles/Rolled/Tubes/Fittings

There was growth of 24% in export of products with higher added-value. Eluma products' performance in the foreign market is stable, with highlight to market share in South America. Economic crisis in Argentina and political crisis in Turkey are the reasons for paying attention to the international market, while operation in North-American market continues expanding and recovering. In the domestic market, there was an increase of 3%, explained mainly by enhanced activity in sectors to which products are destined, with the Energy and Mechanical Metal sectors being highlights.

Byproducts

In Byproducts, sales volume reached 161.5 thousand tons in the 2Q18, an increase of 8% compared to the same quarter of prior year. Increase is explained by sale of *Revert* (copper-rich solidified material originated after casting of concentrated material), which represents 14.4 thousand tons. On the other hand, there was a limit in Anodic Sludge produced volume due to lower production levels during scheduled maintenance, which impacted exports. 85 tons were produced, a fall of 51% in relation to the 2Q17.

FINANCIAL PERFORMANCE

Net income

| <i>In R\$ thd, except otherwise stated</i> | 2Q17 | 2Q18 | Δ % |
|--|----------------|----------------|-------------|
| Primary Copper | 156,817 | 216,951 | 38% |
| % of Revenue | 24.4% | 22.8% | -1.6 p.p. |
| Copper Products | 402,225 | 533,049 | 33% |
| % of Revenue | 62.5% | 56.0% | -6.5 p.p. |
| Rods, Wires and Others | 250,650 | 338,230 | 35% |
| Bars/Profiles/Rolled/Tubes/Fittings | 151,575 | 194,819 | 29% |
| Byproducts | 84,855 | 201,755 | 138% |
| % of Revenue | 13.2% | 21.2% | 8.0 p.p. |
| Total Net Revenue | 643,897 | 951,755 | 48% |
| Domestic Market [%] | 51.7% | 46.1% | -10.7% |
| Export Market [%] | 46.7% | 52.2% | 11.9% |
| Toll [%] | 1.7% | 1.6% | -1.0% |
| REINTEGRA¹ Contribution | 4,594 | 4,347 | -5% |

¹ REINTEGRA: Special Tax Reintegration Regime for Exporting Companies. Tax benefit that permits, within certain conditions, some Brazilian exporting industries to recover 0.1% of income from export.

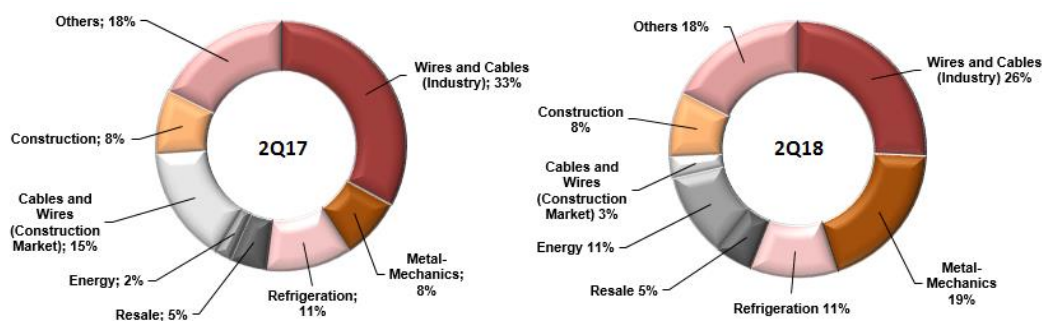
In **Primary Copper**, Net Income presented increase of 38% compared to the 2Q17, mainly due to increase in price per ton, followed by dollar appreciation in the period, overcoming impact from lower volume sold as a result of scheduled maintenance, as explained before.

Net Income from **Copper Products** presented increase of 33% compared to the 2Q17. Bars, Profiles, Wires, Laminates, Pipes and Connections had an increase of 29% in relation to the same period of 2017, as a result of the commercial strategy of focusing on products with higher added-value and developing new export markets, in addition to increase in copper price. Likewise, income from Rods, Wire and other increased 35% as a result of a more competitive trading strategy adopted at the end of 2017.

In **Byproducts**, Net Income had a relevant increase compared to that of the 2Q17, resulting mainly from sale of *Revert* (copper-rich solidified material originated after casting of concentrated material). Usually, this material is reused in casting process. However, as there were days without production due to Scheduled Maintenance, this product would be in inventories for a long time. Accordingly, the Company opted for the sale favoring the Company's liquidity.

Income from Domestic Market (MI) - Segments

Regarding segments served in the domestic market, as shown in detailing below, sales to the Wire and Cable (Industry) and Mechanic Metal sectors prevail.



Gross income

| <i>In R\$ thd, except otherwise stated</i> | 2Q17 | 2Q18 | Δ % |
|--|------------------|------------------|-------------|
| Net Revenue | 643,897 | 951,755 | 48% |
| Total COGS | (594,071) | (945,885) | -59% |
| (-) Metal Cost | (498,976) | (833,045) | -67% |
| (-) Transformation Cost | (95,095) | (112,840) | -19% |
| COGS Total/tonnes sold | 19.0 | 29.0 | 52% |
| Metal Cost/tonnes sold | 16.0 | 25.5 | 60% |
| Transformation Cost/tonnes sold | 3.0 | 3.5 | 13% |
| Gross Profit | 49,826 | 5,870 | -88% |
| % of Revenue | 7.7% | 0.6% | -7.1 p.p. |
| TC/RC (reduces metal cost) | 47,277 | 52,217 | 10% |
| Premiums | 144,921 | 118,710 | -18% |
| Premium/Net Revenue [%] | 22.5% | 12.5% | -10.0 p.p. |
| Premium/tonnes sold | 4.64 | 3.64 | -22% |

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

Despite increase of 48% in Net Income from one quarter to another, Gross Income for the 2Q18 was mainly impacted by total CPV per ton due to additional maintenance cost generated by intermittent operation in Bahia State and by the accounting effect which generates a negative impact due to calculation criteria between Income and Costs as detailed below:

| | | |
|---|------------|--------------|
| Gross Income | R\$ | 5,870 |
| Effects of Different Accounting Criteria (difference between revenues and costs) | R\$ | 55,713 |
| Gross Income without Accounting Impact of Variation of Foreign Exchange | R\$ | 61,583 |
| Gross Margin without Accounting Impact of Variation of Foreign Exchange | | 6.5% |

Following the rationale of higher production of primary copper in case we did not have the 31 days related to the Scheduled Maintenance, the gross profit would have a positive impact of R\$ 23.3 million.

EBITDA

| <i>In R\$ thd, except otherwise stated</i> | 2Q17 | 2Q18 | Δ % |
|--|-----------------|------------------|--------------|
| Net Profit | (73,161) | (288,043) | -294% |
| (+) Taxes | (16,213) | (104,351) | -544% |
| (+) Net Financial Result | 31,283 | 305,329 | 876% |
| EBIT | (58,091) | (87,065) | -50% |
| (+) Depreciation and Amortization | 30,593 | 33,733 | 10% |
| EBITDA | (27,498) | (53,332) | -94% |
| % of Revenue | -4.3% | -5.6% | -1.3 p.p. |

Negative **Ebitda** of R\$53.3 is mainly explained by Expense with Idleness that represented R\$40.8 million, that is, 76% of EBITDA result in this quarter, in addition to the effects previously mentioned which affected the gross margin. Not considering Idleness effect, Ebitda would be R\$12.5 million negative in the 2Q18 and would be reduced by 54% in comparison with the same quarter of prior year.

In **Attachment IV**, it is possible to realize that there was a reduction of 14% in total expenses, which went from R\$107.9 million in the 2Q17 to R\$92.9 million this quarter, mainly explained by Other Net Expenses resulting from efforts to solve the Company's labor contingencies and by reduction in Idleness resulting from the plant modernization project conducted together with scheduled maintenance.

Considering the impacts already mentioned on the gross margin and the positive effects of higher occupation on idleness, the EBITDA would therefore have a positive adjustment of R\$94.6 million. This would result in an adjusted EBITDA of R\$41.3 million, which is more in line with the cash generation of R\$31 million.

Net Income (Loss)

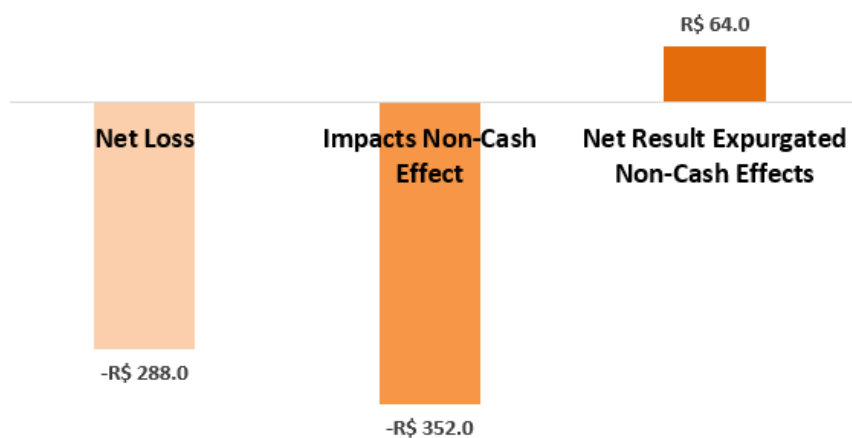
| <i>In R\$ thd, except otherwise stated</i> | 2Q17 | 2Q18 | Δ % |
|--|-----------------|------------------|--------------|
| Result before Taxes | (89,374) | (392,394) | -339% |
| Income Tax and Social Contribution | 16,213 | 104,351 | 544% |
| Net Result | (73,161) | (288,043) | -294% |
| % of Revenue | -11.4% | -30.3% | -18.9 p.p. |

Significant increase in **Net Losses** from one quarter to another, which totaled R\$288.0 million in the 2Q18, derives mainly from Net Loss that reached R\$305.3 million in the quarter due to impact of exchange rate change of 12% between the periods. Around 92.5% of our debt is in dollar and 87% is in the long term. It is important to point out that the effects of the exchange-rate change on long-term debts should not be taken as an actual exposure of the Company, since the cash related to these payments will be generated in future periods, when revenues will also capture such appreciation. Accordingly, from the standpoint of the Company's cash flow, there is a natural hedge between future revenues and future payments of debt.

Change in Income Tax and Social Contribution from one quarter to another derives mainly from decrease in temporary provisions and increase in tax loss balance.

In graphic and table below, we detailed main changes causing Net Losses for this quarter, when exchange rate change on our non-cash effect debt was the most impacting item.

Net Income 2Q18 Impacts Cash and Non-Cash Effects (R\$ million)



Impacts - non-Cash effect: R\$ 352.0 million:

Foreign exchange expenses: R\$347.5 million
 Interest expenses: R\$20.4 million
 Expenses from financial instruments: R\$58.3 million
 Other operating expenses: R\$31.4 million
 Taxes (deferred): -R\$ 105.6 million

ATTACHMENT I - STATEMENT OF INCOME

| [BRL thousand] | 2Q17 | 2Q18 | Δ % | 1Q18 |
|---|-----------------|------------------|--------------|------------------|
| Net Revenue | 643,897 | 951,755 | 48% | 1,019,965 |
| Domestic Market | 332,599 | 438,957 | 32% | 398,300 |
| Export Market | 300,593 | 497,120 | 65% | 607,393 |
| Transformation/Toll | 10,705 | 15,678 | 46% | 14,272 |
| Cost of Goods Sold | (594,071) | (945,885) | -59% | (996,378) |
| Gross Profit | 49,826 | 5,870 | -88% | 23,587 |
| % of Revenue | 7.7% | 0.6% | -7.1 p.p. | 2.3% |
| Sales Expenses | (6,986) | (7,314) | -5% | (7,098) |
| General and Administrative | (18,547) | (20,028) | -8% | (16,370) |
| Management Compensation | (1,857) | (1,906) | -3% | (1,687) |
| Employee Profit Sharing | (5,979) | (7,437) | -24% | (8,211) |
| 'Other Operating, net | (74,548) | (56,250) | 25% | (71,429) |
| Result before Financial Result and Taxes | (58,091) | (87,065) | -50% | (81,208) |
| % of Revenues | -9.0% | -9.1% | -0.1 p.p. | -8.0% |
| (+) Depreciation and Amortization | 30,593 | 33,733 | 10% | - |
| EBITDA | (27,498) | (53,332) | -94% | (81,208) |
| Financial Result | (31,283) | (305,329) | -876% | 21,965 |
| Financial Income | 77,642 | 290,517 | 274% | 205,697 |
| 'Financial Expenses | (108,925) | (595,846) | -447% | (183,732) |
| Result Before Taxes | (89,374) | (392,394) | -339% | (59,243) |
| % of Revenues | -13.9% | -41.2% | -27.3 p.p. | -5.8% |
| Taxes | 16,213 | 104,351 | 544% | 10,085 |
| IR and CSLL - Current | (1,405) | (1,256) | 11% | (500) |
| 'IR and CSLL - Deferred | 17,618 | 105,607 | 499% | 10,585 |
| Net Result | (73,161) | (288,043) | -294% | (49,158) |
| % of Revenues | -11.4% | -30.3% | -18.9 p.p. | -4.8% |

ATTACHMENT II - BALANCE SHEET

| Assets | | | | |
|---|------------------|------------------|-------------|------------------|
| Current assets | 2,168,978 | 2,230,118 | 3% | 1,686,121 |
| Cash and cash equivalents | 257,581 | 166,883 | -35% | 103,627 |
| Financial investments | 42,781 | 55,211 | 29% | 92,752 |
| Linked account deposits/guarantees | - | - | n.a. | 2,042 |
| Accounts receivables | 268,662 | 309,010 | 15% | 292,936 |
| Inventory | 1,439,336 | 1,560,997 | 8% | 1,050,525 |
| Tax recoverables | 61,340 | 70,425 | 15% | 78,031 |
| Prepaid expenses | 17,837 | 18,754 | 5% | 16,649 |
| Derivatives financial instruments | 72,906 | 41,512 | -43% | 40,958 |
| Other Current assets | 8,535 | 7,326 | -14% | 8,601 |
| Non-current assets | 1,741,357 | 1,894,685 | 9% | 1,747,481 |
| Financial investments | 14,474 | 13,270 | -8% | 75,390 |
| Accounts receivable | 14,789 | 10,162 | -31% | 10,349 |
| Deferred Income Tax and Social Contribution | 65,966 | 171,573 | 160% | 14,511 |
| Tax recoverables | 116,796 | 117,553 | 1% | 145,185 |
| Legal deposits | 29,399 | 30,522 | 4% | 32,451 |
| Maintained assets for sale | 112,105 | 114,746 | 2% | 110,879 |
| Other non-current assets | 81,745 | 82,469 | 1% | 81,403 |
| Prepaid expenses | 12,336 | 12,808 | 4% | 9,589 |
| Other Investments | 2,250 | 2,250 | 0% | 2,250 |
| Property, plant and equipment | 1,284,293 | 1,331,825 | 4% | 1,257,619 |
| Intangible assets | 7,204 | 7,507 | 4% | 7,855 |
| Total Assets | 3,910,335 | 4,124,803 | 5% | 3,433,602 |
| Liabilities | | | | |
| Current liabilities | 1,078,211 | 1,310,110 | 22% | 2,875,622 |
| Local Suppliers | 70,601 | 76,311 | 8% | 36,550 |
| Suppliers | 619,783 | 761,230 | 23% | 147,840 |
| Forfeiting and Letter of Credit Operations | 31,880 | 36,982 | 16% | 502,931 |
| Loans and financing | 162,060 | 192,234 | 19% | 1,992,685 |
| Derivatives financial instruments | 37,098 | 71,060 | 92% | 50,296 |
| Payroll and related charges | 45,948 | 49,835 | 8% | 43,428 |
| Tax payable | 21,202 | 21,012 | -1% | 22,660 |
| Cash and cash equivalents | 24,790 | 25,748 | 4% | 24,077 |
| Advances from clients | 21,823 | 29,356 | 35% | 10,456 |
| Other current liabilities | 43,026 | 46,342 | 8% | 44,699 |
| Non-current liabilities | 1,985,291 | 2,245,853 | 13% | 415,147 |
| Suppliers | 61 | - | n.a. | 13 |
| Loans and financing | 1,792,883 | 2,047,007 | 14% | - |
| Legal deposits | 192,240 | 198,811 | 3% | 221,635 |
| Deferred Income Tax and Social Contribution | - | - | n.a. | 193,177 |
| Other payable | 107 | 35 | -67% | 322 |
| Shareholders' Equity | 846,833 | 568,840 | -33% | 142,833 |
| Paid-in Capital | 2,089,978 | 2,089,978 | 0% | 1,382,990 |
| Revaluation reserves | 214,651 | 211,515 | -1% | 223,220 |
| Equity valuation adjustments | (997,807) | (987,757) | -1% | (1,063,438) |
| Treasury shares | (741) | (741) | 0% | (741) |
| Retained earnings | (459,248) | (744,155) | 62% | (399,198) |
| Total liabilities and equity | 3,910,335 | 4,124,803 | 5% | 3,433,602 |

ATTACHMENT III - CASH FLOW

| [BRL thousand] | 1Q18 | 2Q18 | Δ % | 2T17 |
|---|-----------------|------------------|--------------|------------------|
| Cash flow from operating activities | (27,628) | 30,963 | -212% | (40,768) |
| Profit before taxes | (59,243) | (392,394) | 562% | (89,374) |
| Adjustments to reconcile net income to cash flow from operating activities | | | | |
| Residual value of written-off fixed assets | 5 | - | n.a. | - |
| Depreciation and amortization | 37,031 | 33,733 | -9% | 30,593 |
| (Reversion)/Provision for recoverable value estimated loss | (173) | 1,265 | -831% | (706) |
| Perdas efetivas contas a receber | (47) | (21,576) | 45806% | (58) |
| Reversions of others estimated losses | 315 | 20,034 | 6260% | - |
| Provision judicial losses | 17,128 | 13,337 | -22% | 25,614 |
| Present value adjustment - receivables and suppliers | (517) | (299) | -42% | 1,250 |
| Losses (Gains) on financial charges | 30,560 | 382,654 | 1152% | 100,688 |
| Change in operating assets and liabilities | | | | |
| Accounts receivable | 106,258 | (33,688) | -132% | 85,379 |
| Inventory | 107,522 | (121,641) | -213% | (272,453) |
| Tax recoverable | 18,653 | (7,528) | -140% | (11,349) |
| Prepaid expenses | (7,400) | (1,389) | -81% | 4,084 |
| Legal deposits | (1,151) | (1,123) | -2% | 1,906 |
| Derivatives | 18,971 | 38,650 | 104% | (16,915) |
| Maintained assets for sale | (557) | (292) | -48% | (173) |
| Other current and non-current liabilities | (1,857) | 457 | -125% | 3,604 |
| Suppliers | (107,134) | 82,911 | -177% | 65,624 |
| Forfeiting and Credit letter operations | (10,071) | - | n.a. | 80,728 |
| Taxes payable | (600) | (1,518) | 153% | (3,874) |
| Write-offs for judicial demands | (11,093) | (6,766) | -39% | (10,653) |
| Payroll and social charges | (3,819) | 3,887 | -202% | 2,451 |
| Derivatives | (143,959) | 31,895 | -122% | (35,635) |
| Advances from clients | (15,707) | 7,038 | -145% | 5,992 |
| Other current and non-current liabilities | (743) | 3,316 | -546% | (7,491) |
| Cash flow from investing activities | (51,986) | (92,221) | n.a. | (115,296) |
| Financial investments | (4,170) | (11,226) | 169% | (131,587) |
| Linked account deposits / Guarantees | - | - | n.a. | 30,167 |
| Fixed assets and intangible additions | (47,816) | (80,995) | 69% | (13,876) |
| Cash flow from financing activities | (8,356) | (29,440) | n.a. | (22,845) |
| Capital increase | - | - | n.a. | - |
| Borrowing and financing | 23,557 | - | n.a. | - |
| Amortization of loans and financing | (31,913) | (29,440) | -8% | (22,845) |
| Dividends | - | - | n.a. | - |
| Increase (decrease) of cash and cash equivalents | (87,970) | (90,698) | 3% | (178,909) |
| Cash and cash equivalents at the beginning of the period | 345,551 | 257,581 | -25% | 282,536 |
| Cash and cash equivalents at the end of the period | 257,581 | 166,883 | -35% | 103,627 |

ATTACHMENT IV - EXPENSES

| <i>In R\$ thd, except otherwise stated</i> | 2Q17 | 2Q18 | Δ % |
|---|------------------|-----------------|------------|
| Total Operating Expenses | (107,917) | (92,935) | 14% |
| Sales Expenses | (6,986) | (7,314) | -5% |
| G&A Expenses and Management Compensation | (20,404) | (21,934) | -7% |
| Employee Profit Sharing | (5,979) | (7,437) | -24% |
| Other Operating, net | (74,548) | (56,250) | 25% |
| <i>Total Expenses/Net Revenue [%]</i> | 16.8% | 9.8% | -7.0 p.p. |
| <i>Recurring Expenses*/Gross Profit [%]</i> | 67.4% | 600.6% | 533.3 p.p. |
| <i>Recurring Expenses*/tonnes sold</i> | 1.08 | 1.08 | 0% |
| Non-recurring items: | | | |
| Provisions for contingencies * | (25,614) | (13,337) | 48% |
| Other provisions* | (198) | (93) | 53% |
| Provisão Ativos mantidos p/ venda* | - | (3,452) | n.a |
| Idle capacity | (48,532) | (40,795) | 16% |
| Total Non-recurring Items: | (74,344) | (57,677) | 22% |
| Total Recurring Items: | (33,573) | (35,258) | -5% |

* No cash impact during the period

The Company is subject to the New Market Arbitration Chamber rules, as specified in the Bylaws.

NOTICE

Management makes statements on future events that are subject to risks and uncertainties. These statements are based on Management's beliefs and assumptions and on information to which the Company has current access. Statements on future events include information on your current intentions, estimates or expectations, as well as those of Company's Directors. Exceptions to statements and information on the future also include information on possible or assumed operating results, as well as statements that are preceded, followed of that include the words "believes", "may", "will", "continues", "waits", "provides", "intends", "plans", "estimates" or similar expressions. Statements and information on the future are not guarantees of performance. They involve risks, uncertainties and assumptions because they refer to future events, thus depending on circumstances that may or may not occur. Future results and the creation of value for shareholders may significantly differ from those expressed or estimated by statements on the future. Many of the factors that will determine these results and values are beyond Company's control or foresight capacity.