Paranapanema S.A.

Quarterly Financial Report

June 30, 2018

PARANAPANEMA

PMAM3 NOVO MERCADO BM&FBOVESPA

Company information

Capital composition	1
Individual financial statements	
Statement of financial position – Assets	2
Statement of financial position – Liabilities	3
Statement of income	4
Statement of comprehensive income	5
Statement of cash flow	6
Statement of changes in equity	
Statement of changes in equity – from 01/01/2018 to 06/30/2018	7
Statement of changes in equity – from 01/01/2017 to 06/30/2017	8
Statement of value added	9
Consolidated financial statements	
Statement of financial position – Assets	10
Statement of financial position – Liabilities	11
Statement of income	12
Statement of comprehensive income	13
Statement of cash flow	14
Statement of changes in equity	
Statement of changes in equity – from 01/01/2018 to 06/30/2018	15
Statement of changes in equity – from 01/01/2017 to 06/30/2017	16
Statement of value added	17
Performance comments	18
Notes to the financial statements	26
Opinions and Statements	
Independent Auditors’ Report	81
Directors’ Statement on Quarterly Financial Reports	83
Statement of the Executive Officers on the Independent auditors' report	84

Company information/Capital composition

Quantity of shares (Units)	Current quarter 06/30/2018
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 06/30/2018	Prior year 12/31/2017
1	Total assets	4,143,519	4,201,829
1.01	Total current assets	2,252,032	2,503,942
1.01.01	Cash and cash equivalents	159,635	343,678
1.01.02	Financial investments	55,211	38,453
1.01.03	Accounts receivable	377,939	432,038
1.01.04	Inventory	1,528,931	1,511,633
1.01.06	Taxes recoverable	63,434	76,403
1.01.07	Prepaid expenses	18,045	9,181
1.01.08	Other current assets	48,837	92,556
1.01.08.03	Others	48,837	92,556
1.01.08.03.01	Derivative financial instruments	41,512	85,554
1.01.08.03.02	Other current assets	7,325	7,002
1.02	Total non-current assets	1,891,487	1,697,887
1.02.01	Long term assets	528,415	401,313
1.02.01.01	Financial investments	12,523	13,906
1.02.01.04	Accounts receivable	77	309
1.02.01.07	Taxes	275,274	153,039
1.02.01.07.01	Deferred income tax and social contribution	157,721	40,283
1.02.01.07.02	Taxes recoverable	117,553	112,756
1.02.01.08	Prepaid expenses	12,805	12,719
1.02.01.10	Other non-current assets	227,736	221,340
1.02.01.10.03	Assets held for sale	114,746	111,548
1.02.01.10.04	Legal deposits	30,522	28,248
1.02.01.10.05	Other non-current assets	82,468	81,544
1.02.02	Investments	24,756	16,582
1.02.02.01	Equity interest	22,506	14,332
1.02.02.01.02	Investments	22,506	14,332
1.02.02.02	Investment Property	2,250	2,250
1.02.02.02.01	Other investments	2,250	2,250
1.02.03	Property, plant and equipment	1,330,809	1,273,541
1.02.03.01	Fixed assets in operation	1,226,482	1,136,421
1.02.03.03	Property, plant and equipment in progress	104,327	137,120
1.02.04	Intangible assets	7,507	6,451

PARANAPANEMA

PMAM3 NOVO MERCADO BM&FBOVESPA

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

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
2	Total liabilities	4,143,519	4,201,829
2.01	Total current liabilities	1,328,826	1,319,319
2.01.01	Payroll and related charges	49,668	49,606
2.01.02	Suppliers	859,505	800,898
2.01.02.01	Domestic suppliers	99,692	85,569
2.01.02.02	Foreign suppliers	759,813	715,329
2.01.03	Taxes payable	19,884	21,219
2.01.03.01	Federal tax liabilities	7,548	12,705
2.01.03.01.02	Excise tax	2,220	1,838
2.01.03.01.03	Withholding income tax–IRRF	1,566	2,367
2.01.03.01.04	PIS and COFINS	3,228	7,746
2.01.03.01.05	Withholding social contribution tax	529	728
2.01.03.01.07	Others	5	26
2.01.03.02	State tax liabilities	10,643	7,741
2.01.03.02.01	Value-Added Tax on Sales and Services	10,643	7,741
2.01.03.03	Municipal tax liabilities	1,693	773
2.01.03.03.01	Service tax	1,693	773
2.01.04	Loans and financing	192,232	120,973
2.01.05	Other liabilities	207,537	326,623
2.01.05.02	Others	207,537	326,623
2.01.05.02.02	Cash and cash equivalents	25,748	24,429
2.01.05.02.04	Derivative financial instruments	71,060	183,670
2.01.05.02.05	Advances from clients	27,744	33,799
2.01.05.02.06	Other current liabilities	46,003	42,906
2.01.05.02.07	Forfaiting and letter of credit operations	36,982	41,819
2.02	Total non-current liabilities	2,245,853	1,993,988
2.02.01	Loans and financing	2,047,007	1,807,001
2.02.02	Other liabilities	35	782
2.02.02.02	Other non - current liabilities	35	782
2.02.02.02.03	Taxes payable	35	178
2.02.02.02.06	Suppliers	0	604
2.02.04	Provisions	198,811	186,205
2.02.04.01	Legal deposits	198,811	186,205
2.02.04.01.01	Tax Provision	1,668	1,875
2.02.04.01.02	Social security and labor provisions	191,732	179,350
2.02.04.01.04	Civil provisions	5,411	4,980
2.03	Shareholders' equity	568,840	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	Debentures convertible into shares	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	211,515	218,917
2.03.05	Retained earnings	-744,155	-414,356
2.03.06	Equity valuation adjustments	-987,757	-1,005,276

PARANAPANEMA

PMAM3 NOVO MERCADO BM&FBOVESPA

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

Code of account	Account description	2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
3.01	Net sales	1,052,213	2,050,520	753,519	1,655,195
3.02	Cost of goods sold	-1,053,282	-2,028,483	-709,347	-1,525,482
3.03	Gross income	-1,069	22,037	44,172	129,713
3.04	Operating expenses	-90,745	-188,223	-103,284	-223,143
3.04.01	Sales expenses	-6,744	-13,291	-6,483	-12,790
3.04.02	General and administrative expenses	-28,998	-54,870	-25,693	-52,986
3.04.02.01	General and administrative	-19,684	-35,692	-17,789	-36,944
3.04.02.02	Management fees	-1,906	-3,593	-1,857	-3,618
3.04.02.03	General and administrative	-7,408	-15,585	-6,047	-12,424
3.04.04	Other income	10,601	16,562	4,781	10,091
3.04.05	Other expenses	-66,848	-144,298	-78,974	-173,311
3.04.06	Equity income (loss)	1,244	7,674	3,085	5,853
3.05	(Loss) operating profit before financial results	-91,814	-166,186	-59,112	-93,430
3.06	Financial income (loss)	-302,628	-288,453	-32,827	-37,054
3.06.01	Financial income	285,739	478,544	70,248	238,480
3.06.02	Financial expenses	-588,367	-766,997	-103,075	-275,534
3.07	(Loss) before income and social contribution taxes	-394,442	-454,639	-91,939	-130,484
3.08	Income and social contribution tax	106,399	117,438	18,778	14,175
3.08.02	Deferred income and social contribution taxes	106,399	117,438	18,778	14,175
3.09	Net income (loss) from continuing operations	-288,043	-337,201	-73,161	-116,309
3.11	Income (Loss) for the period	-288,043	-337,201	-73,161	-116,309
3.99	Earning per share - (Reais / Shares)	-	-	-	-
3.99.01	Basic earnings per share	-	-	-	-
3.99.01.01	ON	-0.41797	-0.48930	-0.22924	-0.36443
3.99.02	Diluted earning per share				
3.99.02.01	ON	-0.38430	-0.44989	-0.22924	-0.36443

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

Code of account	Account description	2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
4.01	Income (Loss) for the period	-288,043	-337,201	-73,161	-116,309
4.02	Items to be subsequently reclassified to the result	10,050	17,519	-25,701	2,132
4.02.01	Hedge cash flow – Export income ACC/PPE	2,589	2,485	-31,116	-11,039
4.02.02	Hedge cash flow – NDF sales income	7,712	15,187	7,234	15,054
4.02.04	Hedge cash flow – Other debts	0	0	-2,154	-2,194
4.02.05	Hedge cash flow – Cost metal x Future stock exchange	-661	-653	327	309
4.02.07	Earnings from foreign exchange on foreign investment	410	500	8	2
4.03	Comprehensive income for the year	-277,993	-319,682	-98,862	-114,177

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

Code of account	Account description	Year to date 2018	Year to date 2017
6.01	Net cash used in (provided by) operating activities	-2,090	9,240
6.01.01	Cash generated from operations	63,512	101,566
6.01.01.01	(Loss) before income and social contribution taxes	-454,639	-130,484
6.01.01.02	Residual value of written-off fixed assets	5	651
6.01.01.03	Depreciation and amortization	70,707	62,475
6.01.01.04	Equity in net income	-7,673	-5,853
6.01.01.06	Provision for losses on lawsuits	30,465	54,124
6.01.01.07	Provision of other estimated losses	10,545	0
6.01.01.08	Financial charges	412,717	124,290
6.01.01.09	Present value adjustment - receivables and suppliers	203	-664
6.01.01.12	Provision (reversal) for recoverable value of estimated loss	1,182	-2,973
6.01.02	Changes in assets and liabilities	-65,602	-92,326
6.01.02.02	Accounts receivable	50,969	123,391
6.01.02.04	Inventory	-17,400	-112,864
6.01.02.05	Taxes recoverable	10,486	-2,267
6.01.02.06	Prepaid expenses	-8,950	-2,346
6.01.02.07	Legal deposits	-2,274	1,350
6.01.02.08	Derivative financial instruments	57,584	7,365
6.01.02.09	Assets held for sale	-849	-311
6.01.02.10	Other current and non-current liabilities	-1,246	-4,590
6.01.02.11	Suppliers	-1,956	-13,601
6.01.02.12	Forfaiting and letter of credit operations	-10,071	35,576
6.01.02.14	Taxes payable	-1,478	4,287
6.01.02.15	Legal deposits	-17,859	-21,943
6.01.02.16	Payroll and related charges	62	1,298
6.01.02.18	Advances from clients	-6,560	-761
6.01.02.19	Derivative financial instruments	-112,064	-103,776
6.01.02.20	Other current and non-current liabilities	-3,996	-3,134
6.02	Net cash used in investment activities	-144,154	11,003
6.02.07	Fixed assets and intangible additions	-128,779	-23,736
6.02.08	Financial investments	-589,631	-116,873
6.02.09	Redemption of financial investments	574,256	132,789
6.02.10	Release linked bank account	0	18,823
6.03	Net cash generated (consumed) in financing activities	-37,799	-75,058
6.03.01	Loans and financing	23,557	0
6.03.02	Amortization of loans and financing	-48,085	-47,748
6.03.04	Amortization of financial charges	-13,271	-27,310
6.05	Reduction in cash and cash equivalents	-184,043	-54,815
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	159,635	84,677

Individual financial statements / Statement of changes in equity – Year to date 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	-337,201	17,519	-319,682
5.05.01	Net income for the period	0	0	0	-337,201	0	-337,201
5.05.02	Other comprehensive income	0	0	0	0	17,519	17,519
5.05.02.01	Financial instruments - adjustments	0	0	0	0	17,019	17,019
5.05.02.06	Earnings and losses from foreign exchange variations-Fo	0	0	0	0	500	500
5.06	Internal changes in equity	0	0	0	7,402	-7,402	0
5.06.02	Realization of revaluation reserve	0	0	0	9,678	-9,678	0
5.06.03	Taxes on the realization of the revaluation reserve	0	0	0	-2,276	2,276	0
5.07	Closing balances	1,990,708	98,529	0	-744,155	-776,242	568,840

Individual financial statements / Statement of changes in equity – Year to date 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	Convertible debentures in action	0	0	0	-116,309	2,132	-114,177
5.05.01	Capitalization costs	0	0	0	-116,309	0	-116,309
5.05.02	Total comprehensive income	0	0	0	0	2,132	2,132
5.05.02.01	Net income for the period	0	0	0	0	2,130	2,130
5.05.02.06	Earnings and losses from foreign exchange variations-Fo	0	0	0	0	2	2
5.06	Financial instruments - adjustments	0	0	0	3,607	-3,607	0
5.06.02	Earnings and losses from foreign exchange variations-Fo	0	0	0	4,595	-4,595	0
5.06.03	Internal changes in equity	0	0	0	-988	988	0
5.07	Taxe incentive reserve	1,382,990	-741	0	-399,198	-840,218	142,833

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

Code of account	Account description	Year to date 2018	Year to date 2017
7.01	Income	2,303,129	1,869,232
7.01.01	Sales of goods and services	2,286,673	1,862,991
7.01.02	Other income	16,456	9,382
7.01.04	Provision of credits for doubtful accounts	0	-3,141
7.02	Inputs acquired from third parties	-2,184,638	-1,695,991
7.02.01	Cost of goods and services sold	-1,917,019	-1,433,081
7.02.02	Materials, energy, third party services and other	-267,619	-262,910
7.03	Gross added value	118,491	173,241
7.04	Retentions	-70,707	-62,475
7.04.01	Depreciation and amortization	-70,707	-62,475
7.05	Net added value	47,784	110,766
7.06	Added value received through transfers	486,217	244,333
7.06.01	Equity equivalence result	7,673	5,853
7.06.02	Financial income	478,544	238,480
7.07	Total net added value payable	534,001	355,099
7.08	Net added value payable	534,001	355,099
7.08.01	Personnel and charges	120,917	113,111
7.08.02	Taxes, duties and contributions	-25,905	72,038
7.08.03	Third-party capital remuneration	776,190	286,259
7.08.04	Remuneration of own capital	-337,201	-116,309
7.08.04.03	Loss for the period	-337,201	-116,309

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

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
1	Total assets	4,143,519	4,201,829
1.01	Total current assets	2,252,032	2,503,942
1.01.01	Cash and cash equivalents	159,635	343,678
1.01.02	Financial investments	55,211	38,453
1.01.03	Accounts receivable	377,939	432,038
1.01.04	Inventory	1,528,931	1,511,633
1.01.06	Taxes recoverable	63,434	76,403
1.01.07	Prepaid expenses	18,045	9,181
1.01.08	Other current assets	48,837	92,556
1.01.08.03	Others	48,837	92,556
1.01.08.03.01	Derivative financial instruments	41,512	85,554
1.01.08.03.02	Other current assets	7,325	7,002
1.02	Total non-current assets	1,891,487	1,697,887
1.02.01	Long term assets	528,415	401,313
1.02.01.01	Financial investments	12,523	13,906
1.02.01.04	Accounts receivable	77	309
1.02.01.07	Taxes	275,274	153,039
1.02.01.07.01	Deferred income tax and social contribution	157,721	40,283
1.02.01.07.02	Taxes recoverable	117,553	112,756
1.02.01.08	Prepaid expenses	12,805	12,719
1.02.01.10	Other non-current assets	227,736	221,340
1.02.01.10.03	Assets held for sale	114,746	111,548
1.02.01.10.04	Legal deposits	30,522	28,248
1.02.01.10.05	Other non-current assets	82,468	81,544
1.02.02	Investments	24,756	16,582
1.02.02.01	Equity interest	22,506	14,332
1.02.02.01.02	Investments	22,506	14,332
1.02.02.02	Investment Property	2,250	2,250
1.02.02.02.01	Other investments	2,250	2,250
1.02.03	Property, plant and equipment	1,330,809	1,273,541
1.02.03.01	Fixed assets in operation	1,226,482	1,136,421
1.02.03.03	Property, plant and equipment in progress	104,327	137,120
1.02.04	Intangible assets	7,507	6,451

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

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
2	Total liabilities	4,124,803	4,211,491
2.01	Total current liabilities	1,310,110	1,328,981
2.01.01	Payroll and related charges	49,835	49,767
2.01.02	Suppliers	837,541	801,203
2.01.02.01	Domestic suppliers	76,311	85,874
2.01.02.02	Foreign suppliers	761,230	715,329
2.01.03	Taxes payable	21,012	25,827
2.01.03.01	Federal tax liabilities	8,604	17,305
2.01.03.01.01	Income tax and social contribution	1,756	4,596
2.01.03.01.02	Excise tax	2,220	1,838
2.01.03.01.03	Withholding income tax–IRRF	1,567	2,371
2.01.03.01.04	PIS and COFINS	2,526	7,746
2.01.03.01.05	Withholding social contribution tax	530	728
2.01.03.01.07	Others	5	26
2.01.03.02	State tax liabilities	10,714	7,749
2.01.03.02.01	Value-Added Tax on Sales and Services	10,714	7,749
2.01.03.03	Municipal tax liabilities	1,694	773
2.01.03.03.01	Service tax	1,694	773
2.01.04	Loans and financing	192,234	120,977
2.01.05	Other liabilities	209,488	331,207
2.01.05.02	Others	209,488	331,207
2.01.05.02.02	Cash and cash equivalents	25,748	24,429
2.01.05.02.04	Derivative financial instruments	71,060	183,670
2.01.05.02.05	Advances from clients	29,356	37,520
2.01.05.02.06	Other current liabilities	46,342	43,769
2.01.05.02.07	Forfaiting and letter of credit operations	36,982	41,819
2.02	Total non-current liabilities	2,245,853	1,993,988
2.02.01	Loans and financing	2,047,007	1,807,001
2.02.02	Other liabilities	35	782
2.02.02.02	Other non-current liabilities	35	782
2.02.02.02.03	Taxes payable	35	178
2.02.02.02.06	Suppliers	0	604
2.02.04	Provisions	198,811	186,205
2.02.04.01	Legal deposits	198,811	186,205
2.02.04.01.01	Tax Provision	1,668	1,875
2.02.04.01.02	Social security and labor provisions	191,732	179,350
2.02.04.01.04	Civil provisions	5,411	4,980
2.03	Shareholders' equity	568,840	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	Debentures convertible into shares	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	211,515	218,917
2.03.05	Retained earnings	-744,155	-414,356
2.03.06	Equity valuation adjustments	-987,757	-1,005,276

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

Code of account	Account description	2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
3.01	Net sales	951,755	1,971,720	643,897	1,418,721
3.02	Cost of goods sold	-945,885	-1,942,263	-594,071	-1,281,586
3.03	Gross income	5,870	29,457	49,826	137,135
3.04	Operating expenses	-92,935	-197,730	-107,917	-232,483
3.04.01	Sales expenses	-7,314	-14,412	-6,986	-13,671
3.04.02	General and administrative expenses	-29,371	-55,639	-26,383	-54,434
3.04.02.01	General and administrative	-20,028	-36,398	-18,547	-38,450
3.04.02.02	Management fees	-1,906	-3,593	-1,857	-3,618
3.04.02.03	General and administrative	-7,437	-15,648	-5,979	-12,366
3.04.04	Other income	10,686	16,736	4,781	10,121
3.04.05	Other expenses	-66,936	-144,415	-79,329	-174,499
3.05	(Loss) operating profit before financial results	-87,065	-168,273	-58,091	-95,348
3.06	Financial income (loss)	-305,329	-283,364	-31,283	-33,620
3.06.01	Financial income	290,517	496,214	77,642	255,220
3.06.02	Financial expenses	-595,846	-779,578	-108,925	-288,840
3.07	(Loss) before income and social contribution taxes	-392,394	-451,637	-89,374	-128,968
3.08	Income and social contribution tax	104,351	114,436	16,213	12,659
3.08.01	Income and social contribution tax for the current year	-1,256	-1,756	-1,405	-1,819
3.08.02	Deferred income and social contribution taxes	105,607	116,192	17,618	14,478
3.09	Net income (loss) from continuing operations	-288,043	-337,201	-73,161	-116,309
3.11	Income (Loss) for the period	-288,043	-337,201	-73,161	-116,309
3.11.01	Atributed to Parent Company Share Holders	-288,043	-337,201	-73,161	-116,309
3.99	Earning per share - (Reais / Shares)				
3.99.01	Basic earnings per share				
3.99.01.01	ON	-0.41797	-0.48930	-0.22924	-0.36443
3.99.02	Diluted earning per share				
3.99.02.01	ON	-0.38430	-0.44989	-0.22924	-0.36443

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

Code of account	Account description	2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
4.01	Income (Loss) for the period	-288,043	-337,201	-73,161	-116,309
4.02	Items to be subsequently reclassified to the result	10,050	17,519	-25,701	2,132
4.02.01	Hedge cash flow – Export income ACC(*)/PPE(**)	2,589	2,485	-31,116	-11,039
4.02.02	Hedge cash flow – NDF(***) sales income	7,712	15,187	7,234	15,054
4.02.04	Hedge cash flow – Other debts	0	0	-2,154	-2,194
4.02.05	Hedge cash flow – Cost metal x Future stock exchange	-661	-653	327	309
4.02.07	Earnings from foreign exchange on foreign investment	410	500	8	2
4.03	Comprehensive income for the year	-277,993	-319,682	-98,862	-114,177
4.03.01	Atributed to Parent Company Share Holders	-277,993	-319,682	-98,862	-114,177

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

Code of account	Account description	Year to date 2018	Year to date 2017
6.01	Net cash used in (provided by) operating activities	3,335	112,651
6.01.01	Cash generated from operations	73,585	105,567
6.01.01.01	(Loss) before income and social contribution taxes	-451,637	-128,968
6.01.01.02	Residual value of written-off fixed assets	5	651
6.01.01.03	Depreciation and amortization	70,764	62,521
6.01.01.06	Provision for losses on lawsuits	30,465	54,124
6.01.01.07	Provision of other estimated losses	10,545	0
6.01.01.08	Financial charges	413,214	124,287
6.01.01.09	Present value adjustment - receivables and suppliers	-816	-3,814
6.01.01.12	Provision (reversal) for recoverable value of estimated loss	1,045	-3,234
6.01.02	Changes in assets and liabilities	-70,250	7,084
6.01.02.02	Accounts receivable	67,899	163,249
6.01.02.04	Inventory	-14,128	-118,447
6.01.02.05	Taxes recoverable	11,125	-6,035
6.01.02.06	Prepaid expenses	-8,789	-2,208
6.01.02.07	Legal deposits	-2,274	1,350
6.01.02.08	Derivative financial instruments	57,621	7,362
6.01.02.09	Assets held for sale	-849	-311
6.01.02.10	Other current and non-current liabilities	-1,400	43,029
6.01.02.11	Suppliers	-24,223	6,526
6.01.02.12	Forfaiting and letter of credit operations	-10,071	35,576
6.01.02.14	Taxes payable	-2,118	4,228
6.01.02.15	Legal deposits	-17,859	-21,943
6.01.02.16	Payroll and related charges	68	1,122
6.01.02.18	Advances from clients	-8,669	938
6.01.02.19	Derivative financial instruments	-112,064	-103,788
6.01.02.20	Other current and non-current liabilities	-4,519	-3,564
6.02	Net cash used in investment activities	-144,207	-76,790
6.02.07	Fixed assets and intangible additions	-128,811	-23,732
6.02.08	Financial investments	-589,652	-704,751
6.02.09	Redemption of financial investments	574,256	630,607
6.02.10	Release linked bank account	0	21,086
6.03	Net cash generated (consumed) in financing activities	-37,796	-75,058
6.03.01	Loans and financing	23,557	0
6.03.02	Amortization of loans and financing	-48,082	-47,748
6.03.04	Amortization of loans and financing	-13,271	-27,310
6.05	Reduction in cash and cash equivalents	-178,668	-39,197
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	166,883	103,627

Consolidated financial statements / Statement of changes in equity – Year to date 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	-337,201	17,519	-319,682	-319,682
5.05.01	Net income for the period	0	0	0	-337,201	0	-337,201	-337,201
5.05.02	Other comprehensive income	0	0	0	0	17,519	17,519	17,519
5.05.02.01	Financial instruments - adjustments	0	0	0	0	17,019	17,019	17,019
5.05.02.06	Earnings and losses from foreign exchange variations-Foreign investment	0	0	0	0	500	500	500
5.06	Internal changes in equity	0	0	0	7,402	-7,402	0	0
5.06.02	Realization of revaluation reserve	0	0	0	9,678	-9,678	0	0
5.06.03	Taxes on the realization of the revaluation reserve	0	0	0	-2,276	2,276	0	0
5.07	Closing balances	1,990,708	98,529	0	-744,155	-776,242	568,840	568,840

Consolidated financial statements / Statement of changes in equity – Year to date 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	Convertible debentures in action	0	0	0	-116,309	2,132	-114,177	-114,177
5.05.01	Capitalization costs	0	0	0	-116,309	0	-116,309	-116,309
5.05.02	Total comprehensive income	0	0	0	0	2,132	2,132	2,132
5.05.02.01	Net income for the period	0	0	0	0	2,130	2,130	2,130
5.05.02.06	Earnings and losses from foreign exchange variations-Foreign investment	0	0	0	0	2	2	2
5.06	Financial instruments - adjustments	0	0	0	3,607	-3,607	0	0
5.06.02	Earnings and losses from foreign exchange variations-Foreign investment	0	0	0	4,595	-4,595	0	0
5.06.03	Internal changes in equity	0	0	0	-988	988	0	0
5.07	Taxe incentive reserve	1,382,990	-741	0	-399,198	-840,218	142,833	142,833

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

Code of account	Account description	Year to date 2018	Year to date 2017
7.01	Income	2,182,785	1,572,651
7.01.01	Sales of goods and services	2,166,159	1,566,685
7.01.02	Other income	16,626	9,411
7.01.04	Provision of credits for doubtful accounts	0	-3,445
7.02	Inputs acquired from third parties	-2,283,722	-1,457,257
7.02.01	Cost of goods and services sold	-2,000,711	-1,189,214
7.02.02	Materials, energy, third party services and other	-283,011	-268,043
7.03	Gross added value	-100,937	115,394
7.04	Retentions	-70,764	-62,521
7.04.01	Depreciation and amortization	-70,764	-62,521
7.05	Net added value	-171,701	52,873
7.06	Added value received through transfers	496,214	255,220
7.06.02	Financial income	496,214	255,220
7.07	Total net added value payable	324,513	308,093
7.08	Net added value payable	324,513	308,093
7.08.01	Personnel and charges	121,853	114,676
7.08.02	Taxes, duties and contributions	-249,396	9,751
7.08.03	Third-party capital remuneration	789,257	299,975
7.08.04	Remuneration of own capital	-337,201	-116,309
7.08.04.03	Loss for the period	-337,201	-116,309

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, enablingan 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.

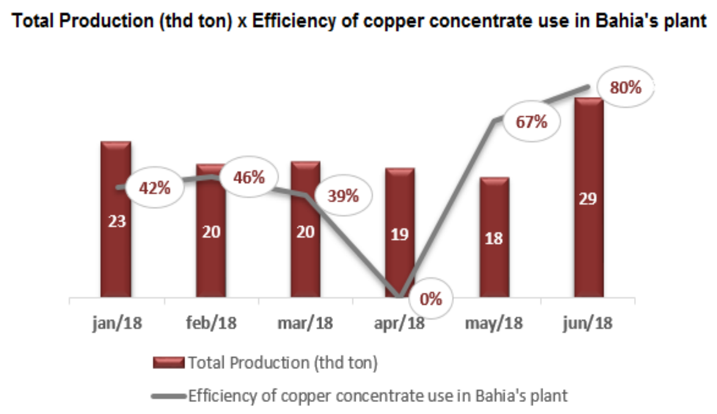
The Company's Net Result was negative by R$288 million, of which R$426.2 million refers to expenses not affecting cash, especially exchange rate changes in our debt totaling R$347.5 million and expenses incurred with Derivatives totaling R$58.3 million. On the other hand, there was financial income of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

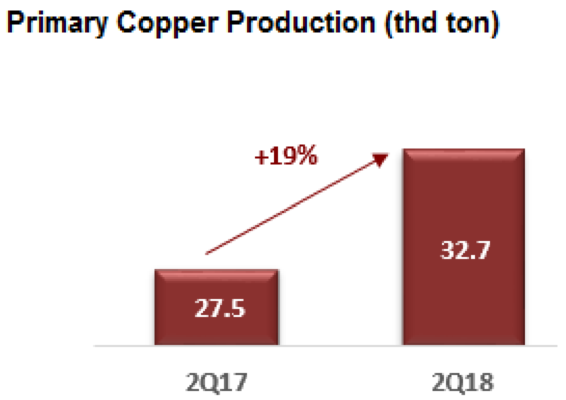
PRODUCTION PERFORMANCE

Total production volume in thousand tons



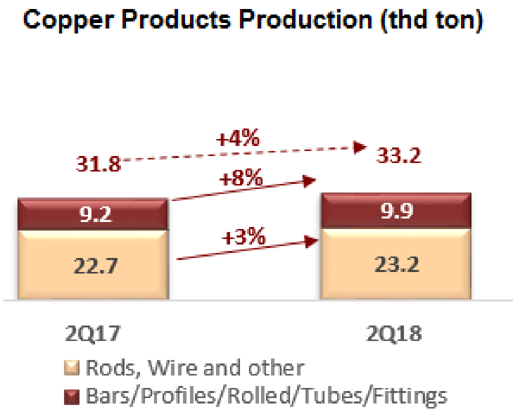
In 2Q18, the Production Volume at the Dias D'Ávila (BA) plant was impacted during 31 days, when the production of copper anode was halted for 31 days due to the Scheduled Maintenance. In addition, the resumption process was slightly slower than planned due to a few operating adjustments necessary to 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).

Copper products



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

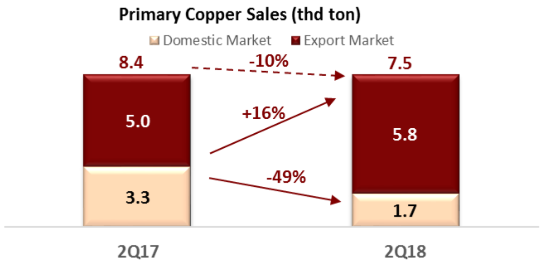
In relation to byproducts, the sales volume reached 128.4 thousand tons in 2Q18, a decrease of 19% compared to the same quarter of the prior year. In addition to the scheduled maintenance that impacted the production of sulfuric acid, there was a decrease in sales of slags, due to the low demand in the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

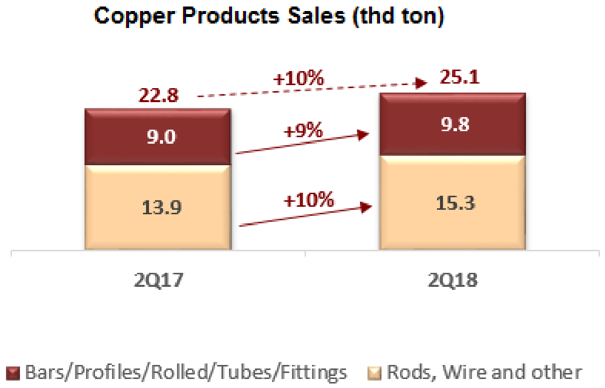


Despite the instability created by the changes in trade tariffs introduced by Donald Trump, the world trade did not succumb in this period and maintained copper process at higher levels compared to 2Q17. The volume exported by the Company during this quarter increased by 16% compared to 2Q17. On the 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

In R$ thd, except otherwise stated	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%*
REINTEGRA[1] 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.

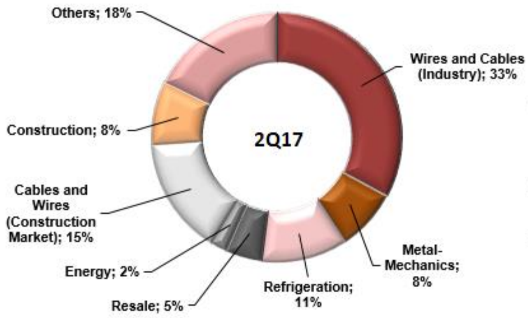
In **Primary Copper**, Net Income presented increase of 38% compared to the 2Q17, mainly due to increase in price per ton, followed by dollar appreciation in the period, overcoming impact from lower volume sold as a result of scheduled maintenance, as explained before.

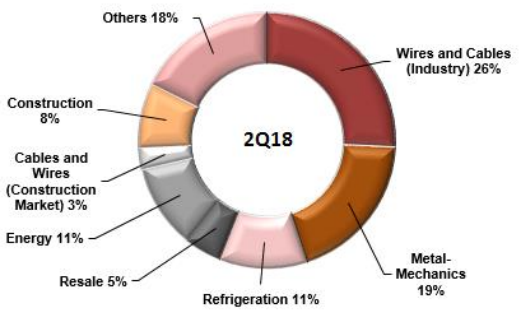
Net Income from **Copper Products** presented increase of 33% compared to the 2Q17. Bars, Profiles, Wires, Laminates, Pipes and Connections had an increase of 29% in relation to the same period of 2017, as a result of the commercial strategy of focusing on products with higher added-value and developing 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

In R$ thd, except otherwise stated	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%*

[1] 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

In R$ thd, except otherwise stated	2Q17	2Q18	∆ %
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 I,** 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)

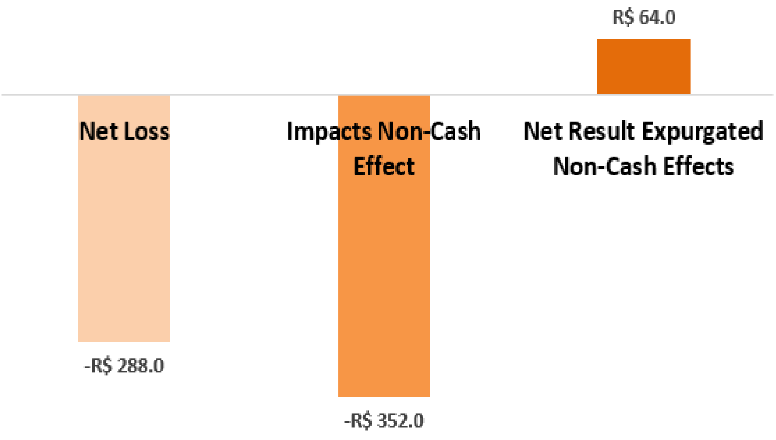
In R$ thd, except otherwise stated	2Q17	2Q18	∆ %
Result before Taxes	(89,374)	(392,394)	*-339%*
Income Tax and Social Contribution	16,213	104,351	*544%*
Net Result	**(73,161)**	**(288,043)**	***-294%***
% of Revenue	*-11.4%*	*-30.3%*	*-18.9 p.p.*

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 - EXPENSES

In R$ thd, except otherwise stated	**2Q17**	**2Q18**	**∆ %**
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%*
Total Expenses/Net Revenue [%]	*16.8%*	*9.8%*	*-7.0 p.p.*
Recurring Expenses/Gross Profit [%]*	*67.4%*	*600.6%*	*533.3 p.p.*
Recurring Expenses/tonnes sold*	*1.08*	*1.08*	*0%*
Non-recurring items:			
Provisions for contingencies *	(25,614)	(13,337)	*48%*
Other provisions*	(198)	(93)	*53%*
Provision assets held for sale*	-	(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.

Balance sheets
June 30 and December 31
(In thousands of Brazilian Reais)

ASSETS	Notes	Parent company 06/30/2018	Parent company 12/31/2017	Consolidated 06/30/2018	Consolidated 12/31/2017
Cash and cash equivalents	05	**159,635**	343,678	**166,883**	345,551
Financial investments	05	**55,211**	38,453	**55,211**	38,453
Accounts receivable	06	**377,939**	432,038	**309,010**	371,384
Inventory	07	**1,528,931**	1,511,633	**1,560,997**	1,546,971
Taxes recoverable	08	**63,434**	76,403	**70,425**	88,629
Other current assets	09.1	**7,325**	7,002	**7,326**	6,850
Derivative financial instruments	27	**41,512**	85,554	**41,512**	85,591
Prepaid expenses		**18,045**	9,181	**18,754**	10,053
Total current assets		**2,252,032**	2,503,942	**2,230,118**	2,493,482
Financial investments	05	**12,523**	13,906	**13,270**	14,632
Accounts receivable	06	**77**	309	**10,162**	17,895
Taxes recoverable	08	**117,553**	112,756	**117,553**	112,756
Assets held for sale	10	**114,746**	111,548	**114,746**	111,548
Deferred income tax and social contribution	25.1	**157,721**	40,283	**171,573**	55,381
Legal deposits	09.2	**30,522**	28,248	**30,522**	28,248
Other non-current assets	09.1	**82,468**	81,544	**82,469**	81,544
Prepaid expenses		**12,805**	12,719	**12,808**	12,720
		528,415	401,313	**553,103**	434,724
Investments	11	**22,506**	14,332	**-**	-
Other investments		**2,250**	2,250	**2,250**	2,250
Property, plant and equipment	12	**1,330,809**	1,273,541	**1,331,825**	1,274,584
Intangible assets	12	**7,507**	6,451	**7,507**	6,451
		1,363,072	1,296,574	**1,341,582**	1,283,285
Total non-current assets		**1,891,487**	1,697,887	**1,894,685**	1,718,009
Total assets		**4,143,519**	4,201,829	**4,124,803**	4,211,491

See the accompanying notes to the quarterly information.

Balance sheets
June 30 and December 31
(In thousands of Brazilian Reais)

		Parent company		Consolidated	
LIABILITIES	Notes	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Suppliers	13	**859,505**	800,898	**837,541**	801,203
Forfaiting and letter of credit operations	14	**36,982**	41,819	**36,982**	41,819
Loans and financing	15	**192,232**	120,973	**192,234**	120,977
Derivative financial instruments	27	**71,060**	183,670	**71,060**	183,670
Payroll and related charges	16	**49,668**	49,606	**49,835**	49,767
Taxes payable	17	**19,884**	21,219	**21,012**	25,827
Cash and cash equivalents	19	**25,748**	24,429	**25,748**	24,429
Advances from clients	19	**27,744**	33,799	**29,356**	37,520
Other current liabilities	19	**46,003**	42,906	**46,342**	43,769
Total current liabilities		**1,328,826**	1,319,319	**1,310,110**	1,328,981
Suppliers	13	**-**	604	**-**	604
Loans and financing	15	**2,047,007**	1,807,001	**2,047,007**	1,807,001
Taxes payable	17	**35**	178	**35**	178
Legal deposits	18	**198,811**	186,205	**198,811**	186,205
Total non-current liabilities		**2,245,853**	1,993,988	**2,245,853**	1,993,988
Total liabilities		**3,574,679**	3,313,307	**3,555,963**	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	**211,515**	218,917	**211,515**	218,917
Equity valuation adjustments	20.h	**(987,757)**	(1,005,276)	**(987,757)**	(1,005,276)
Treasury shares		**(741)**	(741)	**(741)**	(741)
Retained earnings		**(744,155)**	(414,356)	**(744,155)**	(414,356)
Shareholders' equity	20	**568,840**	888,522	**568,840**	888,522
Total shareholders' equity		**568,840**	888,522	**568,840**	888,522
Total liabilities and equity		**4,143,519**	4,201,829	**4,124,803**	4,211,491
Net equity per share – in Brazilian reais (R$)		**0.82**	1.29		

See the accompanying notes to the quarterly information.

PARANAPANEMA

PMAM3 NOVO MERCADO BM&FBOVESPA

Statements of income

Three-month and six-month period ended June 30

(In thousands of Brazilian Reais, except earnings per share)

					Parent company
	Notes	2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
Net sales	21	1,052,213	2,050,520	753,519	1,655,195
Cost of goods sold	22	(1,053,282)	(2,028,483)	(709,347)	(1,525,482)
Gross income		(1,069)	22,037	44,172	129,713
Commercial	22	(6,744)	(13,291)	(6,483)	(12,790)
General and administrative	22	(19,684)	(35,692)	(17,789)	(36,944)
Management fees	11.4	(1,906)	(3,593)	(1,857)	(3,618)
Equity	11.1	1,244	7,674	3,085	5,853
General and administrative		(7,408)	(15,585)	(6,047)	(12,424)
Other expenses	23	(66,848)	(144,298)	(78,974)	(173,311)
Other income	23	10,601	16,562	4,781	10,091
Operating expenses		(90,745)	(188,223)	(103,284)	(223,143)
(Loss) operating profit before financial results		(91,814)	(166,186)	(59,112)	(93,430)
Financial expenses	24	(588,367)	(766,997)	(103,075)	(275,534)
Financial income	24	285,739	478,544	70,248	238,480
(Loss) before income and social contribution taxes		(394,442)	(454,639)	(91,939)	(130,484)
Deferred income and social contribution taxes	25.2	106,399	117,438	18,778	14,175
Income and social contribution tax		106,399	117,438	18,778	14,175
Income (Loss) for the period		(288,043)	(337,201)	(73,161)	(116,309)
Loss per common share		**(0.41797)**	(0.48930)	(0.22924)	(0.36443)
Loss per diluted common share		**(0.38430)**	(0.44989)	(0.22924)	(0.36443)

					Consolidated
	Notes	2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
Net sales	21	951,755	1,971,720	643,897	1,418,721
Cost of goods sold		(945,885)	(1,942,263)	(594,071)	(1,281,586)
Gross income		5,870	29,457	49,826	137,135
Commercial	22	(7,314)	(14,412)	(6,986)	(13,671)
General and administrative	22	(20,028)	(36,398)	(18,547)	(38,450)
Management fees	11.4	(1,906)	(3,593)	(1,857)	(3,618)
General and administrative		(7,437)	(15,648)	(5,979)	(12,366)
Other expenses	23	(66,936)	(144,415)	(79,329)	(174,499)
Other income	23	10,686	16,736	4,781	10,121
Operating expenses		(92,935)	(197,730)	(107,917)	(232,483)
(Loss) operating profit before financial results		(87,065)	(168,273)	(58,091)	(95,348)
Financial expenses	24	(595,846)	(779,578)	(108,925)	(288,840)
Financial income	24	290,517	496,214	77,642	255,220
(Loss) before income and social contribution taxes		(392,394)	(451,637)	(89,374)	(128,968)
Income and social contribution tax for the current year	25.2	(1,256)	(1,756)	(1,405)	(1,819)
Deferred income and social contribution taxes	25.2	105,607	116,192	17,618	14,478
Income and social contribution tax		104,351	114,436	16,213	12,659
Income (Loss) for the period		(288,043)	(337,201)	(73,161)	(116,309)

See the accompanying notes to the quarterly information.

PARANAPANEMA

PMAM3 NOVO MERCADO BM&FBOVESPA

Statements of comprehensive income

Three-month and six-month period ended June 30

(In thousands of Brazilian Reais)

	Parent company/Consolidated			
	2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
Income (Loss) for the period	**(288,043)**	**(337,201)**	(73,161)	(116,309)
Other comprehensive income				
Items to be subsequently reclassified to the result	**10,050**	**17,519**	(25,701)	2,132
Hedge cash flow – Export income ACC/PPE	**2,589**	**2,485**	(31,116)	(11,039)
Hedge cash flow – NDF sales income	**7,712**	**15,187**	7,234	15,054
Hedge cash flow – Cost metal x Future stock exchange	**(661)**	**(653)**	327	309
Hedge cash flow – Other debts	**-**	**-**	(2,154)	(2,194)
Earnings from foreign exchange on foreign investment	**410**	**500**	8	2
Comprehensive income for the year	**(277,993)**	**(319,682)**	(98,862)	(114,177)
Allocated to:				
Controlling shareholders	**(277,993)**	**(319,682)**	(98,862)	(114,177)

See the accompanying notes to the quarterly information.

Statement of changes in shareholders' equity
Periods ended June 30
(In thousands of Brazilian 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	-	-	-	-	-	2,130	-	2,130
Earnings and losses from foreign exchange variations-Foreign investment	20.h	-	-	-	-	-	2	-	2
Equity evaluation adjustment	20.j	-	-	-	-	4,595	-	(4,595)	-
Tax on realization of equity evaluation adjustment	20.j	-	-	-	-	(988)	-	988	-
Other comprehensive income		-	-	-	-	3,607	2,132	(3,607)	2,132
Loss for the period		-	-	-	-	(116,309)	-	-	(116,309)
Balance as at June 30, 2017		1,382,990	-	-	(741)	(399,198)	(1,063,438)	223,220	142,833
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	-	-	-	-	-	17,019		17,019
Earnings and losses from foreign exchange variations-Foreign investment	20.h	-	-	-	-	-	500	-	500
Equity evaluation adjustment	20.j	-	-	-	-	9,678	-	(9,678)	-
Tax on realization of equity evaluation adjustment	20.j	-	-	-	-	(2,276)	-	2,276	-
Other comprehensive income		-	-	-	-	7,402	17,519	(7,402)	17,519
Loss for the period		-	-	-	-	(337,201)	-	-	(337,201)
Balance as at June 30, 2018		1,990,708	104,645	(5,375)	(741)	(744,155)	(987,757)	211,515	568,840

See the accompanying notes to the quarterly information.

Statements of cash flow – Indirect method

Six-month periods ended June 30

(In thousands of Brazilian Reais)

	Parent company		Consolidated	
	Year to date 2018	Year to date 2017	Year to date 2018	Year to date 2017
(Loss) before income and social contribution taxes	**(454,639)**	(130,484)	**(451,637)**	(128,968)
Adjustments to reconcile net (loss) with resources provided by operating activities				
Residual value of written-off fixed assets	5	651	5	651
Depreciation and amortization	70,707	62,475	70,764	62,521
Equity in net income	(7,673)	(5,853)	-	-
Provision (reversal) for recoverable value of estimated loss	1,182	(2,973)	1,045	(3,234)
Provision of other estimated losses	10,545	-	10,545	-
Provision for losses on lawsuits	30,465	54,124	30,465	54,124
Present value adjustment - receivables and suppliers	203	(664)	(816)	(3,814)
Financial charges	412,717	124,290	413,214	124,287
	63,512	101,566	73,585	105,567
(Increase) decrease in assets				
Accounts receivable	50,969	123,391	67,899	163,249
Inventory	(17,400)	(112,864)	(14,128)	(118,447)
Taxes recoverable	10,486	(2,267)	11,125	(6,035)
Prepaid expenses	(8,950)	(2,346)	(8,789)	(2,208)
Legal deposits	(2,274)	1,350	(2,274)	1,350
Derivative financial instruments	57,584	7,365	57,621	7,362
Assets held for sale	(849)	(311)	(849)	(311)
Other current and non-current liabilities	(1,246)	(4,590)	(1,400)	43,029
Increase (decrease) in liabilities				
Suppliers	(1,956)	(13,601)	(24,223)	6,526
Forfaiting and letter of credit operations	(10,071)	35,576	(10,071)	35,576
Taxes payable	(1,478)	4,287	(2,118)	4,228
Legal deposits	(17,859)	(21,943)	(17,859)	(21,943)
Payroll and related charges	62	1,298	68	1,122
Derivative financial instruments	(112,064)	(103,776)	(112,064)	(103,788)
Advances from clients	(6,560)	(761)	(8,669)	938
Other current and non-current liabilities	(3,996)	(3,134)	(4,519)	(3,564)
Net cash used in (provided by) operating activities	(2,090)	9,240	3,335	112,651
Investing activities				
Financial investments	(589,631)	(116,873)	(589,652)	(704,751)
Redemption of financial investments	574,256	132,789	574,256	630,607
Release linked bank account	-	18,823	-	21,086
Fixed assets and intangible additions	(128,779)	(23,736)	(128,811)	(23,732)
Net cash (used in) provided by investing activities	(144,154)	11,003	(144,207)	(76,790)
Financing activities				
Loans and financing	23,557	-	23,557	-
Amortization of loans and financing	(48,085)	(47,748)	(48,082)	(47,748)
Amortization of financial charges	(13,271)	(27,310)	(13,271)	(27,310)
Net cash used in financing activities	(37,799)	(75,058)	(37,796)	(75,058)
Reduction in cash and cash equivalents	(184,043)	(54,815)	(178,668)	(39,197)
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	159,635	84,677	166,883	103,627
Reduction in cash and cash equivalents	(184,043)	(54,815)	(178,668)	(39,197)

See the accompanying notes to the quarterly information.

Statements of added value
Six-month periods ended June 30
(In thousands of Brazilian Reais)

	Parent company		Consolidated	
	Year to date 2018	Year to date 2017	Year to date 2018	Year to date 2017
Income				
Sales of goods and services	**2,286,673**	1,862,991	**2,166,159**	1,566,685
Provision of credits for doubtful accounts	**-**	(3,141)	**-**	(3,445)
Other income	**16,456**	9,382	**16,626**	9,411
Inputs acquired from third parties (Including taxes)				
Cost of goods and services sold	**(1,917,019)**	(1,433,081)	**(2,000,711)**	(1,189,214)
Materials, energy, third party services and other	**(267,619)**	(262,910)	**(283,011)**	(268,043)
Gross added value	**118,491**	173,241	**(100,937)**	115,394
Retentions				
Depreciation and amortization	**(70,707)**	(62,475)	**(70,764)**	(62,521)
Net added value	**47,784**	110,766	**(171,701)**	52,873
Received from third parties				
Equity equivalence result	**7,673**	5,853	**-**	-
Financial income	**478,544**	238,480	**496,214**	255,220
Total net added value payable	**534,001**	355,099	**324,513**	308,093
Net added value payable	**534,001**	355,099	**324,513**	308,093
Personnel and charges	**120,917**	113,111	**121,853**	114,676
Taxes and contributions	**(25,905)**	72,038	**(249,396)**	9,751
Interest and rent	**776,190**	286,259	**789,257**	299,975
Loss for the period	**(337,201)**	(116,309)	**(337,201)**	(116,309)

See the accompanying notes to the quarterly information.

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, Brazil, 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 June 30, 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, as well as 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 re-profiling. 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 5,956,455 on March 6, 2018), with the remaining balance of 104,645,348 not yet translated. Details are shown in the table below.

	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	5,956,455	1	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	-	6		-		4		-
	360,003,818	**249,402,021**	**5,956,455**	**104,645,348**	**207,694,550**	**143,885,809**	**3,436,417**	**60,372,328**

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

In line with the Company's business plan, on May 01, 2018 the Company completed the Scheduled Maintenance in the industrial complex of Dias D´Ávila – Bahia, which started on March 26, 2018, and which was primarily aimed at recovering the efficiency of the copper casting plant (Smelter), ensuring full compliance with production planning for the following years, as well as better adjustments to comply with regulatory standards. This maintenance will also increase safety and adherence to environmental requirements in the unit's transactions.

On June 13, 2018, Paranapanema informed its investors and the market in general, through a Relevant Event, that it had entered into a Term of Binding Agreement with Banco Santander (Brasil) S.A. (Santander) for the purpose of definitively ending legal and arbitration disputes between the parties (Binding Agreement and Disputes, respectively), as described in item 4.3 of the Reference Form and in the Company's Notes to the Financial Statements (note 18).

Completion of the object provided for in the Binding Agreement is subject to compliance with certain usual Suspensive Conditions for this type of agreement and provides for a confession of indebtedness in the amount of R$150,000 to be paid in annual installments over ten years. Bookkeeping for the confession of indebtedness will be carried out only when the Suspensive Conditions are met.

Group entities – "Subsidiaries"

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

Subsidiaries	06/30/2018	12/31/2017
CDPC-Centro de Distrib. de Produtos de Cobre Ltda 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. (*) Company with its headquarters in the Cayman Islands, established on July 8, 2005.	100.00%	100.00%
Paraibuna Agropecuária Ltda. (*) 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. (*) 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 (*) 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 International Financial Reporting Standards (IFRS) and Committee of Accounting Pronouncements (CPC) standards.

The individual and consolidated financial statements have been prepared in accordance with the IFRS issued by the International Accounting Standards Board (IASB), International Accounting Standards (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 of the Company (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 do 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 July 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 R$, the functional currency of the Company. All financial information presented in R$ 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. Reviews of estimates are recognized on a prospective basis.

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 June 30, 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 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 value has been determined for measurement and/or disclosure purposes based on the following methods. When applicable, additional information regarding the assumptions made to determine 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 metal inventory is marked-to-market using the United States Dollar (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, 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 following principal changes involved:

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

- The new impairment model was adopted, whose recognition of the provision is based on future prospects for asset credit losses, and not only on historical losses as foreseen in

IAS 39. The loss estimates are adjusted according to the expectation of the Management according to future economic conditions, based on the history of counterparty credit losses;

- For hedge accounting, the Company has opted to maintain the application of the requirements of IAS 39, instead of adopting IFRS 9 as provided by the standard.

b) 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 (International Financial Reporting Interpretations Committee (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 has already been recognized when the performance obligation has been fulfilled. In Paranapanema, this event occurs when transferring control of the asset to the customer.

As to the concept of expected loss, 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 the Company's 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.

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

		Parent company		Consolidated	
	Notes	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Cash and banks		**115,446**	174,864	**122,694**	176,737
Interest-earning bank deposits	(a)	**44,189**	168,814	**44,189**	168,814
Cash and cash equivalents		**159,635**	343,678	**166,883**	345,551
Interest-earning bank deposits	(b)	**67,734**	52,359	**68,481**	53,085
Interest-earning bank deposits		**67,734**	52,359	**68,481**	53,085
		227,369	396,037	**235,364**	398,636
Interest-earning bank deposits current assets		**55,211**	38,453	**55,211**	38,453
Interest-earning bank deposits non-current assets		**12,523**	13,906	**13,270**	14,632

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

Refers to bank deposit certificates reflecting normal market conditions as at balance sheet dates. They are highly liquid and have low interest fluctuation risk. As at June 30, 2018, these investments yielded an average of 91.94% of the Interbank Deposit Certificate (CDI 98.52% on December 31, 2017), measured at fair value through Profit and Loss (P&L).

b) Interest-earning bank deposits

Refers to bank deposit certificates and buyback debentures reflecting normal market conditions as at the financial statement closing dates. As at June 30, 2018, these investments yielded an average of 91.94% of the CDI (98.52% on December 31, 2017), measured at fair value through P&L.

As at June 30, 2018, the Company had a consolidated balance of R$67,734 (R$52,359 as at December 31, 2017) of interest-earning bank deposits given as guarantees for electrical power purchase transactions in the free market, purchases of US$ 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).

06. Trade accounts receivable

		Parent company		Consolidated	
	Notes	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Domestic clients:					
Third parties		**130,460**	183,152	**215,715**	260,582
Adjustment to present value - Third parties		**(297)**	(394)	**(5,271)**	(6,071)
Related parties	11.2	**135,271**	110,483	**-**	-
Adjustment to present value related parties	11.2	**(1,448)**	(1,132)	**-**	-
Estimated loss on recoverable value		**(55,187)**	(76,501)	**(60,521)**	(81,971)
Foreign clients:					
Third parties		**163,403**	218,064	**163,403**	218,064
Price adjustment		**8,149**		**8,181**	
Adjustment to present value		**(583)**	(493)	**(583)**	(493)
Estimated loss on recoverable value		**(1,752)**	(832)	**(1,752)**	(832)
		378,016	432,347	**319,172**	389,279
Current assets		**377,939**	432,038	**309,010**	371,384
Non-current assets		**77**	309	**10,162**	17,895

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

	Parent company		Consolidated	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Due in more than 120 days	**1,089**	1,630	**20,175**	25,215
Due in 91 to 120 days	**1,760**	4,023	**4,223**	4,773
Due in 61 to 90 days	**54,745**	51,707	**23,017**	43,328
Due in 31 to 60 days	**148,963**	172,632	**64,710**	87,558
Due in 30 days	**155,413**	178,840	**192,108**	203,095
Overdue up to 30 days	**12,764**	25,542	**13,598**	30,422
Overdue from 31 to 60 days	**4,683**	594	**4,688**	594
Overdue from 61 to 90 days	**79**	75	**79**	75
Overdue from 91 to 120 days	**181**	12	**181**	12
Overdue for more than 120 days	**831**	807	**2,380**	2,267
	380,508	435,862	**325,159**	397,339
Adjustment to present value	**(2,328)**	(2,019)	**(5,854)**	(6,564)
Other	**(164)**	(1,496)	**(133)**	(1,496)
	378,016	432,347	**319,172**	389,279
Current assets	**377,939**	432,038	**309,010**	371,384
Non-current assets	**77**	309	**10,162**	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 the Company 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	**(1,182)**	**(1,093)**
Realized	**21,576**	**21,623**
Balance as at June 30, 2018	**(56,939)**	**(62,273)**

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 cash in advance open balances.

The collateral balance amounts to R$2,640 as at June 30, 2018 (R$2,354 as at December 31, 2017) overdue for more than 60 days, not subject to provision because there were 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 with the bank. The value of the global limit of the instrument is US$16,150,000, translated at the selling exchange rate of R$3.8552 on June 30, 2018 equivalent to R$62,261.

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 June 30, 2018, the amount of R$2,421 (R$3,107 as at December 31, 2017) pledged as collateral represents 70% of the updated debt balance.

07. Inventory

	Parent company		Consolidated	
	06/30/2018	**12/31/2017**	**06/30/2018**	**12/31/2017**
Raw materials	**403,965**	571,723	**403,965**	571,723
Work in progress	**406,980**	301,147	**406,980**	301,147
Finished products	**369,391**	227,665	**369,391**	227,665
Imports in transit	**323,554**	283,679	**323,554**	283,679
Advances to suppliers for purchases of raw materials	**530**	104,825	**530**	104,825
Maintenance materials and others	**18,773**	19,104	**18,773**	19,104
Resale materials	**2,528**	1,715	**34,594**	37,053
Raw materials in transit	**3,648**	2,222	**3,648**	2,222
Estimated loss in recoverable value	**(438)**	(447)	**(438)**	(447)
Current assets	**1,528,931**	1,511,633	**1,560,997**	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$ 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 heading "Other operating income". The balance of estimated losses in the amount of R$438 as at June 30, 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 June 30, 2018, totaled R$6,752 (R$5,622 as at December 31, 2017). In the case of an unfavorable decision, the full amount will be paid in cash.

08. Recoverable taxes and contributions

		Parent company			
		06/30/2018		**12/31/2017**	
	Notes	**Current assets**	**Non-current assets**	**Current assets**	**Non-current assets**
Value-added tax on sales and services–ICMS	(a)	**32,310**	**104,800**	28,709	104,800
Taxes on fixed assets recoverable		**15,219**	**19,532**	11,602	13,860
Income and social contribution taxes to be refunded	(b)	**2,725**	**12,363**	111	12,364
Reintegra	(c)	**4,603**	**-**	20,289	-
Credit retirement	(e)	**-**	**-**	7,105	-
Contribution for social security funding–COFINS	(d)	**4,770**	**-**	2,257	3
Social integration program - PIS	(d)	**1,035**	**-**	490	1,719
Social integration program–PIS - Export	(d)	**-**	**-**	310	-
Withholding income tax–IRRF		**867**	**-**	2,480	-
Excise tax–IPI		**1,905**	**1,119**	1,187	271
Estimated loss on recoverable value	(f)	**-**	**(20,261)**	-	(20,261)
Other		**-**	**-**	1,863	-
		63,434	**117,553**	76,403	112,756

PARANAPANEMA

PMAM3 NOVO MERCADO BM&FBOVESPA

Consolidated

	Notes	06/30/2018 Current assets	06/30/2018 Non-current assets	12/31/2017 Current assets	12/31/2017 Non-current assets
Value-added tax on sales and services–ICMS	(a)	**36,279**	**104,800**	33,036	104,800
Taxes on fixed assets recoverable		**15,225**	**19,532**	11,602	13,860
Income and social contribution taxes to be refunded	(b)	**2,788**	**12,363**	111	12,364
Reintegra	(c)	**4,603**	**-**	20,289	-
Credit retirement	(e)	**-**	**-**	7,105	-
Contribution for social security funding–COFINS	(d)	**6,043**	**-**	4,529	3
Social integration program - PIS	(d)	**1,312**	**-**	987	1,719
Social integration program–PIS - Export	(d)	**-**	**-**	310	-
Withholding income tax–IRRF		**868**	**-**	4,311	-
Excise tax–IPI		**1,905**	**1,119**	1,187	271
Prepaid income and social contribution taxes		**1,402**	**-**	3,300	-
Estimated loss on recoverable value	(f)	**-**	**(20,261)**	-	(20,261)
Other		**-**	**-**	1,862	-
		70,425	**117,553**	88,629	112,756

a) Refers substantially to the credit balance on the circulation of goods and services (ICMS), generated from the Company's operations in the Santo André-SP unit, as shown at its net realizable value. The Company is working to reduce the amount of credit, with the cathode import operation by means of drawback to address exports of copper products, and requests to recover the accumulated credit through e-CredAc, which is the system created by the São Paulo State Department of Taxation and Finance which allows taxpayers with accumulated ICMS credits in the State of São Paulo to request the refund of these credits to which they are entitled. The Company opted to maintain the estimated provision for impairment losses in the amount of R$7,897, formed on December 31, 2016, as 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$12,363, classified in non-current assets, is subject to provision as a loss, since realization is not certain as item (f).

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

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 one-third vacation, due to the general repercussions 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	06/30/2018		12/31/2017	
		Current assets	Non-current assets	Current assets	Non-current assets
Municipal writs of payment	(a)	**-**	**65,580**	-	64,106
City of Manaus	(b)	**-**	**12,510**	-	12,281
Federal writs of payment	(c)	**-**	**2,134**	-	3,282
Collective Plan Brasilprev Recovery	(d)	**3,665**	**-**	4,127	-
Advances to employees		**2,529**	**-**	1,780	-
Amount receivable - Disposal of Cibrafértil		**-**	**1,001**	-	1,001
Advances to suppliers		**45**	**-**	712	-
Accounts receivable from insurance		**276**	**-**	-	-
Margin call deposits	(e)	**283**	**-**	-	-
Other		**527**	**1,243**	383	874
		7,325	**82,468**	7,002	81,544

Consolidated

	Note	06/30/2018		12/31/2017	
		Current assets	Non-current assets	Current assets	Non-current assets
Municipal writs of payment	(a)	**-**	**65,580**	-	64,106
City of Manaus	(b)	**-**	**12,510**	-	12,281
Federal writs of payment	(c)	**-**	**2,134**	-	3,282
Collective Plan Brasilprev Recovery	(d)	**3,665**	**-**	4,127	-
Advances to employees		**2,529**	**-**	1,782	-
Amount receivable - Disposal of Cibrafértil		**-**	**1,001**	-	1,001
Advances to suppliers		**45**	**-**	385	-
Accounts receivable from insurance		**276**	**-**	-	-
Margin call deposits	(e)	**283**	**-**	-	-
Other		**528**	**1,244**	556	874
		7,326	**82,469**	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.

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) The 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 (copper/zinc/tin/lead) according to the price 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 June 30, 2018, totaled R$64,537 (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	
	06/30/2018	12/31/2017
Labor	**14,556**	14,709
Tax	**10,109**	8,981
Social Security	**1,073**	1,073
Writs of payment	**3,453**	2,155
Civil	**827**	827
Other	**504**	503
Non-current assets	**30,522**	28,248

10. Assets held-for-sale

These are represented by properties available for sale in the amount of R$114,746 as at June 30, 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 clients who have defaulted against the Company. These assets are available for immediate sale under current conditions, after re-profiling, and the Company has intensified its actions to monetize these properties, as they are part of the plan to readjust its capital structure.

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. 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, which was shut down in February 2015, was installed.

The Company, together with Plano & Plano, has proceeded to the next contractual phases, including working with public institutions to develop the condo project. In June 2018, the Company received machines and equipment as part of the payment referring to accounts receivable, which were evaluated for forced settlement as R$2,349, thus generating a provision for losses in the amount of R$3,453, recognized under the heading 'other operating expenses'.

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$78,562, and two real estate properties worth R$19,973 in total 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 total 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 June 30, 2018

	CDPC - Centro Distrib. Prods. Cobre Ltda.	CINC - Caraiba International	Paraibuna Agropec. Ltda.	Total
Summarized financial information of subsidiaries				
Current assets	132,863	3,939	-	**136,802**
Non-current assets	25,107	-	598	**25,705**
Current liabilities	138,583	1,418	-	**140,001**
Equity	19,387	2,521	598	**22,506**
Capital	27,000	3	6,400	**33,403**
Income from sales of goods and/or services	653,113	114,481	-	**767,594**
Cost of goods and/or services sold	(643,025)	(117,149)	-	**(760,174)**
Gross income	**10,088**	**(2,668)**	**-**	**7,420**
Operating expenses or income	(1,908)	75	-	**(1,833)**
Loss before financial income (loss) and taxes	**8,180**	**(2,593)**	**-**	**5,587**
Financial income (loss)	657	4,431	-	**5,088**
Loss before income tax	**8,837**	**1,838**	**-**	**10,675**
Income and social contribution taxes	(3,002)	-	-	**(3,002)**
Net Income (loss) for the period	**5,835**	**1,838**	**-**	**7,673**
Balance as at December 31, 2017	13,552	182	598	14,332
Foreign exchange variations on foreign investment	-	500	-	**500**
Equity in net income of subsidiaries	5,835	1,839	-	**7,674**
Balance as at June 30, 2018	**19,387**	**2,521**	**598**	**22,506**

11.2 Parent Company balances and transactions with other related parties

Direct subsidiaries	CDPC -Centro de Distr. de Prods. Cobre Ltda.	Glencore International Investiments Ltd	Caixa Econômica Federal
Current assets			
Accounts receivable	133,823	206,033	-
Derivative financial instruments		2,571	-
Other current assets	90	-	-
	133,913	**208,604**	**-**
Current liabilities			
Suppliers	**24,892**	751,060	-
Advances from clients	**-**	11,878	
Loans and financing	-	-	6,135
	24,892	**762,938**	**6,135**
Current liabilities			
Loans and financing	-	-	224,755
	-	**-**	**224,755**
Gross income			
Sales of goods and services	632,343	677,743	-
Purchases of goods and services	(214,051)	(1,051,150)	-
	418,292	**(373,407)**	**-**

11.3 Business with Related Parties

The Executive Board or the Board of Directors, in the scope of the respective authority levels, in compliance with the Company's Policy on Related Party Transactions and Conflicts of Interest, has 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 (CEF)

Credit facilities in compliance with the Company's Related Party Policy authorized the Company to contract credit lines up to R$370,000 with CEF, a shareholder holding 17.41% of the Company's 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 June 30, 2018 the Company had loans related to the anticipation of foreign currency contracts (ACC), with CEF, and in the amount of R$230,890 (US$59,881 thousand at the rate of 3.8558), R$ 194,695 as at December 31, 2017 (US$58,856 thousand at the rate of 3.3080).

b) Glencore International AG (Glencore)

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 June 30, 2018, the Company had R$762,938 payable to Glencore, and recorded in the line of suppliers in the amount of R$751,060 and in the line of advances from customers financial instruments in the amount of R$11,878, and a balance receivable of R$208,604 and recognized in the line of trade notes receivable totaling R$206,033 and in line of financial instruments totalling R$2,571.

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.

	Note	Year to date 2018				Year to date 2017			
		Statutory Board	Administrative Council	Supervisory Board	Total	Statutory Board	Administrative Council	Supervisory Board	Total
Salary or pro labore		**1,426**	**778**	**254**	**2,458**	1,103	723	361	2187
Labor benefits		**290**	**-**	**-**	**290**	209	-	-	209
Compensation for participation in Committee		**-**	**295**	**-**	**295**	270	-	-	270
Social burden		**285**	**214**	**51**	**550**	221	198	72	491
Fixed remuneration		**2,001**	**1,287**	**305**	**3,593**	1,803	921	433	3,157
Post-employment benefit		**-**	**-**	**-**	**-**	62	-	-	62
Others		**-**	**-**	**-**	**-**	399	-	-	399
Other remuneration		**-**	**-**	**-**	**-**	461	-	-	461
Management fees		**2,001**	**1,287**	**305**	**3,593**	2,264	921	433	3,618
Bonus (ICP)	**31**	**3,384**	**-**	**-**	**3,384**	2,417	-	-	2,417
Bonus (ILP)	**31**	**3**	**-**	**-**	**3**	3	-	-	3
Social Burdens		**677**	**-**	**-**	**677**	484	-	-	484
Variable remuneration	**31**	**4,064**	**-**	**-**	**4,064**	2,904	-	-	2,904
Total remuneration		**6,065**	**1,287**	**305**	**7,657**	5,168	921	433	6,522

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

12. Property, plant and equipment and intangible assets

Parent company

	Average depreciation rate	12/31/2017	Additions	Write-offs	Transfers	Provision for losses	Depreciation Amortization	06/30/2018
PROPERTY, PLANT AND EQUIPMENT								
Land		119,684	-	-	-	-	-	119,684
Industrial landfill		8,573	-	-	-	-	-	8,573
Improvements		15,435	-	-	2,569	-	-	18,004
Buildings		273,545	-	-	6,987	-	-	280,532
Installations		49,980	-	-	15,322	-	-	65,302
Machinery and equipment		1,560,559	-	-	134,122	-	-	1,694,681
Furniture and fixtures		20,284	-	(35)	358	-	-	20,607
Vehicles		1,375	-	-	-	-	-	1,375
Property, plant and equipment in progress		137,120	129,036	-	(161,829)	-	-	104,327
Provision for impairment losses		(27,009)	-	-	-	-	-	(27,009)
Spare parts		59,070	-	-	(85)	-	-	58,985
Cost		2,218,616	**129,036**	**(35)**	**(2,556)**	**-**	**-**	**2,345,061**
Industrial landfill	25%	(8,573)	-	-	-	-	-	(8,573)
Improvements	4%	(9,574)	-	-	-	-	(296)	(9,870)
Buildings	3%	(75,149)	-	-	-	-	(5,147)	(80,296)
Installations	11%	(12,008)	-	-	-	-	(2,048)	(14,056)
Machinery and equipment	7%	(823,577)	-	-	-	-	(60,982)	(884,559)
Furniture and fixtures	11%	(15,166)	-	30	(4)	-	(682)	(15,822)
Vehicles	20%	(1,028)	-	-	-	-	(48)	(1,076)
Accumulated depreciation:		(945,075)	**-**	**30**	**(4)**	**-**	**(69,203)**	**(1,014,252)**
Total assets		1,273,541	**129,036**	**(5)**	**(2,560)**	**-**	**(69,203)**	**1,330,809**
INTANGIBLES								
ERP/Software		56,033	-	-	2,556	-	-	58,589
Cost		56,033	**-**	**-**	**2,556**	**-**	**-**	**58,589**
ERP/Software	20%	(49,582)	-	-	4	-	(1,504)	(51,082)
Accumulated amortization:		(49,582)	**-**	**-**	**4**	**-**	**(1,504)**	**(51,082)**
Intangible assests		6,451	**-**	**-**	**2,560**	**-**	**(1,504)**	**7,507**

Consolidated

	Average depreciation rate	12/31/2017	Additions	Write-offs	Transfers	Provision for losses	Depreciation Amortization	06/30/2018
PROPERTY, PLANT AND EQUIPMENT								
Land		120,283	-	-	-	-	-	120,283
Industrial landfill		8,573	-	-	-	-	-	8,573
Improvements		15,927	-	-	2,569	-	-	18,496
Buildings		273,545	-	-	6,987	-	-	280,532
Installations		49,980	-	-	15,322	-	-	65,302
Machinery and equipment		1,560,658	-	-	134,122	-	-	1,694,780
Furniture and fixtures		20,352	32	(35)	358	-	-	20,707
Vehicles		1,375	-	-	-	-	-	1,375
Property, plant and equipment in progress		137,120	129,034	-	(161,827)	-	-	104,327
Provision for impairment losses		(27,009)	-	-	-	-	-	(27,009)
Spare parts		59,073	-	-	(87)	-	-	58,986
Cost		2,219,877	**129,066**	**(35)**	**(2,556)**	**-**	**-**	**2,346,352**
Industrial landfill	25%	(8,573)	-	-	-	-	-	(8,573)
Improvements	4%	(9,664)	-	-	-	-	(345)	(10,009)
Buildings	3%	(75,149)	-	-	-	-	(5,147)	(80,296)
Installations	11%	(12,008)	-	-	-	-	(2,048)	(14,056)
Machinery and equipment	7%	(823,638)	-	-	-	-	(60,987)	(884,625)
Furniture and fixtures	11%	(15,231)	-	30	(4)	-	(685)	(15,890)
Vehicles	20%	(1,030)	-	-	-	-	(48)	(1,078)
Accumulated depreciation:		(945,293)	**-**	**30**	**(4)**	**-**	**(69,260)**	**(1,014,527)**
Total assets		1,274,584	**129,066**	**(5)**	**(2,560)**	**-**	**(69,260)**	**1,331,825**
INTANGIBLES								
ERP/Software		56,033	-	-	2,556	-	-	58,589
Cost		56,033	**-**	**-**	**2,556**	**-**	**-**	**58,589**
ERP/Software	20%	(49,582)	-	-	4	-	(1,504)	(51,082)
Accumulated amortization:		(49,582)	**-**	**-**	**4**	**-**	**(1,504)**	**(51,082)**
Intangible assests		6,451	**-**	**-**	**2,560**	**-**	**(1,504)**	**7,507**

Additions in the period totaled R$129,066 and refer mainly to Scheduled Maintenance completed on May 1, 2018 in industrial complex Dias D'Ávila, Bahia State; maintenance started on March 26, 2018 and its main purpose was to recover smelter efficiency, as disclosed in note 1.

The consolidated amount of R$69,260 in property, plant and equipment related to depreciation expense and R$1,504 in intangible assets related to amortization, totaling R$70,764, was recognized in the result as follows:

	Consolidated	
	Year to date 2018	Year to date 2017
Cost of goods sold	**67,906**	59,077
Commercial expenses	**1,071**	1,392
General and administrative expenses	**1,787**	2,052
Total depreciation and amortization expenses	**70,764**	62,521

12.1. Property, plant and equipment in progress

As at June 30, 2018, the balance of the account of property, plant and equipment in progress presented in the parent company and consolidated was R$104,327 (R$137,120 at December 31, 2017), and was substantially represented by the following:

12.1.1. The unit of Dias D'Ávila-BA has a balance of R$69,408 as at June 30, 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) 2nd step for maintenance of plaster basin; iii) recovery of metal pipe racks; iv) new emergency chimney; v) purchase of intermediary absorption tower; vi) cover of storage and crushing building at 503-504; and vii) technological updating and operational maintenance of the factory.

12.1.2. The Santo André-SP unit had a balance of R$34,919 as at June 30, 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 June 30, 2018, the Company has a provision for losses of R$25,083 for projects in progress related to equipment purchased and not expected to be installed as a result of the re-adjustment of investments in capex for the preservation of cash.

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 June 30, 2018, the Company had an allowance for losses of R$1,926 regarding machines and equipment without use.

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 re-profiling process. As at June 30, 2018, total guarantees were R$1,105,509, as shown in the table below:

Guarantees for lawsuits	Assets Type	Modality	Plant and equipment
Tributary	Machines	Equipment	4,515
Fiduciary assignment of rights - CSLL	Installations - Utinga	Fiduciary alienation contract	1,342
Fiduciary assignment of rights - CSLL	Machines and Equipment - Utinga	Fiduciary alienation contract	62,383
Total			**68,240**

Guarantees for lawsuits	Assets Type	Modality	Plant and equipment
FINAME	Buildings	Equipment	16,033
FINAME	Installations	First-degree mortgage	916
FINAME	Machines and Equipment	Equipment	22,741
FINAME	Vehicles	Equipment	136
FINEN	Buildings	First-degree mortgage	5,558
FINEN	Improvements	First-degree mortgage	90
FINEN	Land	First-degree mortgage	4,545
FNE	Improvements	First-degree mortgage	5,454
FNE	Buildings	First-degree mortgage	82,818
FNE	Land	First-degree mortgage	106,831
FINIMP	Machines and Equipment	Equipment	72,949
Sub-total (previous to restructuring)			**318,071**
Mortgage (Post debt reprofiling)	Land improvements - Dias D'Ávila	First-degree mortgage	92
Mortgage (Post debt reprofiling)	Buildings / Civil work- Dias D'Ávila	First-degree mortgage	83,734
Mortgage (Post debt reprofiling)	Land - Dias D'Ávila	First-degree mortgage	8,908
Pledge (Post debt reprofiling) - Dias D'ávila	Asset under construction	Equipment pledge	69,812
Pledge (Post debt reprofiling) - Dias D'ávila	Installations	Equipment pledge	11,225
Pledge (Post debt reprofiling) - Dias D'ávila	Machines and Equipment	Equipment pledge	342,375
Pledge (Post debt reprofiling) - Dias D'ávila	Furniture and fixture	Equipment pledge	1,894
Pledge (Post debt reprofiling) - Dias D'ávila	Spare parts - Asset	Equipment pledge	53,454
Pledge (Post debt reprofiling) - Utinga	Asset under construction	Equipment pledge	37,585
Pledge (Post debt reprofiling) - Utinga	Installation	Equipment pledge	14,569
Pledge (Post debt reprofiling) - Utinga	Machines and Equipment	Equipment pledge	88,388
Pledge (Post debt reprofiling) - Utinga	Furniture and fixture	Equipment pledge	376
Pledge (Post debt reprofiling) - Utinga	Spare parts - Asset	Equipment pledge	5,532
Pledge (Post debt reprofiling) - Utinga	Vehicles	Equipment pledge	84
Pledge (Post debt reprofiling) - Serra	Machines and Equipment	Equipment pledge	1,170
Sub-total (Mortgaged/Pledged post debt reprofiling)			**719,198**
Total Loan Guarantees			**1,037,269**
Total Guarantees			**1,105,509**

13. Suppliers

	Notes	Parent company 06/30/2018	Parent company 12/31/2017	Consolidated 06/30/2018	Consolidated 12/31/2017
Domestic					
Goods		**38,432**	36,411	**38,467**	36,417
Freight and transportation		**9,899**	20,752	**11,271**	21,684
Services		**17,549**	16,757	**17,655**	16,881
Electric power/Water and sewage/Gas		**6,347**	6,651	**6,347**	6,651
Insurance		**2,731**	4,574	**2,731**	4,574
Others		**79**	405	**79**	405
Related parties	11.2	**24,892**	756	**-**	-
Adjustment to present value		**(237)**	(133)	**(239)**	(134)
		99,692	86,173	**76,311**	86,478
Foreign					
Goods	(a)	**759,813**	715,329	**761,230**	715,329
		759,813	715,329	**761,230**	715,329
		859,505	801,502	**837,541**	801,807
Current liabilities		**859,505**	800,898	**837,541**	801,203
Non-current liabilities		**-**	604	**-**	604

a) As at June 30, 2018, the Company had R$751,060 (R$603,142 as at December 31, 2017) of concentrate purchases pursuant to an agreement entered into with Glencore (Note 11.3.b).

14. Forfaiting 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 clients 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

			06/30/2018		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	36,982	12,642	41,819
			9,591	**36,982**	**12,642**	**41,819**

15. Loans and financing

The main conditions renegotiated in the debt re-profiling process in 2017 on a common basis for all creditors are total payment terms of 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 re-profiling, 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 reducing account of liabilities as shown in the table below.

Loan balances, net of transaction costs, at the end of each period are shown below.

Parent company

		06/30/2018		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	**26,136**	**6,365**	29,986	10,921
Foreign trade loans	LIBOR 12 + 1.75% p.y	**47,064**	**669,918**	5,584	574,742
Loans in foreign currency	LIBOR 12 + 1.75% p.y	**46,563**	**1,193,710**	14,216	1,024,118
Bank Credit Notes	LIBOR 12 + 1.75% p.y	**2,972**	**77,735**	630	65,756
		122,735	**1,947,728**	50,416	1,675,537
Contracted in Currency R$					
Project financing	2.5% to 9.5% p.y	**13,356**	**3,567**	13,790	9,159
Banco do Nordeste do Brasil – FNE	TJLP + 5% to 10% p.y	**26,109**	**61,546**	22,877	73,201
Working capital	CDI + 0.5% p.m	**34,391**	**58,138**	38,249	74,166
		73,856	**123,251**	74,916	156,526
Transaction Costs - reprofiling		**(4,359)**	**(23,972)**	(4,359)	(25,062)
		192,232	**2,047,007**	120,973	1,807,001

Consolidated

		06/30/2018		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	**26,136**	**6,365**	29,986	10,921
Foreign trade loans	LIBOR 12 + 1.75% p.y	**47,064**	**669,918**	5,584	574,742
Loans in foreign currency	LIBOR 12 + 1.75% p.y	**46,563**	**1,193,710**	14,216	1,024,118
Bank Credit Notes	LIBOR 12 + 1.75% p.y	**2,972**	**77,735**	630	65,756
		122,735	**1,947,728**	50,416	1,675,537
Contracted in Currency R$					
Project financing	2.5% to 9.5% p.y	**13,358**	**3,567**	13,794	9,159
Banco do Nordeste do Brasil – FNE	TJLP + 5% to 10% p.y	**26,109**	**61,546**	22,877	73,201
Working capital	CDI + 0.5% p.m	**34,391**	**58,138**	38,249	74,166
		73,858	**123,251**	74,920	156,526
Transaction Costs - reprofiling		**(4,359)**	**(23,972)**	(4,359)	(25,062)
		192,234	**2,047,007**	120,977	1,807,001

Long-term installments on June 30, 2018 mature as follow (Reais):

	Parent company/Consolidated
2019	33,594
2020	436,626
2021	421,140
2022	653,417
2023	251,210
2024	251,020
	2,047,007

The table below shows the debt breakdown by financial institution after the debt re-profiling.

Modality	Bank	Payment	Maturities Principal	Tax	06/30/2018 Current liabilities Principal	06/30/2018 Current liabilities Interest	06/30/2018 Non-current liabilities	In US$ Current liabilities Principal	In US$ Current liabilities Interest	In US$ Non-current liabilities
Contracted in Currency R$										
FINAME	Banco Abc Brasil S.A.	Monthly	2018 to 2019	2.5% to 9.5% p.y	731	2	50	-	-	-
FINAME	Banco Safra S.A.	Monthly	2018 to 2020	2.5% to 9.5% p.y	1,443	5	130	-	-	-
BNDES AUT.	Banco Safra S.A.	Monthly	2018 to 2020	5% p.y	2,439	14	1,006	-	-	-
FINEM	Banco Safra S.A.	Monthly	2018 to 2019	4,5% p.y	8,684	39	2,381	-	-	-
FINEP	Finep	Monthly	2018 to 2023	5% p.y	1,536	36	6,655	-	-	-
FNE	Banco do Nordeste do Brasil S.A.	Monthly	2018 to 2021	10% p.y	24,000	537	53,802	-	-	-
GIRO	Banco do Nordeste do Brasil S.A.	Monthly	2018 to 2021	CDI + 0.5% p.m	33,541	851	58,137	-	-	-
			Total contracted in Currency BRL		**72,374**	**1,484**	**122,161**	**-**	**-**	**-**
Contracted in Currency US$										
FINIMP	HSBC Bank Brasil S.A.	Semester	2018 to 2019	LIBOR 06 + 1.7% p.y	12,729	200	6,365	3,301	52	1,651
FINIMP	Mercantil Commercebank	Quarterly	2018	5.54% p.y	13,178	28	-	3,418	7	-
ACC	Banco Bnp Paribas Brasil S.A.	Semester	2020 to 2022	LIBOR 12 + 1.75% p.y	-	2,947	107,962	-	764	28,000
ACC	Banco Do Brasil S.A.	Semester	2020 to 2022	LIBOR 12 + 1.75% p.y	-	2,947	107,962	-	764	28,000
ACC	Caixa Economica Federal	Semester	2020 to 2022	LIBOR 12 + 1.75% p.y	-	6,135	224,755	-	1,591	58,290
ACC	China Construction Bank	Semester	2020 to 2022	LIBOR 12 + 1.75% p.y	-	969	35,485	-	251	9,203
ACC	Ing Bank N.V.	Semester	2020 to 2022	LIBOR 12 + 1.75% p.y	-	2,105	77,116	-	546	20,000
ACC	Scotiabank	Semester	2020 to 2022	LIBOR 12 + 1.75% p.y	-	3,184	116,638	-	826	30,250
ACC	Banco Banrisul				28,222	554	-	7,319	144	-
PPE	Banco Sumitomo Mitsui Br. S.A.	Semester	2020 to 2024	LIBOR 12 + 3.25% p.y	-	5,314	136,225	-	1,378	35,330
PPE	Scotiabank	Semester	2020 to 2024	LIBOR 12 + 3.25% p.y	-	538	13,803	-	140	3,580
PPE	Ing Bank N.V.	Semester	2020 to 2024	LIBOR 12 + 3.25% p.y	-	1,308	33,530	-	339	8,696
PPE	China Construction Bank	Semester	2020 to 2024	LIBOR 12 + 3.25% p.y	-	1,724	44,191	-	447	11,461
PPE	Cargill Incorporated	Semester	2020 to 2024	LIBOR 12 + 3.25% p.y	-	20,826	533,917	-	5,401	138,471
PPE	Banco Bradesco S.A.	Semester	2020 to 2024	LIBOR 12 + 3.25% p.y	-	8,628	221,181	-	2,238	57,363
PPE	Banco Do Brasil S.A.	Semester	2020 to 2024	LIBOR 12 + 3.25% p.y	-	4,084	104,693	-	1,059	27,152
PPE	Bladex Representação Ltda	Semester	2020 to 2024	LIBOR 12 + 3.25% p.y	-	4,141	106,171	-	1,074	27,535
CCB	Banco Itaú Bba S.A.	Semester	2020 to 2024	LIBOR 12 + 3.25% p.y	-	2,972	77,735	-	771	20,161
			Total contracted in Currency USD		**54,129**	**68,604**	**1,947,729**	**14,038**	**17,792**	**505,143**
Transaction Costs - reprofiling					**(4,359)**	**-**	**(22,883)**	**-**	**-**	**-**
				Total	**122,144**	**70,088**	**2,047,007**	**14,038**	**17,792**	**505,143**

Guarantees:

As at June 30, 2018, loans and financing were guaranteed by property, plant and equipment items of R$1,037,269, as described in Note 12.3.

Covenants:

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

a) Net Debt/Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

i. Equal to or less than -50.9x on December 31, 2017;
ii. Equal to or less than 63.1x on June 30, 2018;
iii. Equal to or less than 16.6x on December 31, 2018;
iv. Equal to or less than 14.6x on June 30, 2019;
v. Equal to or less than 10.4x on December 31, 2019;
vi. Equal to or less than 9.0x on June 30, 2020;
vii. Equal to or less than 7.0x on December 31, 2020;
viii. Equal to or less than 6.5x on June 30, 2021;
ix. Equal to or less than 5.8x on December 31, 2021;
x. Equal to or less than 5.8x on June 30, 2022;
xi. Equal to or less than 5.2x on December 31, 2022;
xii. Equal to or less than 5.0x on June 30, 2023;
xiii. Equal to or less than 4.3x on December 31, 2023;
xiv. Equal to or less than 4.6x on June 30, 2024; and
xv. 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, 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.

The Company was not compliant with the applicable covenants on June 30, 2018, although it does not wish for 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 execution 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	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Provision for vacations	**24,420**	23,862	**24,477**	23,929
Profit sharing	**10,755**	18,414	**10,826**	18,483
Provision for 13th month's salary	**7,511**	-	**7,533**	-
Social security	**5,665**	5,378	**5,679**	5,393
Contribution to the Severance Indemnity Fund	**874**	1,412	**877**	1,416
Social security	**443**	408	**443**	410
Other	**-**	132	**-**	136
Current liabilities	**49,668**	49,606	**49,835**	49,767

17. Taxes and contributions payable

		Parent company		Consolidated	
	Notes	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Contribution for social security funding–COFINS		**2,657**	6,375	**2,082**	6,375
Value-added tax on sales and services - ICMS		**10,678**	7,919	**10,749**	7,927
Social Integration Program–PIS		**571**	1,371	**444**	1,371
Property tax urban		**927**	69	**927**	69
Excise Tax - IPI		**2,220**	1,838	**2,220**	1,838
Withholding income tax–IRRF		**1,566**	2,367	**1,567**	2,371
Income tax and social contribution	25.2	**-**	-	**1,756**	4,596
Withheld PIS, COFINS, income tax and social contribution		**529**	728	**530**	728
ISS - Service Tax		**766**	704	**767**	704
Other		**5**	26	**5**	26
		19,919	21,397	**21,047**	26,005
Current liabilities		**19,884**	21,219	**21,012**	25,827
Non-current liabilities		**35**	178	**35**	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					
			06/30/2018			12/31/2017
	Provision	Judicial Claims	Net Balance	Provision	Judicial Claims	Net Balance
Labor	**191,732**	**(8,391)**	183,341	179,350	(6,831)	172,519
Tax	**1,668**	**-**	1,668	1,875	-	1,875
Civil	**5,411**	**(34)**	5,377	4,980	(34)	4,946
	198,811	**(8,425)**	**190,386**	**186,205**	**(6,865)**	**179,340**

Changes in provisions have progressed as shown below:

	Parent company/Consolidated			
	Labor	Civil	Tax	Total
Balance as at December 31, 2017	179,350	4,980	1,875	186,205
Provision (Reversal)	30,129	434	(98)	30,465
Write-offs	(17,747)	(3)	(109)	(17,859)
Balance as at June 30, 2018	**191,732**	**5,411**	**1,668**	**198,811**

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 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	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Labor	**95,025**	108,870	**95,025**	108,870
Tax	**670,632**	635,889	**670,959**	636,211
Social security	**23,177**	22,796	**23,177**	22,796
Civil	**1,295,106**	1,194,087	**1,295,106**	1,194,087
	2,083,940	1,961,642	**2,084,267**	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 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 in favor of 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 periods prior to this date, Caraíba Metais S.A. presented a net loss and was exempt from paying CSLL.

However, the Brazilian Internal Revenue Service filed 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 June 30, 2018, the Company estimated non-provisioned amounts of R$343,999 (R$306,683 as at December 31, 2017). The legal advisors assessed an amount of R$251,501 for possible risks of loss, and R$92,498 as remote risks.

b) Isolated IPI and IRPJ fine

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 edition on 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, which jurisprudence demands that the requisite final ruling can only be used for lawsuits filed after Complementary Law nº 104/2001 was published on January 11, 2001. The legal action which allowed the use of the credit was published on August 17, 1998.

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

As at June 30, 2018, the Company estimated the updated amount not subject to provision as being R$106,062 (R$104,320 as at December 31, 2017).

c) Contract UBS Pactual S.A. and Banco Santander (Brasil) S.A.

Paranapanema concluded on August 22, 2008 the Private Instrument parameter exchange (swap) with the banks UBS Pactual SA (BTG Pactual) and Santander) together with BTG Pactual, the Banks), whose underlying value was the price of Paranapanema’s shares (the Agreements). The Banks on April 20, 2009 submitted notifications to Paranapanema charging, in respect of swap contracts, the total amount of R$208,500, adjusted under the terms of the contracts. The Company believes that this amount is not due. Because of this disagreement, in April 2010, Santander initiated arbitration proceedings before the Arbitration and Mediation Center of the Chamber of Commerce Brazil-Canada (CAM-CCBC). 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.

On June 13, 2018, the Company and Santander entered into a Binding Agreement for the purpose of definitively ending the legal and arbitration disputes between the parties. Completion of the object provided for in the Binding Agreement is subject to compliance with certain usual suspensive conditions for this type of agreement, as described in note 1.

As at June 30, 2018, the Company estimated the total amount based on Santander's non-provisioned claim of R$768,640 (R$700,442 on December 31, 2017), assessing the risk of loss as being possible.

19. Other current liabilities

	Notes	Parent company 06/30/2018	Parent company 12/31/2017	Consolidated 06/30/2018	Consolidated 12/31/2017
Dividends payable	(a)	**25,748**	24,429	**25,748**	24,429
Advances from customers	(d)	**27,744**	33,799	**29,356**	37,520
Attorneys' fees and services		**10,373**	11,718	**10,373**	11,718
Various provisions		**16,014**	13,711	**16,111**	13,916
Sales commission		**10,150**	8,883	**10,263**	9,041
Provisions for environmental expenses	(b)	**6,874**	6,874	**6,874**	6,874
Customer credits	(c)	**1,506**	617	**1,635**	1,115
Others		**1,086**	1,103	**1,086**	1,105
Current liabilities		**99,495**	101,134	**101,446**	105,718
Dividends payable		**25,748**	24,429	**25,748**	24,429
Advances from customers		**27,744**	33,799	**29,356**	37,520
Other current liabilities		**46,003**	42,906	**46,342**	43,769
		99,495	101,134	**101,446**	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) Client credits refer to adjustments between price parameters, volumes and/or metal content yields charged temporarily upon invoicing, and final transaction parameters.

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

20. Shareholders' equity

a) Capital

The subscribed and paid-up capital, as at June 30, 2018, corresponds to R$1,990,707,732.30 represented by 692,370,186 book-entry shares, and on December 31, 2017 it corresponded to R$1,984,751,277.56 represented by 688,933,769 book-entry shares, all common, registered and with no par value. The increase refers to 5,956,455 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.

The ownership structure of the Company is as follows:

	%	06/30/2018	%	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
Mineração Buritirama S.A.	9.20	**63,730,682**	4.65	32,051,282
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
Fundo de recuperação de ativos - FIDC NP	-	**-**	6.90	47,539,400
Merril Lynch Intenational	-	**-**	3.30	22,760,182
Treasury shares	0.00	**24,509**	0.00	24,509
Market	28.65	**198,331,471**	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 Títulos e Valores Imobiliários. 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. Debentures can be converted into shares at any moment. As at June 30, 2018, the total debentures converted into shares amounted to R$255,359, against R$249,402 as at December 31, 2017. The balance to be reversed on June 30, 2018 totals R$ 104,645, as outlined in Note 1.

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, 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. – Brasil, Bolsa, Balcão 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%).

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 June 30, 2018, the Company had 24,509 treasury shares (24,509 as at December 31, 2016), all common shares. The market value of the total treasury shares, calculated based on the last Exchange quotation as at June 30, 2018, is R$27 (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 go into 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).

- 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	2,485	15,187	(653)	-	500	17,519
Balance as at June 30, 2018	**(430,660)**	**(132,339)**	**(572)**	**(424,584)**	**398**	**(987,757)**

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 June 30, 2018 to R$768,531 (R$1,081,626 as at December 31, 2017). As at June 30, 2018, the Company had shareholders' equity of R$568,840 (R$888,522 as at December 31, 2017), and the shares’ book value was R$0.82 (R$1.29 as at December 31, 2017).

j) Loss per share

The basic calculation of the 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:

	Year to date 2018	Year to date 2017
Loss per common share		
Loss for the period	(337,201)	(116,309)
Weighted average of shares outstanding(*)	689,144,631	319,152,437
Loss per common share	(0.48930)	(0.36443)
Loss per diluted common share		
Loss for the period	(337,201)	(116,309)
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	(0.44989)	(0.36443)

(*) 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 retained earnings or losses. The same treatment is given to the reversal of deferred taxes and contributions, which were recorded upon the revaluation accounting.

As at June 30, 2018, the balance of the Revaluation Reserve, net of accrued taxes, totaled R$211,515 (R$218,917 as at December 31, 2017). The effect on retained earnings or losses in the period, due to the realization of the reserve through depreciation was R$7,402 (R$3,607 in the same period in 2017).

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					
		2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
Gross sales		**1,173,311**	**2,302,665**	864,006	1,888,443
Domestic market		**667,434**	**1,292,543**	552,277	1,168,618
Foreign market		**505,877**	**1,010,122**	311,729	719,825
Taxes and sales deductions		**(121,098)**	**(252,145)**	(110,487)	(233,248)
Excise Tax - IPI		**(6,077)**	**(12,505)**	(5,319)	(10,935)
Value-added tax on sales and services - ICMS		**(71,334)**	**(137,072)**	(56,475)	(117,080)
Tax Incentive Fiscal ICMS - Desenvolve	(I)	**26,049**	**44,690**	19,015	40,878
Social Integration Program–PIS		**(9,076)**	**(18,289)**	(8,573)	(17,784)
Contribution for social security funding–COFINS		**(41,806)**	**(84,242)**	(39,490)	(81,916)
Other taxes and sales deductions		**(18,854)**	**(44,727)**	(19,645)	(46,411)
Net revenue from sales		**1,052,213**	**2,050,520**	753,519	1,655,195
Net revenue DM		**555,094**	**1,060,488**	452,925	959,051
Net revenue FM		**497,119**	**990,032**	300,594	696,144
		1,052,213	**2,050,520**	753,519	1,655,195

Consolidated					
		2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
Gross sales		**1,053,523**	**2,188,909**	727,498	1,589,980
Domestic market		**547,647**	**1,059,512**	415,769	870,155
Foreign market		**505,876**	**1,129,397**	311,729	719,825
Taxes and sales deductions		**(101,768)**	**(217,189)**	(83,601)	(171,259)
Excise Tax - IPI		**(6,077)**	**(12,505)**	(5,319)	(10,935)
Value-added tax on sales and services - ICMS		**(53,397)**	**(107,015)**	(39,040)	(81,514)
Tax Incentive Fiscal ICMS - Desenvolve	(I)	**26,049**	**44,690**	19,015	40,878
Social Integration Program–PIS		**(6,672)**	**(14,261)**	(6,199)	(12,900)
Contribution for social security funding–COFINS		**(30,732)**	**(65,687)**	(28,551)	(59,418)
Other taxes and sales deductions		**(30,939)**	**(62,411)**	(23,507)	(47,370)
Net revenue from sales		**951,755**	**1,971,720**	643,897	1,418,721
Net revenue DM		**454,636**	**867,207**	343,303	722,577
Net revenue FM		**497,119**	**1,104,513**	300,594	696,144
		951,755	**1,971,720**	643,897	1,418,721

(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		Parent company / Consolidated	
	2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
America	**173,103**	**423,744**	139,530	265,773
Europe	**303,698**	**652,971**	133,956	272,946
Asia	**23,955**	**44,238**	34,450	174,186
Africa	**5,121**	**8,445**	3,793	6,920
	505,877	**1,129,398**	311,729	719,825

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

PARANAPANEMA

PMAM3 NOVO MERCADO BM&FBOVESPA

22. Expenses by type

Parent company

		2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
Metal cost		**(940,301)**	**(1,798,380)**	(614,181)	(1,328,764)
Personnel and benefits	(b)	**(62,173)**	**(120,972)**	(59,428)	(114,781)
Depreciation		**(33,703)**	**(70,707)**	(30,566)	(62,475)
Electricity/water/gas/fuel and lube oil		**(32,449)**	**(66,307)**	(27,819)	(55,098)
Services rendered by third parties and others		**(18,601)**	**(29,984)**	(13,787)	(28,611)
Maintenance		**(17,495)**	**(46,065)**	(14,210)	(35,484)
Petrochemicals stock used/absorbed		**1,350**	**(11,281)**	(12,049)	(33,838)
Rent		**(4,856)**	**(9,193)**	(3,826)	(10,725)
Issues institutional and legal		**(4,850)**	**(8,764)**	(3,316)	(6,282)
Informatics/telecommunications		**(2,731)**	**(5,338)**	(976)	(2,920)
Other expenses		**(2,817)**	**(5,020)**	(1,183)	(2,231)
Travel expenses		**(931)**	**(1,737)**	(629)	(1,219)
Sales and marketing		**(949)**	**(1,786)**	(180)	(410)
Transfer idleness for expense	(a)	**40,796**	**98,068**	48,531	107,622
		(1,079,710)	**(2,077,466)**	(733,619)	(1,575,216)
Cost of products sold		**(1,053,282)**	**(2,028,483)**	(709,347)	(1,525,482)
Sales expenses		**(6,744)**	**(13,291)**	(6,483)	(12,790)
Administrative and general expenses		**(19,684)**	**(35,692)**	(17,789)	(36,944)
		(1,079,710)	**(2,077,466)**	(733,619)	(1,575,216)

Consolidated

		2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
Metal cost		**(833,044)**	**(1,710,774)**	(498,976)	(1,084,895)
Personnel and benefits	(b)	**(62,623)**	**(121,896)**	(60,261)	(116,465)
Depreciation		**(33,733)**	**(70,764)**	(30,593)	(62,521)
Electricity/water/gas/fuel and lube oil		**(32,480)**	**(66,364)**	(27,847)	(55,152)
Services rendered by third parties and others		**(18,679)**	**(30,163)**	(13,958)	(28,999)
Maintenance		**(17,508)**	**(46,084)**	(14,228)	(35,457)
Petrochemicals stock used/absorbed		**1,482**	**(12,665)**	(11,868)	(33,560)
Rent		**(5,105)**	**(9,680)**	(4,071)	(11,135)
Issues institutional and legal		**(4,868)**	**(8,793)**	(3,342)	(6,317)
Informatics/telecommunications		**(2,750)**	**(5,373)**	(990)	(2,948)
Other expenses		**(2,829)**	**(5,044)**	(1,192)	(2,248)
Travel expenses		**(931)**	**(1,737)**	(628)	(1,219)
Sales and marketing		**(954)**	**(1,804)**	(181)	(413)
Transfer idleness for expense	(a)	**40,795**	**98,068**	48,531	107,622
		(973,227)	**(1,993,073)**	(619,604)	(1,333,707)
Cost of products sold		**(945,885)**	**(1,942,263)**	**(594,071)**	**(1,281,586)**
Sales expenses		**(7,314)**	**(14,412)**	**(6,986)**	**(13,671)**
Administrative and general expenses		**(20,028)**	**(36,398)**	**(18,547)**	**(38,450)**
		(973,227)	(1,993,073)	(619,604)	(1,333,707)

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), as in 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, 13th month's salary, social security and private pension, medical and dental care, meals and transportation.

23. Other income (expenses)

Parent company	Notes	2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
Sundry recoveries		**110**	**536**	658	4,978
Energy sales revenue	a)	**2,775**	**7,297**	1,480	1,957
Tax recoveries		**6,469**	**6,608**	1,681	1,681
Sundry sales		**619**	**1,174**	242	476
Leasing of property and equipment		**82**	**147**	93	143
Profits and dividends		**18**	**18**	61	61
Property, plant and equipment sales		**35**	**35**	-	-
Other income		**493**	**747**	566	795
Total of other income		**10,601**	**16,562**	4,781	10,091
Idle capacity	22	**(40,795)**	**(98,068)**	(48,531)	(107,622)
Provision for judicial claims	18	**(13,337)**	**(30,465)**	(25,615)	(54,124)
Provision for estimated doubtful accounts	06	**-**	**-**	(815)	(3,141)
Severance pay		**(1,330)**	**(2,199)**	(1,240)	(3,029)
PIS and COFINS on other income		**(338)**	**(1,084)**	(462)	(1,883)
Write-off of property, plant and equipment		**-**	**(5)**	-	(651)
Provision for judicial claims		**(92)**	**(185)**	(199)	(456)
Fines from infraction notices		**(314)**	**(447)**	(91)	(166)
Sundry sales costs		**(56)**	**(102)**	(31)	(59)
Provisão perda Ativos mantidos para venda	10	**(3,453)**	**(3,453)**	-	-
Other estimated losses		**324**	**-**	-	-
Provision Penality Onerous Contracts		**(7,092)**	**(7,092)**	-	-
Other expenses		**(365)**	**(1,198)**	(1,990)	(2,180)
Total of other expenses		**(66,848)**	**(144,298)**	(78,974)	(173,311)
Total of other income (expenses), net		**(56,247)**	**(127,736)**	(74,193)	(163,220)

Consolidated	Notes	2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date 2017
Sundry recoveries		**194**	**620**	658	4,978
Energy sales revenue	a)	**2,775**	**7,297**	1,480	1,957
Tax recoveries		**6,469**	**6,608**	1,681	1,710
Sundry sales		**619**	**1,174**	242	476
Leasing of property and equipment		**82**	**147**	93	143
Profits and dividends		**18**	**18**	61	61
Property, plant and equipment sales		**35**	**35**	-	-
Other income		**494**	**837**	566	796
Total of other income		**10,686**	**16,736**	4,781	10,121
Idle capacity	22	**(40,795)**	**(98,068)**	(48,531)	(107,622)
Provision for judicial claims	18	**(13,337)**	**(30,465)**	(25,615)	(54,125)
Provision for estimated doubtful accounts	06	**-**	**-**	(821)	(3,445)
Severance pay		**(1,350)**	**(2,219)**	(1,251)	(3,040)
PIS and COFINS on other income		**(339)**	**(1,093)**	(640)	(2,293)
Write-off of property, plant and equipment		**-**	**(5)**	-	(651)
Provision for judicial claims		**(92)**	**(185)**	(199)	(456)
Fines from infraction notices		**(322)**	**(475)**	(91)	(232)
Sundry sales costs		**(56)**	**(102)**	(31)	(59)
Provision for losses Assets held for sale	10	**(3,453)**	**(3,453)**	-	-
Other estimated losses		**324**	**-**	-	-
Provision Penality Onerous Contracts		**(7,092)**	**(7,092)**	-	-
Other expenses		**(424)**	**(1,258)**	(2,150)	(2,576)
Total of other expenses		**(66,936)**	**(144,415)**	(79,329)	(174,499)
Total of other income (expenses), net		**(56,250)**	**(127,679)**	(74,548)	(164,378)

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

24. Financial income (expenses)

Parent company

	Note	2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date
Liability foreign exchange fluctuations	a	(447,600)	(510,892)	(37,944)	(107,465)
Derivative financial instruments		(77,371)	(81,297)	(21,224)	(82,101)
Interest expenses		(35,344)	(74,096)	(37,334)	(67,689)
Adjustment to present value		(1,817)	(3,555)	(3,636)	(8,432)
Hedge on fair value of inventory		(20,543)	(86,083)	1,419	(3,122)
Bank expenses / IOF		(500)	(1,815)	(3,183)	(4,502)
Liability monetary variation		(1,797)	(1,992)	(1)	(332)
Other financial expenses		(3,395)	(7,267)	(1,172)	(1,891)
Total financial expenses		(588,367)	(766,997)	(103,075)	(275,534)
Asset foreign exchange fluctuations	a	234,394	302,920	30,650	118,571
Derivative financial instruments		(2,179)	9,309	10,859	68,277
Adjustment to present value		5,437	11,236	6,590	12,927
Interest income		4,810	7,591	3,157	8,206
Hedge on fair value of inventory		40,848	142,938	16,591	24,425
Monetary variation – assets		1,053	1,420	1,627	2,415
Other financial income		1,376	3,130	774	3,659
Total financial income		285,739	478,544	70,248	238,480
Total financial result		(302,628)	(288,453)	(32,827)	(37,054)

Consolidated

	Note	2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date
Liability foreign exchange fluctuations	a	(447,600)	(510,892)	(37,944)	(107,465)
Derivative financial instruments		(77,398)	(81,333)	(21,224)	(82,101)
Interest expenses		(36,438)	(76,534)	(39,484)	(74,348)
Adjustment to present value		(5,025)	(10,225)	(7,167)	(14,646)
Hedge on fair value of inventory		(23,363)	(88,903)	1,419	(3,122)
Bank expenses/IOF		(517)	(1,862)	(3,192)	(4,593)
Liability monetary variation		(1,797)	(1,992)	(1)	(332)
Other financial expenses		(3,708)	(7,837)	(1,332)	(2,233)
Total financial expenses		(595,846)	(779,578)	(108,925)	(288,840)
Asset foreign exchange fluctuations	a	234,394	302,920	30,650	118,571
Derivative financial instruments		(2,143)	9,309	10,859	68,301
Adjustment to present value		7,377	15,255	10,136	20,807
Interest income		4,825	7,818	5,973	15,782
Hedge on fair value of inventory		40,849	150,359	16,591	24,425
Monetary variation – assets		1,053	1,420	1,627	2,415
Other financial income		4,162	9,133	1,806	4,919
Total financial income		290,517	496,214	77,642	255,220
Total financial result		(305,329)	(283,364)	(31,283)	(33,620)

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

	2nd Quarter 2018	Year to date 2018	2nd Quarter 2017	Year to date
Negative exchange variation	(447,600)	(510,892)	(37,944)	(107,465)
Exchange variation gain	234,394	302,920	30,650	118,571
Net effect of exchange rate variation	(213,206)	(207,972)	(7,294)	11,106

25. Deferred income and social contribution taxes

25.1 Deferred income tax and social contribution

Deferred income and social contribution taxes have the following sources:

		06/30/2018			12/31/2017		
	Note	Parent company	Parent company	Consolidated	Parent company	Parent company	Consolidated
Rate		25%	34%		25%	34%	
Credits on tax losses		1,128,976	31,181	1,160,157	979,183	33,410	1,012,593
Income tax over fiscal loss	a)	282,244	10,601	292,845	244,796	11,359	256,155
Net exchange variations		(435,472)	-	(435,472)	(783,478)	-	(783,478)
Estimated losses (reversals) on allowance for doubtful assets		56,939	5,334	62,273	77,333	5,471	82,804
Provision for lawsuits		198,811	-	198,811	186,205	-	186,205
Estimated loss (reversal) on recoverable inventory sums		475	-	475	(1,150)	-	(1,150)
Estimated sundry losses (reversals)		40,705	-	40,705	20,348	-	20,348
Provision (Reversals) for financial instruments and others		(72,307)	557	(71,750)	(26,955)	899	(26,056)
Management profit sharing and others		50	57	107	6,760	57	6,817
Provision for adjustment to present value		2,002	3,614	5,616	1,860	4,571	6,431
Total Temporary differences		(208,797)	9,562	(199,235)	(519,077)	10,998	(508,079)
Income tax on temporary differences	b)	(52,199)	3,251	(48,948)	(129,769)	3,739	(126,030)
Deferred income tax and social contribution		230,045	13,852	243,897	115,027	15,098	130,125
Tax on revaluation reserve	c)	(72,324)	-	(72,324)	(74,744)	-	(74,744)
		157,721	13,852	171,573	40,283	15,098	55,381
Non-current assets		157,721	13,852	171,573	40,283	15,098	55,381

a) The Company has consolidated tax losses generated in Brazil in the amount of R$1,160,157 (R$1,012,593 as at December 31, 2017), subject to offsetting against future taxable income. In Brazil, the offsetting of fiscal losses has no statute of limitations, being limited to the offsetting of 30% of the annual profits.

b) As at June 30, 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 over tax losses within a period of up to 10 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 tax and social contribution 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	
	Year to date 2018	Year to date 2017	Year to date 2018	Year to date 2017
(Loss) before income and social contribution taxes	**(454,639)**	(130,484)	**(451,637)**	89,374
Nominal combined statutory rates	**25%**	25%	**25% e 34%**	25% e 34%
Income tax	**-**	-	**3,005**	-
Permanent additions	**(3,777)**	(3,069)	**(3,768)**	(3,069)
Realization of revaluation reserve (depreciation/write-off)	**2,419**	1,223	**2,419**	1,223
Provision for doubtful credit	**(5,099)**	743	**(5,146)**	832
Provision for litigation	**3,152**	8,045	**3,152**	8,045
Other deductible provision	**(7,485)**	(466)	**(7,927)**	503
Net exchange variance (cash basis)	**87,002**	10,285	**87,002**	10,285
Tax loss and negative basis of social contribution	**38,806**	(3,735)	**33,279**	(6,309)
Deferred income tax on revaluation reserve	**2,420**	1,149	**2,420**	1,149
Current income tax credits	**117,438**	14,175	**114,436**	12,659
Income tax for the current year	**-**	-	**(1,288)**	(1,333)
Social contribution for the current year	**-**	-	**(468)**	(485)
Current taxes	**-**	-	**(1,756)**	(1,818)
Deferred income tax	**115,018**	13,026	**114,102**	13,248
Deferred social contribution	**-**	-	**(330)**	80
Deferred income tax on revaluation reserve	**2,420**	1,149	**2,420**	1,149
Deferred taxes	**117,438**	14,175	**116,192**	14,477
Credit (expense) from income and social contribution taxes	**117,438**	14,175	**114,436**	12,659
Total effective rate	**-25.83%**	-10.86%	**-25.34%**	14.16%
Current effective rate	**0.00%**	0.00%	**0.39%**	-2.03%

26. Operating segments

The Company only 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.

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 guarantee that the business risk exposure has been identified and measured, and that it can be controlled and minimized using the most effective and efficient methods to eliminate, reduce or transfer such exposure.

The Board of Directors has 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 follows:

- Interest rate risk inherent to the Company's debts.
- FX risk and commodities price risk deriving from raw materials and sold products, forecast transactions and firm commitments.
- FX 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 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. – Brasil, Bolsa, Balcão (Foreign Exchange Coupon and Fixed Coupon), the 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. – Brasil, Bolsa, Balcão. Adjustments to embedded derivatives are carried out at average future prices, based on curves disclosed in the LME and LBMA.

27.3 Embedded derivatives

Purchase 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 is not closely related to the principal instrument because the risks inherent in the principal contract and embedded derivative are not similar. An embedded derivative that is separated from its host contract and is accounted for separately at fair value through profit or loss, like any other derivative instrument, can be designated as a hedge instrument in relation to hedge accounting, such as a fair value hedge of copper inventory.

Purchase contracts for copper concentrate 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 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.

PARANAPANEMA

PMAM3 NOVO MERCADO BM&FBOVESPA

The classification of financial assets and liabilities is as follows:

Parent company

	Notes	At fair value through profit or loss	Amortized cost method	Book value 06/30/2018	Fair value 06/30/2018
Financial assets					
Cash and cash equivalents	05	-	159,635	159,635	159,635
Interest earning bank deposits	05	-	67,734	67,734	67,734
Trade accounts receivable	06	378,016	-	378,016	378,016
Financial instr. - Hedge accounting	27	12,444	-	12,444	12,444
Financial instr. - Other derivatives	27	29,068	-	29,068	29,068
Total assets		419,528	227,369	646,897	646,897
Financial liabilities					
Suppliers	13	-	859,505	859,505	859,505
Securitization of accounts payable	14	-	36,982	36,982	36,982
Advances from customers	19	-	27,744	27,744	27,744
Customer credit	19	-	1,506	1,506	1,506
Loans and financing	15	-	2,239,239	2,239,239	2,239,239
Financial instr. - Hedge accounting	27	15,928	-	15,928	15,928
Financial instr. - Other derivatives	27	55,132	-	55,132	55,132
Total liabilities		71,060	3,164,976	3,236,036	3,236,036

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

				Consolidated	
				Book value	Fair value
	Notes	At fair value through profit or loss	Amortized cost method	06/30/2018	06/30/2018
Financial assets					
Cash and cash equivalents	05	-	166,883	166,883	166,883
Interest earning bank deposits	05	-	68,481	68,481	68,481
Trade accounts receivable	06	319,172	-	319,172	319,172
Financial instr. - Hedge accounting	27	12,444	-	12,444	12,444
Financial instr. - Other derivatives	27	29,068	-	29,068	29,068
Total assets		360,684	235,364	596,048	596,048
Financial liabilities					
Suppliers	13	-	837,541	837,541	837,541
Securitization of accounts payable	14	-	36,982	36,982	36,982
Advances from customers	19	-	29,356	29,356	29,356
Customer credit	19	-	1,635	1,635	1,635
Loans and financing	15	-	2,239,241	2,239,241	2,239,241
Financial instr. - Hedge accounting	27	15,928	-	15,928	15,928
Financial instr. - Other derivatives	27	55,132	-	55,132	55,132
Total liabilities		71,060	3,144,755	3,215,815	3,215,815

				Consolidated	
				Book value	Fair value
	Notes	At fair value through profit or loss	Amortized cost method	12/31/2017	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 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.

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 June 30, 2018 and December 31, 2017 are as follows:

		Parent company		Consolidated	
	Notes	Level 2	06/30/2018	Level 2	06/30/2018
Financial assets					
Financial instr. - Hedge accounting	27	12,444	12,444	12,444	12,444
Financial instr. - Other derivatives	27	29,068	29,068	29,068	29,068
Total assets		41,512	41,512	41,512	41,512
Financial liabilities					
Suppliers	13	859,505	859,505	837,541	837,541
Forfait and letter of credit operations	14	36,982	36,982	36,982	36,982
Loans and financing	15	2,239,239	2,239,239	2,239,241	2,239,241
Advances from customers	19	27,744	27,744	29,356	29,356
Customer credit	19	1,506	1,506	1,635	1,635
Financial instr. - Hedge accounting	27	15,928	15,928	15,928	15,928
Financial instr. - Other derivatives	27	55,132	55,132	55,132	55,132
Total liabilities		3,236,036	3,236,036	3,215,815	3,215,815

		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

Summary of consolidated derivative financial instruments

			Consolidated					
			Reference Value				Fair value	
Instrument	Position	Index	06/30/2018		12/31/2017		06/30/2018	12/31/2017
Designated for hedge accounting								
Risk of commodity prices								
NDF	Purchased	Copper	6,572	tonnes	5,234	tonnes	5,043	10,409
Firm commitment for sales	Sold	Copper	(6,572)	tonnes	(5,234)	tonnes	(5,043)	(10,409)
NDF	Sold	Copper	(25,899)	tonnes	(14,691)	tonnes	6,608	(8,397)
NDF	Sold	Gold	(9,392)	Oz	(8,776)	Oz	793	534
NDF	Sold	Silver	(326,923)	Oz	(87,251)	Oz	(63)	245
NDF	Sold	Zinc/Tin/Lead	(1,720)	tonnes	(1,852)	tonnes	(186)	272
Embedded derivative	Sold	Copper	(11,159)	tonnes	(38,157)	tonnes	(9,388)	(38,947)
Embedded derivative	Sold	Gold	(15,220)	Oz	(9,658)	Oz	(1,245)	591
Embedded derivative	Sold	Silver	(72,417)	Oz	(526,914)	Oz	(3)	1,668
Total							**(3,484)**	**(44,034)**
Total derivatives designated for hedge accounting							**(3,484)**	**(44,034)**
Not designated for hedge accounting								
Risk of commodity prices								
Firm commitment for sales	Purchased	Copper	-	tonnes	-	tonnes	326	(46)
Cash Flow - Cost	Sold	Cobre	(750)	tonnes	-	tonnes	(1,686)	-
NDF	Purchased	Copper	1,049	tonnes	-	tonnes	18,245	16,162
NDF	Purchased	Gold	1,514	Oz	-	Oz	355	(3,301)
NDF	Sold	Silver	(184,176)	Oz	-	Oz	864	(2,056)
NDF	Sold	Zinc/Tin/Lead	(10)	tonnes	-	tonnes	1,398	(1,157)
Embedded derivative	Purchased	Copper/Gold;Silver	-	tonnes	-	tonnes	2,429	(68,698)
Embedded derivative	Purchased	Anodic mud	-	tonnes	-	tonnes	-	4,896
Total							**21,931**	**(54,200)**
Economic Hedge - Exchange Rate US$ / BRL								
MTM options							(23,226)	
MTM NDF	Sold	USD/BRL	(75,000)	US$	-	US$	(24,770)	
BM&F Futures	Purchased	US$ Futuro	1,000	US$	-	US$	13	-
Total							**(47,983)**	**-**
Risk of interest rate								
Swap	Purchased	LIBOR 3M/6M + VC	4,952	US$	6,603	US$	19,158	22,202
Swap	Sold	Pre+Foreign exchange variation	(4,952)	US$	(6,603)	US$	(19,170)	(22,047)
Total			-		-		**(12)**	**155**
Total other derivatives							**(26,064)**	**(54,045)**
Total							**(29,548)**	**(98,079)**
Current Assets							**41,512**	**85,591**
Current liabilities							**(71,060)**	**(183,670)**

27.5 Market risks

27.5.1 FX 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$).

The foreign currency exposure is shown in the table below:

		Parent company / Consolidated	
		06/30/2018	12/31/2017
	Position	US$	US$
Object			
Accounts receivable	Purchased	1,485,980	1,206,643
Inventory	Purchased	281,150	-
Instrument designated as hedge accounting			
NDF - Revenue	Sold	(268,080)	(221,823)
Loans and financing	Sold	(857,179)	(624,934)
Suppliers	Sold	(641,871)	(359,886)
Derivatives not designated as hedge accounting			
NDF (US$/R$)	Sold	(82,000)	(27,000)
Option Call (US$/R$)	Sold	(25,000)	-
Option Put (US$/R$)	Purchased	25,000	-
Future (Pre x US$)	Sold	(1,000)	-
Loans and financing	Sold	(347,707)	(356,422)
Total net exposure		**(430,707)**	**(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.

Exposure to interest rates is shown in the table below:

		Parent company/Consolidated	
		06/30/2018	12/31/2017
Designated to hedge accounting			
Loans and financing	LIBOR	(1,284,163)	(1,112,650)
Derivatives – Swap	LIBOR	12,729	21,841
		(1,271,434)	**(1,090,809)**
Not designated to hedge accounting			
Loans and financing	TJLP	(16,108)	(19,399)
		(16,108)	**(19,399)**
Loans and financing	Interest rate Res.635/87	(5,638)	(6,537)
		(5,638)	**(6,537)**
Investments	PRE	100,170	145,615
Loans and financing	PRE	(100,902)	(110,125)
		(732)	**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 the 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 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 amounts of this metal already priced for sale, and sets risk exposure limits.

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

Parent company/Consolidated

Copper		06/30/2018			12/31/2017		
	Position	Reference value		Exposure	Reference value		Exposure
Assets, net	Purchased	48,313	tonnes	1,238,057	45,939	tonnes	1,087,618
Designated for hedge accounting							
Embedded derivatives	Sold	(11,891)	tonnes	(295,323)	(22,900)	tonnes	(542,154)
Firm commitments	Sold	(7,632)	tonnes	(195,585)	(5,234)	tonnes	(123,917)
NDF	Sold	(18,669)	tonnes	(478,405)	(14,416)	tonnes	(341,304)
Not designated for hedge accounting							
Embedded derivatives	Sold	(237)	tonnes	(6,069)	(26)	tonnes	(606)
Firm commitments	Sold	(9,744)	tonnes	(249,694)	(5,085)	tonnes	(120,396)
Total net exposure		**140**	**tonnes**	**12,981**	**(1,722)**	**tonnes**	**(40,759)**

Parent company/Consolidated

Gold		06/30/2018			12/31/2017		
	Position	Reference value		Exposure	Reference value		Exposure
Assets, net	Purchased	16,109	Oz	77,671	12,016	Oz	51,534
Designated for hedge accounting							
Embedded derivatives	Sold	(15,530)	Oz	(74,882)	(5,502)	Oz	(23,599)
NDF	Sold	(9,392)	Oz	(45,285)	(8,776)	Oz	(37,640)
Not designated for hedge accounting							
Embedded derivatives	Purchased	-	Oz	-	8,238	Oz	35,330
Firm commitments	Purchased	22	Oz	105	2,452	Oz	965
NDF	Purchased	1,514	Oz	7,300	(11,588)	Oz	(49,697)
Total net exposure		**(7,277)**	**Oz**	**(35,091)**	**(3,160)**	**Oz**	**(23,107)**

Parent company/Consolidated

Silver		06/30/2018			12/31/2017		
	Position	Reference value		Exposure	Reference value		Exposure
Assets, net	Purchased	527,753	Oz	32,620	503,925	Oz	28,114
Designated for hedge accounting							
Embedded derivatives	Sold	(73,895)	Oz	(4,567)	(78,218)	Oz	(4,364)
NDF	Sold	(467,621)	Oz	(28,903)	(87,251)	Oz	(4,868)
Not designated for hedge accounting							
Firm commitments	Purchased	440	Oz	27	37,345	Oz	2,083
NDF	Sold	(43,478)	Oz	(2,687)	(363,511)	Oz	(20,280)
Total net exposure		**(56,801)**	**Oz**	**(3,510)**	**12,290**	**Oz**	**685**

Parent company/Consolidated

Other		06/30/2018			12/31/2017		
	Position	Reference value		Exposure	Reference value		Exposure
Assets, net	Purchased	1,771	tonnes	23,413	1,774	tonnes	21,452
Designated for hedge accounting							
NDF	Sold	(1,720)	tonnes	(22,354)	(1,685)	tonnes	(20,295)
Not designated for hedge accounting							
Firm commitments	Sold	(78)	tonnes	(939)	(78)	tonnes	(892)
NDF	Sold	(10)	tonnes	(759)	(25)	tonnes	(206)
Total net exposure		**(37)**	**tonnes**	**(639)**	**(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 June 30, 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.

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	$ 1,485,980	US$	US$	5,729,640	(1,432,410)	(2,864,820)	1,432,410	2,864,820
Inventory	$ 281,150	US$	US$	1,084,059	(271,015)	(542,030)	271,015	542,030
Hedge instrument								
NDF - Cash flow hedge	$ -268,080	US$	US$	(132,339)	-	-	-	-
Suppliers	$ -641,871	US$	US$	(424,584)	618,731	1,237,463	(618,731)	(1,237,463)
Loans	$ -857,179	US$	US$	(399,593)	826,278	1,652,555	(826,278)	(1,652,555)
Other non-derivatives financial instruments								
Liabilities	$ -347,707	US$	US$	(1,340,688)	335,172	670,344	(335,172)	(670,344)
Other derivativess								
NDF (US$/R$)	$ -82,000	US$	US$	(25,365)	(103,975)	(182,578)	103,975	182,578
Option Call (US$/R$)	$ -25,000	US$	US$	(12,457)	-	-	(35,794)	(59,893)
Option Put (US$/R$)	$ 25,000	US$	US$	6	10,604	34,703	-	-
Future (Pre x US$)	$ -1,000	US$	US$	(8,636)	(937)	(1,875)	937	1,875
Total	**(430,707)**			**4,470,043**	**(17,552)**	**3,762**	**(7,638)**	**(28,952)**
Interest rate risk								
Subject to hedge								
Liabilities	$ -333,047	US$	LIBOR	(1,402,972)	8,904	18,153	(9,592)	(18,840)
Hedge instrument								
Swap - Cash flow hedge	$ 3,301	US$	LIBOR	19,403	(61)	(122)	61	122
Other non-derivatives financial instruments								
Liabilities	$ -16,108	R$	TJLP	(19,664)	594	1,196	(586)	(1,164)
Assets	$ 100,170	R$	PRÉ	99,941	128	161	63	32
Liabilities	$ -100,902	R$	PRÉ	(83,480)	1,680	3,944	(2,475)	(4,385)
Total	**$ -346,586**			**(1,386,772)**	**11,245**	**23,332**	**(12,529)**	**(24,235)**
Commodity price risk								
Hedge instrument								
NDF (Copper) - Fair value hedge	(7,632)	tonnes	Copper	(195,585)	48,896	97,793	(48,896)	(97,793)
NDF (Copper) - Fair value hedge Inventory	(18,669)	tonnes	Copper	(478,405)	119,601	239,203	(119,601)	(239,203)
Embedded derivatives (Cooper) - Fair Value Hedge	(11,891)	tonnes	Copper	(304,707)	76,177	152,354	(76,177)	(152,354)
Not designated for hedge accounting								
Embedded derivatives	(237)	tonnes	Copper	(6,069)	1,517	3,035	(1,517)	(3,035)
Total	**(38,429)**			**(984,766)**	**246,191**	**492,385**	**(246,191)**	**(492,385)**
Not designated for hedge accounting								
NDF	1,514	Oz	Gold	7,300	(1,825)	(3,650)	1,825	3,650
Hedge instrument								
NDF	(9,392)	Oz	Gold	(45,285)	11,321	22,643	(11,321)	(22,643)
Embedded derivatives	(15,530)	Oz	Gold	(74,882)	18,721	37,441	(18,721)	(37,441)
Total	**(23,408)**			**(112,867)**	**28,217**	**56,434**	**(28,217)**	**(56,434)**
Not designated for hedge accounting								
NDF	(43,478)	Oz	Silver	(2,687)	672	1,344	(672)	(1,344)
Hedge instrument								
NDF	(467,621)	Oz	Silver	(28,903)	7,226	14,452	(7,226)	(14,452)
Embedded derivatives	(73,895)	Oz	Silver	(4,567)	1,142	2,284	(1,142)	(2,284)
Total	**(584,994)**			**(36,157)**	**9,040**	**18,080**	**(9,040)**	**(18,080)**
Hedge instrument								
NDF (Zinc, Lead and Tin)	(1,720)	tonnes	Other Metals	(22,354)	5,589	11,177	(5,589)	(11,177)
Not designated for hedge accounting								
Assets, net								
NDF	(10)	tonnes	Other Metals	(759)	190	380	(190)	(380)
Total	**(1,730)**			**(23,113)**	**5,779**	**11,557**	**(5,779)**	**(11,557)**
Premises								
Exchange tax	Ptax - US$/R$			3.8558	2.89185	1.9279	4.8198	5.7837
Copper Price	Official Price Cash LME			$6,646	4984.5	$3,323	$8,308	$9,969
Gold Price	Official Price Cash LBMA			$1,251	937.875	$625	$1,563	$1,876
Silver Price	Official Price Cash LBMA			$16	12.0225	$8	$20	$24
Price Zinc	Official Price Cash LME			$2,948	2211	$1,474	$3,685	$4,422
Tin Price	Official Price Cash LME			$19,675	14756.25	$9,838	$24,594	$29,513
Lead Price	Official Price Cash LME			$2,432	1824	$1,216	$3,040	$3,648

27.6 Hedge accounting

Paranapanema has 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$ 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$. The hedging instruments contracted for this program are US$/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 of Exchange Contracts (ACC), Prepayment of Exports (PPE) and debt contracts in US$ 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 relationship 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$ with a pre-fixed price for clients subject to fixed sales commitments. The hedging instruments are copper derivatives quoted on the 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 operational 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 them at market prices (price of metal in R$) until the effective sale. The costs of transformation of metals (labor force and inputs) are not material compared to the total inventory cost, and are denominated in R$, 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 the 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 R$ were marked-to-market by means of the designation of financial instruments as FX hedges.

The mark-to-market effects of derivative instruments of 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 instruments account within assets is debited against the operating profit or loss when adjustments are positive, and credited within liabilities against the operational loss 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 exchange 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 *Payments' Cash Flow Hedge (capex) in foreign currency*

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$, Canadian Dollars or CAD, and Euros or EUR). The hedge instrument used in this program is a long position, with an NDF of US$/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:

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
Instrument	**Object**	**Index**	**Maturities**			**Reference**		**Market**
								06/30/2018
Cash flow hedge								
Derivatives – designated								**Instrument**
NDF – Closed	Income (in USD)	USD/BRL	jan-18	-	jun-18	(73,215)	US$	**(12,294)**
NDF – Provision	Income (in USD)	USD/BRL	jul-18	-	sep-21	(268,080)	US$	**(132,339)**
NDF – Closed	Cost	Copper	jan-18	-	jun-18	10,596	tonnes	**37**
NDF – Provision	Cost	Copper	jul-18			1,978	tonnes	**(572)**
Non-derivative - designated								
ACC / PPE – Provision	Income (in USD)	USD/BRL	jul-18	-	jun-30	(676,117)	US$	**(430,660)**
Other debt – provision	Income (in USD)	USD/BRL	jul-18	-	nov-36	(541,783)	US$	**(424,584)**
Fair value hedge								
Derivatives								
NDF – Closed	Sales commitment	Copper	jan-18	-	jun-18	4,579	tonnes	**3,630**
NDF – Provision	Sales commitment	Copper	jul-18	-	jun-19	6,572	tonnes	**5,043**
Embedded derivatives	Inventory	Copper	jan-18	-	jun-18	63,083	tonnes	**(4,871)**
Embedded derivatives	Inventory	Copper	jul-18	-	sep-18	11,159	tonnes	**(9,388)**
Embedded derivatives	Inventory	Gold	jan-18	-	jun-18	17,215	Oz	**(181)**
Embedded derivatives	Inventory	Gold	jul-18	-	sep-18	15,220	Oz	**(1,245)**
Embedded derivatives	Inventory	Silver	jan-18	-	jun-18	709,408	Oz	**146**
Embedded derivatives	Inventory	Silver	jul-18	-	sep-18	72,417	Oz	**(3)**
NDF – Closed	Inventory	Copper	jan-18	-	jun-18	66,525	tonnes	**1,391**
NDF – Provision	Inventory	Copper	jul-18	-	sep-18	16,024	tonnes	**(5,273)**
NDF – Closed	Inventory	Zinc	jan-18	-	jun-18	8,225	tonnes	**(837)**
NDF – Provision	Inventory	Zinc	jul-18	-	sep-18	1,625	tonnes	**212**
NDF – Closed	Inventory	Lead	jan-18	-	jun-18	225	tonnes	**(31)**
NDF – Provision	Inventory	Lead	jul-18	-	sep-18	50	tonnes	**15**
NDF – Closed	Inventory	Tin	jan-18	-	jun-18	205	tonnes	**142**
NDF – Provision	Inventory	Tin	jul-18	-	sep-18	45	tonnes	**(41)**
NDF – Closed	Inventory	Gold	jan-18	-	jun-18	37,259	Oz	**(375)**
NDF – Provision	Inventory	Gold	jul-18	-	sep-18	9,392	Oz	**(793)**
NDF – Closed	Inventory	Silver	jan-18	-	jun-18	1,255,699	Oz	**(90)**
NDF – Provision	Inventory	Silver	jul-18	-	sep-18	160,313	Oz	**63**

(*) The Market value for the derivatives designated as provided flow hedge accounting are stated in Shareholders Equity

	Parent company/Consolidated	
	Equity	
	06/30/2018	12/31/2017
Derivatives designated for hedge accounting		
Commodities risk	**(572)**	81
Foreign exchange risk	**(132,339)**	(147,526)
	(132,911)	(147,445)
Non-derivatives designated to hedge accounting		
Foreign exchange risk - Outstanding operations	**(855,244)**	(857,729)
	(855,244)	(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 with interest-earning bank deposits, the Company always invests with low-risk institutions, as evaluated by independent ratings agencies.

Credit risks		Parent company		Consolidated	
	Notes	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Assets					
Cash and cash equivalents	05	**159,635**	343,678	**166,883**	345,551
Interest earning bank deposits	05	**67,734**	52,359	**68,481**	53,085
Trade accounts receivable	06	**378,016**	432,347	**319,172**	389,279
Other assets	09	**89,793**	88,546	**89,795**	88,394
Derivative financial instruments	27	**41,512**	85,554	**41,512**	85,591
		736,690	1,002,484	**685,843**	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 June 30, 2018, is as follows:

   Presented amounts include estimated principal amounts and interest calculated using the US$ rate prevailing on June 30, 2018 (R$3.8558/US$1.0000) for debts denominated in US$ (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	166,883	166,883	-	-	-
Interest earning bank deposits	05	68,481	55,211	13,270	-	-
Trade accounts receivable	06	319,172	309,010	10,162	-	-
Other assets	09	89,795	7,326	82,469		
Derivative financial instruments	27	41,512	41,512	-	-	-
		685,843	579,942	105,901	-	-
Liabilities						
Loans and financing	16	(2,239,241)	(192,234)	(33,594)	(1,511,183)	(502,230)
Advances from customers	19	(29,356)	(29,356)	-	-	-
Customer credit	19	(1,635)	(1,635)	-	-	-
Derivative financial instruments	27	(71,060)	(71,060)	-	-	-
Suppliers	13	(837,541)	(837,541)	-	-	-
Forfait and credit card operations	14	(36,982)	(36,982)	-	-	-
		(3,215,815)	(1,168,808)	(33,594)	(1,511,183)	(502,230)
Net position		(2,529,972)	(588,866)	72,307	(1,511,183)	(502,230)

27.9 Book value/fair value

n) Management considers that the fair value is Tax incentive reserve
l to the book value for short-term transactions, once the book 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 adequate capital ratio to support the Company's business and to maximize shareholder value.

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

		Parent company		Consolidated	
	Notes	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Loans and financing	15	2,239,239	1,927,974	2,239,241	1,927,978
Derivatives financial instruments payable	27	37,582	157,303	37,582	157,266
(-) Cash and cash equivalents	05	(159,635)	(343,678)	(166,883)	(345,551)
(-) Interest earning bank deposits	05	(67,734)	(52,359)	(68,481)	(53,085)
(-) Derivatives financial instruments receivable	27	(14,944)	(83,332)	(14,944)	(83,332)
(=) Net debt (cash)		**2,034,508**	**1,605,908**	**2,026,515**	**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		**2,041,418**	**1,630,053**	**2,033,425**	**1,627,421**
Equity	20	568,840	888,522	568,840	888,522
Leverage ratio		78.15%	64.38%	78.08%	64.34%
Leverage ratio with embedded derivative		78.21%	64.72%	78.14%	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. The commitment does not subject the Company to any restrictions.

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

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

	06/30/2018	12/31/2017
Up to one year	1,266	1,304
From two to four years	2,334	2,397
Over four years	1,765	2,326
	5,365	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.

As at June 30, 2018, the amounts insured and coverage limits contracted within its respective insurance segments were as follows:

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, and 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$1,064 (R$1,038 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 and value of Company's shares (PMAM3), distributed in some vesting periods. Payment obligations from URVs distributed until 2016 will follow the concept described in this paragraph.

Starting in 2017, the Board of Directors approved the change in 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 rights for and payments with 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 death, his/her heirs and/or legal beneficiaries will receive 50% of the amount due at the date of death.

Criteria for fixing the exercise term: Except for the ineligibility conditions mentioned above, the vesting will be deferred in two installments, with annual payments, or 50% of salary multiples per year, being the first payment due 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 the 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 (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, when were granted phantom shares, which will be deferred in 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$1,018 (R$62 in 2017).

32. Additional information regarding cash flow

a) Transactions regarding investment and financing activities not involving cash

	Year to date 2018	Year to date 2017
Investing activities		
Residual value of written-off fixed assets	5	651
Depreciation and amortization	70,764	62,521
Gains from financial charges	(257)	31
Fixed assets and intangible additions	70,512	63,203
Financing activities		
ACC paid with exports	-	(8,969)
Forfait operations refinanced as Finimp	-	49,744
Financial charges	349,059	(12,149)
	349,059	28,626

b) Reconciliation of the net debt

	06/30/2018	12/31/2017
Loans and financing	**2,239,241**	1,927,978
Forfaiting and letter of credit operations	**36,982**	41,819
Derivative financial instruments	**29,548**	98,079
Indebtedness	**2,305,771**	2,067,876
Cash and cash equivalents	**166,883**	345,551
Financial investments	**68,481**	53,085
Total Cash	**235,364**	398,636
Net Debt	**2,070,407**	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	**(37,796)**	**(10,071)**	**(14,088)**	**(61,955)**	**(163,272)**	**101,317**
Transactions without cash impact	**349,059**	**5,234**	**(54,443)**	**299,850**	**-**	**299,850**
Financial charges and exchange rate variations	349,059	5,234	(54,443)	299,850	-	299,850
Net debt at June 30,2018	**2,239,241**	**36,982**	**29,548**	**2,305,771**	**235,364**	**2,070,407**

33. Subsequent Events

Until the disclosure of the quarterly information, on July 26, 2018, the conditions precedent to the Binding Agreement with Santander were partially satisfied and therefore the accounting effects of the Debt Confession were not recognized.

Report on review of quarterly information

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

Introduction

We have reviewed the accompanying parent company and consolidated interim accounting information of Paranapanema S.A. (the "Company"), included in the Quarterly Information Form (ITR) for the quarter ended June 30, 2018, comprising the balance sheet at that date and the statements of operations and comprehensive income for the quarter and six-month period then ended, and the statements of changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

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

Scope of review

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

Conclusion on the interim information

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

Emphasis of matter

Lawsuits with possible risk of loss

We draw attention to Note 18.2 to these interim accounting information, which discloses that the Company has several lawsuits arising from its operations amounting to R$ 2,083,940 thousand (Consolidated - R$ 2,084,267 thousand), whose risk of loss is classified as possible based on the opinion of its legal counsel. Accordingly, no related provision is recorded. The main lawsuits refer to the court decision about the right to collect the Social Contribution on Net Income (CSLL), and the ongoing arbitration procedure related to the contract with UBS Pactual S.A. and Banco Santander S.A. An unfavorable outcome for these claims may have a significant impact on the Company's financial position. Our conclusion is not qualified in respect of this matter.

Other matters

Statements of value added

We have also reviewed the parent company and consolidated statements of value added for the six-month period ended June 30, 2018. These statements are the responsibility of the Company's management, are required to be presented in accordance with standards issued by the CVM applicable to the preparation of Quarterly Information (ITR), and are considered supplementary information under IFRS, which do not require the presentation of the statement of value added. These statements have been submitted to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they have not been prepared, in all material respects, in a manner consistent with the parent company and consolidated interim accounting information taken as a whole.

Barueri, July 26, 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 "Parent Company and Consolidated" financial statements, for the fiscal year ended June 30, 2018.

Dias d'Ávila, July 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 on 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 June 30, 2018.

Dias D'Ávila, July 26, 2018.

CEO
Marcos Paletta Camara

Finance and Investor Relations Director
André Luis da Costa Gaia

Chief Legal Officer
Paulo Rodrigo Chung