Ferroeste Group

Combined financial statements in accordance with accounting practices adopted in Brazil at December 31, 2015

Independent auditor's report

To the
Shareholders and Board of Directors of
Ferroeste Group
Belo Horizonte – MG

We have audited the accompanying combined financial statements of Empresa de Mecanização Rural S.A. and Gusa Nordeste S.A. (individually "Meca" and "Gusa", respectively, and jointly "Ferroeste Group" or "Group"), which comprise the combined balance sheet as at December 31, 2015, and the combined statements of operations, comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the entity's financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ferroeste Group

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Ferroeste Group as at December 31, 2015, and its combined financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Emphasis of Matter

Gusa has made investments amounting to R$805,278 thousand, for the construction of its integrated steel project, consisting of steel mill and long steel rolling, in the unit of Açailândia, which is at the completion stage. In this context, considering the term of the investment, the Company presented negative working capital of R$ 331,301 thousand at December 31, 2015 (December 31, 2014 – R$ 210,333 thousand). The construction of this asset is being partially funded by the Northeast Financing Constitutional Fund (FNE) of Banco do Nordeste do Brasil (BNB), which provided resources of R$437 million. The completion of this undertaking, the recovery of the investments made by the Company and its business continuity are contingent upon new borrowings. This situation casts significant doubt as to the ability of the Company to continue as a going concern. No adjustments arising from these uncertainties were included in the combined financial statements. Our opinion is not qualified in respect of this matter.

We draw attention to Note 1 to the combined financial statements, which discloses that the companies included in these combined financial statements do not operate as a single entity. These combined financial statements, however, do not necessarily indicate what might have occurred if the companies had operated as a single entity during the current year, or the results of future combined operations. Our opinion is not qualified in respect of this matter.

Belo Horizonte, May 13, 2016.

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 “F” MG

Guilherme Campos e Silva
Contador CRC 1SP218254/O-1 “S” MG

FERROESTE GROUP –
COMBINED MANAGEMENT REPORT
2015

In compliance with legal and statutory provisions, we submit for your appreciation the (combined) financial statements of EMPRESA DE MECANIZAÇÃO RURAL S.A., the "FERROESTE GROUP", as required by the provisions of the Brazilian Accounting Pronouncement Committee (CPC) applicable to them for the year ended December 31, 2015, together with the independent auditor's report.

The projections of FERROESTE GROUP include improvements in the international scenario, with the recovery of American, European and Asian markets, completion of the investment in the integrated steel activities, the growth in its sugar and ethanol operations, and the continuity of its real estate projects, through the implementation of a corporate governance program, focused on increasing productivity and reducing costs in order to maximize results.

The results of FERROESTE GROUP for 2015 reflects the full use of all its resources and by-products, gases, coal fines, slag and electricity. It is important to emphasize that the equipment acquired in the last four years contributed to the excellent performance of the plant this year and, consequently, to reducing and streamlining the consumption of inputs and raw materials.

Based on its proven operational excellence, FERROESTE GROUP believes in the success of investments in the vertical integration of production in the subsidiary GUSA NORDESTE, which included the most modern equipment for steel mill and rolling processes to convert pig iron into long steel, considering that 97% of steel is made up of pig iron, which is 100% produced with charcoal from renewable planted forests and iron ore from Carajás. This is the first type of long steel produced in the world without any consumption of fossil fuel, which justifies its brand AÇO VERDE DO BRASIL (GREEN STEEL OF BRAZIL)], the name of the vertical integration project.

The need for capital-intensive resources, the difficulties for obtaining financing, the implementation issues and other difficulties inherent in a project of this magnitude are being overcome by FERROESTE GROUP, which is convinced that it will manufacture the best long steel, completely free of contaminants and at costs that are among the most competitive in the market.

FERROESTE GROUP invests in and values the qualification and development of its employees, having about 150 employees in training courses through a partnership developed with the National Service for Industrial Training (SENAI), aiming at the operation of the Steel mill as from March 2016, and its continuous improvement.

FERROESTE GROUP intends to increase its pig iron production to 180 thousand metric tons/year in its subsidiary CBF INDÚSTRIA DE GUSA S.A., maintaining its share in the domestic market to meet the needs of foundries and steel plants all over the Brazilian territory, as well as customers abroad, which demand special nodular pig iron, a full-fledged product.

FERROESTE GROUP intends to optimize the production of Anhydrous and Hydrated alcohol by 15% in 2015, and by 10% in the period from 2016 to 2019, aiming to achieve the volume expected and extend the crop season, in line with its operating balance, considering that the investments in genetic development of its plantations and irrigation equipment will achieve an increase in the production of sugarcane per hectare higher than that obtained to date in its associates DESTILARIA VEREDAS INDÚSTRIA DE AÇÚCAR E ÁLCOOL LTDA. and VEREDAS AGRO LTDA

FERROESTE GROUP maintains partnerships in real estate projects, one of them in the city of Contagem, State of Minas Gerais, Cidade Industrial District, which is carried out together with the construction company Direcional Engenharia S.A., in addition to others in the states of Minas Gerais and Bahia, with its associates FERROESTE INDUSTRIAL LTDA. and G5 AGROPECUÁRIA LTDA.

FERROESTE GROUP invests, through its subsidiary GUSA NORDESTE, in a partnership with the Masaveu Group, of Spanish origin, in the company Cimento Verde do Brasil S.A. (CVB) which, after only two years of operations, presented satisfactory results in 2014, arising from an industrial scenario of greater maturity and operational development, with positive figures in revenues, costs and expenses. Focusing on product and market development, CVB foresees an annual growth of 8% to achieve an increasing financial stability.

FERROESTE GROUP thanks all its customers, suppliers, partners and particularly its employees, who contributed to the achievement of the results for 2015. We would also like to emphasize that, through dedication, hard work and perseverance, we will continue contributing to the Company's progress and the sustainable development of the region in which we operate.

The Management.

Ferroeste Group

Combined balance sheet at December 31

All amounts in thousands of reais

Assets	Note	2015	2014
Current assets			
Cash and cash equivalents	5	4,504	2,386
Financial investments	6	71,805	19,570
Trade receivables	7	14,193	21,385
Inventories	8	50,833	75,635
Taxes recoverable	9	46,960	35,637
Advances to suppliers		6,218	10,388
Prepaid expenses		274	353
Other receivables		92	994
		194,879	166,348
Non-current assets			
Long-term receivables			
Financial investments	6	49,567	100,283
Trade receivables	7	3,396	5,555
Taxes recoverable	9	10,993	19,178
Deferred tax assets	22	26,670	12,965
Related parties	10	200	189
Deposits in court		1,527	1,586
Other receivables		651	246
		93,004	140,002
Biological assets	11	341,490	339,029
Investments	12	25,559	20,445
Property, plant and equipment	13	1,255,616	1,127,133
Intangible assets		5,270	5,250
		1,720,939	1,631,859
Total assets		1,915,818	1,798,207

Liabilities	Note	2015	2014
Current liabilities			
Trade payables	14	162,336	164,199
Borrowings	15	120,324	32,876
Advances on foreign exchange contracts	16	149,064	121,111
Advances from customers	17	75,193	37,235
Labor charges		8,089	8,354
Tax liabilities		5,447	3,826
Dividends payable	10	4,345	8,272
Taxes in installments	19	402	229
Other payables		980	579
		526,180	376,681
Non-current liabilities			
Borrowings	15	531,773	546,350
Taxes in installments	19	6,018	5,973
Related parties	10	13,339	13,563
Contingencies	20	10,975	8,769
Export agents' commission	18	81,318	55,314
Deferred tax liabilities	22	114,748	117,469
Other payables		436	1,747
		758,607	749,185
Equity	21		
Share capital		250,000	250,000
Carrying value adjustments		208,058	216,185
Tax incentive reserve		50,456	50,456
Revenue reserve		131,018	165,749
Treasury shares		(10,263)	(10,263)
Shareholders' equity		629,269	672,127
Non-controlling interests		1,762	214
Total equity		631,031	672,341
Total liabilities and equity		1,915,818	1,798,207

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

Ferroeste Group

Combined statement of operations
Years ended December 31
All amounts in thousands of reais

	Note	2015	2014
Net sales revenue	23	483,294	396,235
Cost of sales	24	(375,533)	(296,696)
Gross profit		107,761	99,539
Sales and distribution	24	(33,102)	(26,957)
General and administrative	24	(27,500)	(34,500)
Other operating income, net	24	5,103	3,561
Equity in the results of subsidiaries	12	2,086	3,360
Gain on biological assets	11	14,246	29,900
Operating profit		68,594	74,903
Finance results			
Finance costs		(20,945)	(20,072)
Finance income		15,024	9,669
Foreign exchange variation, net		(110,676)	(23,465)
Profit (loss) before taxation		(48,003)	41,035
Income tax and social contribution		5,083	(3,986)
Profit (loss) for the year		(42,920)	37,049
Attributable to owners of the parent		(42,858)	37,045
Attributable to non-controlling interests		(62)	4
		(42,920)	37,049

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

Ferroeste Group

Combined statement of comprehensive income (loss)
Years ended December 31
All amounts in thousands of reais

	2015	2014
Profit (loss) for the year	(42,920)	37,049
Total comprehensive income (loss) for the year	(42,920)	37,049

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

Ferroeste Group

Combined statement of changes in equity

All amounts in thousands of reais

	Share capital	Carrying value adjustments	Tax incentive reserve	Revenue reserves	Retained earnings	Treasury shares	Total	Non-controlling interest	Total equity
At December 31, 2013	200,000	239,881		220,232			660,113	300	660,413
Restatement of balances	37,418	117,785	43,454	79,978		(10,263)	268,372		268,372
Capital decrease due to spin-off	(10,057)	(70,681)					(80,738)		(80,738)
Capital decrease	(142,000)	(46,166)					(188,166)	(82)	(188,248)
Distribution of dividends				(3,600)			(3,600)		(3,600)
Provision for deferred taxes		(15,606)					(15,606)	(8)	(15,614)
Capital increase	164,639			(164,639)					
Realization of reserves		(9,028)			9,028				
Profit for the year					37,045		37,045	4	37,049
Allocations to:									
Legal reserve				830	(830)				
Tax incentive reserve			7,002		(7,002)				
Unrealized profits reserve				4,234	(4,234)				
Mandatory dividends					(5,293)		(5,293)		(5,293)
Profit retention reserve				28,714	(28,714)				
At December 31, 2014	250,000	216,185	50,456	165,749		(10,263)	672,127	214	672,341
Realization of reserves		(8,127)			8,127				
Result for the year					(42,858)		(42,858)	(62)	(42,920)
Allocations to:									
Legal reserve				352	(352)				
Unrealized profits reserve				2,771	(2,771)				
Profit retention reserve				8,317	(8,317)				
Absorption of losses				(46,171)	46,171				
Transactions with non-controlling interests								1,610	1,610
At December 31, 2015	250,000	208,058	50,456	131,018		(10,263)	629,269	1,762	631,031

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

Ferroeste Group

Combined statement of cash flows
Years ended December 31
All amounts in thousands of reais

	Notes	2015	2014
Cash flows from operating activities			
Profit (loss) for the year		(42,858)	37,045
Items not affecting cash and cash equivalents			
Depreciation, amortization and depletion		69,407	61,539
Adjustment to present value		4,123	(953)
Monetary and foreign exchange variations, net		116,912	22,186
Gain on biological assets		(14,247)	(29,900)
Gain (loss) on sale of property, plant and equipment		(1,279)	617
Deferred taxes		(16,426)	(5,869)
Equity in the results of subsidiaries		(2,086)	(3,360)
Provisions for contingencies		2,206	2,893
Provision for impairment loss		(181)	726
Non-controlling interest		1,548	(86)
		117,119	84,838
(Increase) decrease in operating assets			
Trade receivables		9,501	(3,917)
Inventories		24,802	(21,972)
Taxes recoverable		(3,138)	2,358
Advances to suppliers		(51,411)	(3,280)
Prepaid expenses		79	(166)
Deposits in court		59	1,800
Other receivables		497	2,029
		(19,611)	(23,148)
Increase (decrease) in operating liabilities			
Trade payables		(7,959)	19,327
Advances from customers		18,427	(30,273)
Social security charges		(265)	545
Tax liabilities		1,621	(7,527)
Taxes in installments		218	(8,009)
Export agents' commission			3,882
Other payables		(910)	(3,727)
		11,132	(25,782)
Net cash provided by operating activities		108,640	35,908
Cash flows from investing activities			
Financial investments		(3,188)	(2,912)
Investments in property, plant and equipment		(123,682)	(138,328)
Investments in biological assets		(32,038)	(46,326)
Investments in intangible assets		(611)	(5,323)
Financial investments		(1,519)	(100,562)
Disposal of investment		160	378
Disposal of property, plant and equipment		4,101	13,952
Payables to/receivables from related parties		(235)	5,548
Net cash used in investing activities		(157,012)	(273,573)
Cash flows from financing activities			
Payment of dividends		(3,927)	(4,737)
Advances on foreign exchange contracts		24,938	(9,537)
Borrowings		98,127	329,303
Amortizations		(31,115)	(55,817)
Payment of interest		(37,533)	(22,122)
Capital decrease			(532)
Net cash provided by financing activities		50,490	236,558
Increase (decrease) in cash and cash equivalents		2,118	(1,107)
Statement of increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		2,386	3,493
Cash and cash equivalents at the end of the year		4,504	2,386
Increase (decrease) in cash and cash equivalents		2,118	(1,107)

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

1 General information

The combined financial statements of Ferroeste Group are presented solely for the purpose of providing information relating to all of the Group's activities, regardless of its corporate structure.

The combined financial statements are presented to provide additional analyses of the operations carried out by Ferroeste Group, and do not represent the parent company or consolidated financial statements of Empresa de Mecanização Rural S.A. and Gusa Nordeste S.A., nor should they be taken as a basis for purposes of calculating dividends, taxes, or for any other corporate purposes, or as an analysis of profitability or performance.

Considering that since May 2014, Gusa Nordeste S.A. has been directly controlled by the shareholders of Empresa de Mecanização Rural S.A. and, as a result, these companies are under common control, the management of Ferroeste Group has decided to prepare these combined financial statements.

The combined financial statements of Ferroeste Group, which include the consolidated financial statements of Empresa de Mecanização Rural S.A., and the individual financial statements of Gusa Nordeste S.A., have been prepared in accordance with the Technical Pronouncement CPC 36 - "Consolidated Financial Statements", in line with the accounting practices established in the Technical Pronouncement CPC 44 - "Combined Financial Statements". The combined financial statements include the sum of the statements, eliminating intercompany balances or transactions between the combined companies, as well as adjustments from unrealized results between these entities and the alignment with accounting practices.

The issue of the combined financial statements of Ferroeste Group for the year ended December 31, 2015 was approved and authorized by Management on May 13, 2016.

The Group's businesses include the production of pig iron, charcoal, cement and ethanol, forestation and reforestation activities, power generation, sugarcane cultivation, and real estate activities, developed through its subsidiaries.

MECANIZAÇÃO
EMPRESA DE MECANIZAÇÃO RURAL LTDA.

CBF INDÚSTRIA DE GUSA S/A | ferroeste | DV DESTILARIA VEREDAS

ENERGIA VIVA | CARVALHO CARVALHO PROJETOS EMPREENDIMENTOS E CONSULTORIA LTDA | fiesa

G5 AGROPECUÁRIA LTDA | Escarpas Do Corumbá | VEREDAS AGRO

Empresa de Mecanização Rural S.A. ("Meca" or Company"), is engaged in the rendering of services of earthmoving, paving and related works; railway infrastructure and superstructure; exploration of agricultural mechanized services; forestation and reforestation; preparation of forest and agribusiness projects; handling (management) and sale of forests and by-products; sale of real estate properties and similar developments; exploration of hotel services; lease of chattels and properties; and investment in other companies.

Meca, the parent of the companies CBF, Ferroeste, G5 Agropecuária, Energia Viva, Destilaria, Veredas Agro, Fiesa, Carvalho Projetos and Escarpas do Corumbá, is a corporation located at Afonso Pena, 4100, 10th. floor, Room 1, Cruzeiro District, City of Belo Horizonte, State of Minas Gerais, Brazil, formed on October 24, 1968. Its articles of incorporation are registered with the Board of Trade of the State of Minas Gerais. On December 16, 2013, according to the 33rd amendment to the Articles of Incorporation of the Company, its business structure was changed from a limited liability company to a corporation, and its name was changed to Empresa de Mecanização Rural S.A.

Gusa Nordeste S.A. ("Gusa") is mainly engaged in the manufacture, sale, import and export of steel products, especially steel and pig iron in all their forms and by-products, as well as the inputs and equipment required for their production, transformation or processing; sale of its own forests and products, forest exploitation, timber extraction, charcoal production and eucalyptus cultivation focusing on obtaining emission reductions and greenhouse gas removals under the Clean Development Mechanism of the Kyoto Protocol or other carbon credit trading systems; cement production; extraction of metallic and non-metallic minerals; and investments in other companies, with due regard to legal provisions.

Gusa is a privately-held corporation headquartered at Rodovia BR 222, Km 14,5 – Pequiá, Açailândia District, State of Maranhão, Brazil, formed on October 3, 1984, with its articles of incorporation registered with the Board of Trade of the State of Maranhão.

CBF Indústria de Gusa S.A. ("CBF") is engaged in the manufacture, sale, import and export of steel products, particularly pig iron in all its forms, as well as the inputs and equipment necessary for their production, transformation or processing; sale of its own forests and products; and investments in other companies, in compliance with the legal provisions.

CBF is a privately-held corporation, headquartered at AV. Afonso Pena, 4,100, 10th floor – Cruzeiro District, in Belo Horizonte, State of Minas Gerais, Brazil, formed on December 19, 1991, with its articles of incorporation registered with the Board of Trade of the State of Espírito Santo and subsequently transferred to Minas Gerais.

Ferroeste Industrial Ltda. ("Ferroeste") is mainly engaged in the transformation/processing and sale of its own forests and products, in compliance with the legal provisions; purchase, sale and lease of its own residential and non-residential properties, land and parking spaces; exploration of parking lots; and other activities inherent in the real estate segment.

Ferroeste is a limited partnership, located at Av. Afonso Pena, 4,100, 10th floor, room 05 - Cruzeiro District, in Belo Horizonte, State of Minas Gerais, Brazil. It was formed on May 26, 1959, with its articles of organization registered with the Board of Trade of the State of Minas Gerais.

G5 Agropecuária Ltda. ("G5") is engaged in agricultural and livestock farming, forest exploration, wood extraction, charcoal production and eucalyptus cultivation. G5 may also carry out all the agribusiness activities and sell agricultural products, in view of the generation of reduced emissions and removal of greenhouse effect gases pursuant to the Clean Development Mechanism of the Kyoto Protocol or other carbon emissions trading schemes. The company can also sell properties and services of corporate management consulting.

G5 is a limited partnership, located at Av. Afonso Pena, 4,100, 10th floor, room 02 - Cruzeiro District, in Belo Horizonte, State of Minas Gerais, Brazil. It was formed on August 1, 1984, with its articles of organization registered with the Board of Trade of the State of Minas Gerais.

Energia Viva Agroflorestal Ltda. ("Energia Viva") is engaged in forestation, reforestation and related activities.

Energia Viva is a limited partnership located at Fazenda Sibéria – Rodovia BR 226, km 41, s/n, Zona Rural - Grajaú – State of Maranhão, Brazil, formed on October 10, 2007, with its articles of organization registered with the Board of Trade of the State of Maranhão.

Destilaria Veredas Indústria de Açúcar e Álcool Ltda. ("Destilaria Veredas") is engaged in the manufacture and sale of sugar, alcohol and related by-products.

Destilaria Veredas is a limited partnership located at Fazenda Tapera – Rodovia BR-040, km 186, left entry, Zona Rural - João Pinheiro, State of Minas Gerais, Brazil, formed on November 3, 2008, with its articles of organization registered with the Board of Trade of the State of Minas Gerais.

Veredas Agro Ltda. ("Veredas Agro") is engaged in the cultivation and sale of sugarcane and related products.

Veredas Agro is a limited partnership located at Fazenda Tapera – Rodovia BR-040, km. 186, left entry, Zona Rural, João Pinheiro, State of Minas Gerais, Brazil, formed on May 20, 2008, with its articles of organization registered with The Board of Trade of the State of Minas Gerais.

FIESA - Ferroeste Industrial do Espírito Santo S.A. ("FIESA") is mainly engaged in the purchase, sale and lease of its own residential and non-residential properties, land and parking spaces; exploration of parking lots; and other activities inherent in the real estate segment.

FIESA is a privately-held corporation headquartered at Av. Afonso Pena, 4,100, 10th floor, room 03, Ed. Atlântico, Cruzeiro District in Belo Horizonte, State of Minas Gerais, Brazil, formed on January 12, 1985, with its articles of incorporation registered with the Board of Trade of the State of Espírito Santo and subsequently transferred to Minas Gerais.

Carvalho Projetos, Empreendimentos e Consultoria Ltda. ("Carvalho") is engaged in its own or third-parties' forestation activities, and may also invest in other companies and sell real estate properties. Its operational activities have been suspended during this period.

Carvalho is a limited partnership located at Fazenda Godinho, BR 367, KM 06, s/nº – Lado Norte Portaria – Bairro Posses – Turmalina, State of Minas Gerais, Brazil, formed on February 8, 1971, with its articles of organization registered with the Board of Trade of the State of Minas Gerais.

From 2015, **Escarpas do Corumbá Empreendimentos Ltda**. ("Escarpas") started to be included in the consolidation. The company is engaged in projects of land subdivision of its own properties.

Escarpas is headquartered at Al. dos Buritis, 408, Ed. Buriti Center, Room 1,005, Centro, Goiânia, State of Goiás. It was formed on April 19, 2006, with its articles of organization registered with the Board of Trade of the State of Goiás.

The Group has been working on the production verticalization process, particularly the construction of a steel rolling mill unit, called AVB - Aço Verde do Brasil, a 100% green steel mill, with zero consumption of fossil fuel, high-tech equipment and high level of automation, provided with environmental control devices aimed at minimizing the emission of effluents of any kind.

The first phase is almost completed, and the steel mill is expected to start production in the first half of 2016. The second phase, which consists of the rolling process, is also foreseen to start in the second half of 2016. This undertaking is primarily intended for the domestic market, mainly the civil construction and industry segments.

The huge investments made by the Company, which are expected in projects of such nature, and that are at the realization stage, are reflected in the Company's excess of current liabilities. The financing agent of the verticalization process, Banco do Nordeste do Brasil (BNB), through the Northeast Financing Constitutional Fund (FNE), provided R$437 million of the total investments made up to 2015, which amounted to approximately R$805 million. The Group has been seeking other sources of funds to complete the project. The start-up of the Steel Mill operations will provide a more comfortable and less costly financial situation.

The Group's projections include improvements in the external scenario, with the recovery of the American, European and Asian markets, except for China, the growth in its sugarcane and ethanol operations and the continuity of its real estate developments, through the implementation of the corporate governance program, focused on increasing productivity and reducing costs in order to maximize its results.

The Group expects to increase its production of pig iron to 180 metric tons/year in its associate CBF, maintaining its share in the domestic market to meet the needs of foundries and steel plants all over the Brazilian territory and customers abroad, which demand special nodular pig iron, a full-fledged product.

The Group also expects to increase the production of Anhydrous and Hydrated alcohol by 15% in 2016, and by 10% in the period from 2017 to 2019, aiming to achieving volume and extending the crop season, in line with its operational equilibrium and considering the investments made in genetic development of its plantations and irrigation equipment, intended to increase the sugarcane production per hectare. The Group expects that the production in its associated companies Destilaria Veredas and Veredas Agro increases by 35% in 2016 in relation to 2015, as well as an annual growth of 10% in the period from 2016 to 2018.

The companies Empresa de Mecanização Rural S.A., Gusa Nordeste S.A., CBF Indústria de Gusa S.A., Ferroeste Industrial Ltda., G5 Agropecuária Ltda., Energia Viva Agroflorestal Ltda., Destilaria Veredas Indústria de Açúcar e Álcool Ltda., Veredas Agro Ltda., FIESA - Ferroeste Industrial do Espírito Santo S.A., and Carvalho Projetos, Empreendimentos e Consultoria Ltda. are all entities under common control, engaged in complementary activities. They are controlled by the same group of shareholders and the same key management personnel is responsible for making decisions. The companies use the operational and administrative structure of Empresa de Mecanização Rural S.A. e CBF Indústria de Gusa S.A.

2 Summary of significant accounting policies

The financial statements have been prepared and are being presented in accordance with the accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the periods presented,

2.1 Basis of preparation

These financial statements have been prepared under the historical cost convention, which, in the case of financial assets and liabilities, as well as biological assets, are adjusted to reflect the measurement to fair value and the deemed cost applied at the date of transition to CPCs.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policies and disclosures

There are no new CPC pronouncements or interpretations effective from 2015 that would be expected to have a material impact on the combined, parent company or consolidated financial statements.

2.2 Basis of combination

The combined financial statements have been prepared in accordance with the concepts and techniques applicable to the consolidation of financial statements. They reflect the sum of the statements, and eliminate intercompany balances or transactions between the combined entities.

The combined financial statements include the consolidated financial statements of Empresa de Mecanização Rural S.A. and the individual financial statements of Gusa Nordeste S.A.

All amounts in thousands of reais unless otherwise stated

The consolidated financial statements of Meca include the operations of the Company and of the following subsidiaries, in which the Company's ownership interest at the balance sheet date was as follows:

Subsidiaries	**Ownership interest (%)**	
	2015	**2014**
CBF Indústria de Gusa S.A.	99.95	99.95
Fiesa - Ferroeste Industrial do Espírito Santo S.A.	99.95	99.95
Ferroeste Industrial Ltda.	99.95	99.95
G5 Agropecuária Ltda.	99.95	99.95
Veredas Agro Ltda.	99.95	99.95
Destilaria Veredas Indústria Açúcar e Álcool Ltda.	99.95	99.95
Energia Viva Agroflorestal Ltda.	99.95	99.95
Carvalho Projetos Empreendimentos e Consultoria Ltda.	99.95	99.95
Escarpas do Corumbá Empreendimentos Ltda.	62.50	50.00

2.3 Functional currency and translation of foreign currency

(a) Functional and presentation currency

Items included in the Group's combined financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The financial statements are presented in Brazilian reais (R$), which is the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the dates of valuation when items are remeasured.

Foreign exchange gains and losses that relate to "Borrowings", "Advances on foreign exchange contracts" and "Export agents' commissions" are presented in the combined statement of operations as "Foreign exchange variation, net".

2.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, with immaterial risk of change in value.

2.5 Financial assets

2.5.1 Classification

The Group classifies its financial assets, upon initial recognition, in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets have been acquired.

At December 31, 2015 and 2014, the Group did not have financial assets classified as available-for-sale.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. All financial assets in this category correspond to financial investments and are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities longer than 12 months after the end of the reporting period, which are classified as non-current assets. The Group's loans and receivables comprise "Trade receivables" and "Cash and cash equivalents".

2.5.2 Recognition and measurement

Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of operations. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recorded in the statement of operations in the period in which they occur.

2.5.3 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle them on a net basis, or realize the asset and settle the liability simultaneously. The legal right shall not be contingent upon future events and shall be applicable in the ordinary course of business, in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.5.4 Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flow of the financial asset or group of financial assets that can be reliably estimated.

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of loss is recognized in the statement of operations. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recorded loss is recognized in the statement of operations.

2.6 Trade receivables

Trade receivables are amounts due for products sold in the ordinary course of the Group's activities. If collection is expected in one year or less, trade receivables are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment of trade receivables. In practice, the fair value of trade receivables does not differ from the sales amount, considering the average term of receipt.

2.7 Inventories

Inventories are stated at average cost, net of taxes to be offset, when applicable, and the fair value of biological assets at the cut-off date, which are both lower than the net realizable values. The costs of finished products comprise processed raw materials, direct labor, other direct costs and related production overheads.

When necessary, inventories are presented net of a provision for losses, which is recorded in case of depreciation, obsolescence or losses identified in physical inventory counts.

2.8 Investments (parent company)

These refer to investments in subsidiaries and associates, which are accounted for under the equity method in the parent company's financial statements, based on the Company's ownership interests in these companies. The financial statements of subsidiaries are prepared for the same reporting period as those of the parent company. When necessary, adjustments are made to bring the accounting policies in line with those adopted by the companies.

2.9 Property, plant and equipment

Property, plant and equipment items are stated at acquisition or construction cost, less taxes to be offset, when applicable, and accumulated depreciation.

The Group has opted for adopting the deemed cost, adjusting the opening balances on the transition date, at January 1, 2009, by their fair values, estimated based on a study carried out by specialized company. The assets acquired subsequently to the transition date were recorded at the cost of acquisition.

The Group calculates depreciation on a straight-line basis taking into consideration the estimated useful lives of each asset, which is based on the expected future economic benefits. The estimated useful lives of these assets are reviewed annually and adjusted, when necessary.

Useful life review	
Buildings	30 to 48 years
Facilities	3 to 10 years
Machinery and equipment	4 to 15 years
Vehicles	3 to 10 years
Furniture and fittings	3 to 5 years
Data center	3 to 8 years

The residual values and the useful lives of the assets are reviewed and adjusted, if appropriate, at the end of each reporting period.

An asset's carrying amount is immediately written down to its recoverable amount when the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of operations.

2.10 Leases

Lease payments are allocated between finance charges and a reduction of the lease liability, so as to obtain a constant interest rate on the remaining balance of liabilities. Finance charges are recognized in the statement of operations.

2.11 Biological assets

The Group carries out the valuation of its biological assets annually, and any gain or loss on fair value variation is recognized in the statement of operations in the period in which it occurs. The increase or decrease in the fair value is determined as the difference between the fair values of the biological assets at the beginning and at the end of the period, net of the planting costs incurred to develop the biological assets, and biological assets depleted during the period.

Depletion is calculated based on the volume cut in relation to the existing potential volume.

2.12 Intangible assets

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programs are expensed as incurred.

2.13 Impairment of non-financial assets

Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-generating units (CGUs)). Non-financial assets that were adjusted due to impairment are subsequently reviewed for possible reversal of the impairment at the balance sheet date.

2.14 Trade payables

Trade payables are obligations to pay for goods or services acquired in the ordinary course of business. They are classified as current liabilities if payment is due in one year or less. Otherwise, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the total amount payable is recognized in the statement of operations over the period of the borrowing using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs directly related to the acquisition, construction or production of a qualifying asset that requires a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset when it is probable that future economic benefits associated with the item will flow to the entity and the costs can be measured reliably. Other borrowing costs are recognized as finance costs in the period in which they are incurred.

2.16 Provisions

Provisions are recognized when: (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.17 Current and deferred income tax and social contribution

Current and deferred income tax and social contribution are calculated on the basis of tax laws enacted. Management periodically evaluates the positions taken by the Group in income tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate, based on the estimated amounts expected to be paid to the tax authorities, except to the extent that they relate to items recognized in comprehensive income or directly in equity.

Current income tax and social contribution are presented net in liabilities where there are amounts payable, or in assets when the amounts prepaid exceed the total amount due at the reporting date.

Deferred income tax and social contribution balances are recognized, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilized.

The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective jurisdictions in which it operates. The amount of such provisions is based on various factors, such as experience of past tax audits and different interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the companies.

2.18 Tax incentives

Tax incentives are recognized where there is a reasonable assurance that the benefit will be received and that all established conditions for the grant will be met. When the benefit relates to an expense item, it is recognized as revenue over the period of benefit, on a systematic basis in relation to the costs the benefit intends to offset. When the benefit relates to an asset, it is recognized in the statement of operations as deferred income at equal amounts over the expected economic life of the asset.

2.19 Revenue recognition

(a) Sale of products

Revenue comprises the fair value of the consideration received or receivable for the sale of products in the ordinary course of the Group’s activities. The revenue is shown net of taxes, returns, rebates and discounts.

The Group recognizes revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(b) Finance income

Finance income is recognized on an accruals basis, using the effective interest rate method. Subsequently, as time elapses, interest is incorporated, against finance income. This interest income is calculated at the same effective interest rate used to determine the recoverable amount, that is, the original rate of the instrument.

3 Significant accounting estimates and assumptions

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events, which are believed to be reasonable under the circumstances.

Based on assumptions, the Group makes estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are mainly related to deferred income tax and social contribution, fair value of biological assets, provisions for contingencies and useful lives of property, plant and equipment items.

4 Risk management and financial instruments

4.1 Financial risk factors

The Group's management is responsible for the risk management, ensuring that all financial risks are properly identified, assessed and managed. The Group's policy is not to take part in any derivative trades for speculative purposes.

The Group is exposed to risks related to market, credit and liquidity.

(a) Market risk

Market risk is the risk of fluctuations in the fair value of future cash flows of a financial instrument due to changes in market prices, and can be segregated into interest rate risk, foreign exchange risk and commodity price risk.

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates mainly refers to long-term liabilities that are subject to variable interest rates. The Group's liabilities are subject to the Special System for Settlement and Custody (SELIC), Long-Term Interest Rate (TJLP) and General Market Price Index (IGP-M) fixed rates.

(ii) Foreign exchange risk

The Group's exposure to fluctuations in the foreign exchange rates relates mainly to operating activities and borrowings in foreign currency.

(iii) Commodity price risk

The main products sold by the Group, pig iron and ethanol, are commodities whose selling price is determined by the international market, taking into account various economic factors.

(b) Credit risk

Credit risk is the risk that a counterparty does not fulfill an obligation established in a financial instrument or contract, which may lead to a financial loss. The Group is exposed to credit risk in its operating activities (mainly in connection with trade receivables) and financing activities, including deposits in banks and financial institutions, foreign exchange transactions and other financial instruments.

(i) Trade receivables

The credit risk arising from trade receivables is managed on an individual basis, in accordance with policy previously established. Furthermore, sales operations are often supported by letters of credit issued by top tier financial institutions, or through advances from customers.

The need for a provision for impairment losses is analyzed at each reporting date on an individual basis for major customers.

(ii) Financial instruments and cash deposits

The credit risk of balances with banks and other financial institutions is managed by the Group's treasury area. Following its investment policies, the Group maintains its financial investments in low-risk instruments with financial institutions considered by management as prime institutions in Brazil, based on the ratings disclosed by risk rating agencies. Management considers these financial assets as cash and cash equivalents due to their immediate liquidity with financial institutions.

(c) Liquidity risk

The Group maintains the continuity and flexibility of its financial resources through overdraft accounts, advances on foreign exchange contracts (ACC), bank loans and financing for investments.

4.2 Other risk factors

(a) Regulatory and environmental risks

The Group is subject to laws and regulations pertinent to its activities. The Group has established environmental policies and procedures aimed at mitigating this risk. Management performs periodical analyses in order to identify environmental risks and to ensure that the systems in place are sufficient to manage such risks.

All amounts in thousands of reais unless otherwise stated

(b) Climate risks

The Group's operating activities are exposed to the risk of damage caused by climate changes, plagues, diseases, forest fires and other forces of nature. The Group's processes aimed at mitigating these risks include regular inspections in the planting area.

4.4 Capital management

	2015	2014
Total borrowings (Note 15)	652,097	579,226
Advances on foreign exchange contracts	149,064	121,111
Less: cash and cash equivalents (Note 5)	(4,504)	(2,386)
Less: financial investments (Note 6)	(121,372)	(119,853)
Net debt	675,285	578,098
Total equity (Note 21)	631,031	672,341
Total capital	1,306,316	1,250,439
Gearing ratio (%)	41.7	46.2

5 Cash and cash equivalents

	2015	2014
Fixed fund	10	13
Banks accounts	620	628
Financial investments	3,874	1,745
	4,504	2,386

6 Financial investments

As contractually established, the company Gusa maintains an account related to investments in Bank Deposit Certificates (CDB) with Banco do Nordeste do Brasil (BNB), at market rates, to guarantee the borrowings.

The Company recognized income from financial investments in the amount of R$ 14,288 (2014 - R$ 6.801) as finance income.

All amounts in thousands of reais unless otherwise stated

7 Trade receivables

	2015	2014
Domestic market	16,776	22,545
Foreign market	1,247	4,869
Less: provision for impairment	(434)	(474)
	17,589	26,940
Current	14,193	21,385
Non-current	3,396	5,555

8 Inventories

	2015	2014
Finished product - Pig iron	12,928	33,732
Finished product - Ethanol	3,359	7,466
Properties for sale	15,005	10,741
Livestock and temporary crops	3,994	3,177
Raw materials	12,889	17,943
Store room	2,282	2,273
Other inventories	376	303
	50,833	75,635

9 Taxes recoverable

	2015	2014
State Value-Added Tax (ICMS) (a)	30,355	27,852
Social Integration Program (PIS)/ Social Contribution on Revenues (COFINS) (b)	12,742	21,009
Corporate Income Tax (IRPJ)/Social Contribution on Net Income (CSLL)	6,176	2,147
Excise Tax (IPI)	292	303
REINTEGRA (b)	6,073	1,291
Other	2,315	2,213
	57,953	54,815
Current	46,960	35,637
Non-current	10,993	19,178

(a) Mainly refers to credit on exports.

(b) Refers to credits on purchases of goods and services in compliance with the non-cumulative tax system (Laws 10,637/2002 and 10,833/2003) and the Special Tax Refund Regime for Exporters of Manufactured Goods (REINTEGRA), the objective of which is to refund amounts related to existing residual tax costs in the production chains of exporting companies, by returning to the exporter of manufactured goods up to 3% (three per cent) of the amount exported.

All amounts in thousands of reais unless otherwise stated

10 Transactions with related parties

These amounts refer to receivables and payables between the Group companies and shareholders, which are interest-free and have established maturity date.

The balances outstanding at the end of the year have no guarantees, are not interest-bearing and are settled in cash.

No guarantees have been given or received in relation to any accounts receivable or payable between related parties. The Company has not recorded any impairment loss on receivables from related parties.

	2015	2014
Assets		
Non-current		
Related parties		
Other related parties - individuals	200	189
	200	189
Liabilities		
Current		
Dividends payable		
Other related parties - individuals	4,345	8,272
	4,345	8,272
Non-current		
Related parties		
Other related parties - individuals	13,339	13,563
	13,339	13,563

11 Biological assets

The Group's biological assets comprise the plantation and cultivation of eucalyptus forests and sugarcane for processing and utilization in the production of pig iron and ethanol.

The balance of the Group's biological assets is made up of the cost of formation and the difference between fair value and formation cost, so that the balance of biological assets as a whole is recognized at fair value, less the costs necessary to prepare the assets for use or sale.

(a) Assumptions for the recognition of the fair value

In accordance with CPC 29 - Biological Assets and Agricultural Products, the Group recognizes its biological assets at fair value, based on the following assumptions:

Eucalyptus forests

(i) Eucalyptus forests are measured at fair value, which reflects the sale price of the assets less the costs necessary to prepare them for the intended use or sale;

(ii) The production volumes of forests are projected through stratification based on each type, genetic material, forest handling system, production potential, rotation and age of forests. The set of these characteristics forms an index named Average Annual Growth (AAG), expressed in cubic meters per hectare/year, which is used as the basis for productivity projection. The Group's harvesting plan varies from six to seven years for eucalyptus;

(iii) The prices of biological assets, denominated in R$/cubic meter, are obtained through market research, based on information disclosed by specialized companies, and also on prices practiced by the Group in sales to third parties. The prices obtained are adjusted by deducting the capital costs relating to land, since they refer to assets that contribute to the planting of forests, and other costs necessary to prepare the assets for sale or consumption;

(iv) Planting expenses refer to the costs of formation of biological assets;

(v) The depletion of biological assets is calculated based on the fair value of biological assets harvested in the period;

(vi) The Group reviews the fair value of its biological assets annually, for understanding that this frequency is sufficient to prevent inconsistency in the fair value of the biological assets reported in its financial statements.

Sugarcane

(i) Sugarcane plantations are recorded at historical cost, as management understands that during this period, the historical cost of biological assets approximates their fair value;

(ii) Planting expenses refer to the costs of formation of biological assets;

(iii) Depletion of biological assets is calculated based on the cost of biological assets harvested in the period;

(b) Basis for fair value variations

The depletion of biological assets for the period was charged to production cost, after an initial allocation to inventories when forests are harvested, and the subsequent utilization in the production process or sale to third parties.

All amounts in thousands of reais unless otherwise stated

Changes

	Total
At December 31, 2013	297,439
Acquisition	53,345
Depletion	(41,655)
Valuation	29,900
At December 31, 2014	339,029
Acquisition	36,071
Depletion	(47,857)
Valuation	14,247
At December 31, 2015	341,490

12 Investments

	2015	2014
In associates	21,980	18,066
In properties	2,964	2,218
Other investments	615	161
	25,559	20,445

(a) Changes

	2015	2014
Opening balance	20,445	14,582
(+) Equity in the results of subsidiaries	2,086	3,360
(+) Increase in ownership interest	5,944	2,513
(-) Decrease in ownership interest	(160)	
(-) Effect of the inclusion of Escarpas in consolidation	(2,756)	(10)
	25,559	20,445

All amounts in thousands of reais unless otherwise stated

(b) Information on investees

	Information on investees					Combined Investment		
	Capital	No. of shares/quotas held	Equity	Profit (loss) for the year	Ownership interest (%)	Equity in the results of investees	Cost	Total
At December 31, 2015								
Cimento Verde do Brasil S.A (i)	33,869	16,934,396	43,960	4,172	50.00%	21,980		21,980
Properties							2,964	2,964
Other							615	615
						21,980	3,579	25,559
At December 31, 2014								
Cimento Verde do Brasil S.A (i)	25,869	12,934,396	31,788	6,706	50.00%	15,894		15,894
Escarpas do Corumbá Empreendimentos Ltda. (ii)	4,429	2,214,313	4,219	(51)	50.00%	2,110	62	2,172
Other							2,379	2,379
						18,004	2,441	20,445

(i) Cimento Verde do Brasil S.A.

Gusa Nordeste started its cement manufacturing activities in 2011 and established the subsidiary Cimento Verde do Brasil S.A. ("CVB") on April 27, 2012, by paying its capital with all equipment required for cement production. On October 1, 2012, the Company sold 50% of its interest in CBV to Masaveu.

(ii) Escarpas de Corumbá Empreendimentos

Investment in the associated company Escarpas do Corumbá Empreendimentos Ltda. ("Escarpas do Corumbá") a real estate enterprise located in Abadiânia, State of Goiás. In 2015, this company started to be controlled by Meca.

All amounts in thousands of reais unless otherwise stated

13 Property, plant and equipment

	Land	Buildings and facilities	Machinery and equipment	Furniture and fittings	Vehicles	Data center	Aircraft	Construction in progress	Total
Cost:									
At December 31, 2014	265,611	95,644	224,701	2,441	29,531	1,471	6,075	674,754	1,300,228
Additions	2,308	2,105	6,866	103	2,676	105		138,316	152,479
Transfers		1,494	1,286	18	101	30		(2,929)	
Disposals /Write-offs		(1,887)	(590)	(9)	(677)	(25)	(200)	(235)	(3,623)
At December 31, 2015	267,919	97,356	232,263	2,553	31,631	1,581	5,875	809,906	1,449,084
Depreciation:									
At December 31, 2014		(36,343)	(115,885)	(1,330)	(13,316)	(1,133)	(5,088)		(173,095)
Additions		(6,046)	(12,330)	(157)	(1,916)	(137)	(587)		(21,173)
Disposals /Write-offs		285	115	4	269	17	110		800
At December 31, 2015		(42,104)	(128,100)	(1,483)	(14,963)	(1,253)	(5,565)		(193,468)
Net book value:									
At December 31, 2014	265,611	59,301	108,816	1,111	16,215	338	987	674,754	1,127,133
At December 31, 2015	267,919	55,252	104,163	1,070	16,668	328	310	809,906	1,255,616

All amounts in thousands of reais unless otherwise stated

14 Trade payables

	Combined	
	2015	**2014**
Domestic market	152,120	153,990
Foreign market	10,216	10,209
	162,336	164,199

15 Borrowings

The combined balances of borrowings are presented below:

Description	**Currency**	**2015**	**2014**
BB – Industry (1)	R$	418,003	369,594
BNB – Rural (2)	R$	51,160	49,544
Working capital (3)	R$	164,210	134,546
BB – Industry (4)	R$	6,445	8,283
ROF (5)	USD	6,322	9,163
Government Agency for Machinery and Equipment Financing (FINAME)	R$	5,555	7,391
Other	R$	402	705
		652,097	579,226
Current		120,324	32,876
Non-current		531,773	546,350

Borrowing rates range from 7% to 15% p.a. (2014 - 7% to 15%). Borrowings are guaranteed by machinery and equipment, urban plots of land and farms.

In 2015, the amount of R$ 45,815 (2014 - R$ 31,234) referring to interest on borrowings was recognized with corresponding entries to:

	2015	**2014**
Finance costs in the result for year	12,035	10,819
Property, plant and equipment	30,139	17,063
Biological assets	3,641	3,352
	45,815	31,234

All amounts in thousands of reais unless otherwise stated

The Group is subject to covenants as determined by agreements, based on certain indicators of guarantee coverage. For the year ended December 31, 2015, the Group seems to be in compliance with the covenants.

Maturity Year	**Amount**
2017	116,966
2018	71,324
2019	70,825
2020	70,507
2021	55,337
2022	54,797
2023	31,017
2024	30,500
2025	30,500
	531,773

The nature of the borrowings is described below:

(1) Banco do Nordeste – Industrial - Funds for the construction of a thermoelectric power plant to produce its own electricity and the construction of a steel plant focused on transforming pig iron into steel. The payment of the principal falls due on July 26, 2015 and January 26, 2018 and the final maturities on December 25, 2022 and 2025.

(2) Banco do Nordeste – Rural - Funds intended for eucalyptus plantation, with final maturity in October 2020.

(3) Working capital – Mainly refers to amounts originally received as advances for future deliveries, which, by virtue of changes in the contracts that govern these deliveries, shall be refunded by the Company to the payers. As a guarantee of the fulfillment of this obligation to the lenders, the Group has pledged properties as collateral.

(4) Banco do Brasil – Funds intended for operational maintenance, including the acquisition of inputs, machinery and equipment for the manufacture of products.

(5) Funds obtained from Banco Safra N. Bank of New York, equivalent to US$ 1,602(US$ 3,400 in 2014), subject to an interest rate of 3.75% p.a.

16 Advances on foreign exchange contracts

Advances on foreign exchange contracts (ACCs) are borrowings taken to finance the production for export. Interest rates range from 8.31% to 9.50 % p.a. (2014 - 8.31% to 8.50 %) and maturities are up to 360 days. Interest of R$ 8,799 (2014 - R$ 8,183) was incurred and R$ 3,015 (2014 - R$ 13,647) was accrued as foreign exchange variation, with a corresponding entry to profit or loss for the year.

All amounts in thousands of reais unless otherwise stated

17 Advances from customers

	2015	2014
Domestic market	508	919
Foreign market (a)	74,685	36,316
	75,193	37,235

(a) The balance refers to advances received from customers to be settled with future deliveries of pig iron. The foreign exchange variation recorded against profit or loss for the year amounted to R$ 36,050 (2014 - R$ 7,335).

18 Export agents' commission

The balance refers to the commission payable to external export agents. Agents' average remuneration corresponds to 3% of the balance they traded.

There is no maturity negotiated for these liabilities, which are not expected to be settled in the next 12 months. The amounts do not bear interest. The amount of R$ 26,004 (2014 - R$ 10,179) was recorded under Foreign exchange variation, net, in the statement of operations.

19 Taxes payable in installments

	2015	2014
State (a)	789	243
Brazilian Federal Revenue Service (RFB) – Refis 2000 (b)	3,477	3,606
RFB – Refis - Law 11,941 (c) and (d)	2,154	2,353
	6,420	6,202
Current	402	229
Non-current	6,018	5,973

Based on studies and preliminary assessments, the Group's management has opted to enroll in the State and Federal programs for taxes payable in installments.

a) Refers to the installment payment of state debts, falling due monthly up to August 2020.

b) Tax Recovery Program (REFIS), including all the federal charges, Income Tax, Social Contribution, PIS, COFINS and INSS. The amount is monthly paid and is equivalent to 0.6% of the billings of the subsidiary Ferroeste.

c) Amounts referring to tax assessment notices issued by the Brazilian Environmental Institute (IBAMA) against the subsidiary CBF. The Company used the benefits of Law 12,249/2009 and Law 12,296 /2014 for the settlement, which consisted of 180 installments and the amnesty granted. The debt balance is adjusted at the SELIC rate and final maturity is scheduled for September 2028.

d) On December 1, 2014, the subsidiaries CBF and G5 Agropecuária filed with the RFB the Application for Early Settlement of Installments based on Article 33 of Provisional Measure 651, of July 9, 2014, requesting the early settlement of all its taxes payable in installments, according to the rules defined in the Joint Ordinance 15, issued on August 22, 2014, by the Federal Revenue Service and Attorney-General of the National Treasury (RFB/PGFN), which administer these debts.

All amounts in thousands of reais unless otherwise stated

20 Contingencies and tax debts

Provisions for civil, labor, tax and environmental proceedings were estimated by management, significantly based on the opinion of its legal advisors. Only provisions for proceedings classified as with probable risk of loss were recorded, as follows:

	Combined	
	2015	**2014**
Labor	591	64
Civil	6,133	4,068
Tax	351	730
	7,075	4,862
Tax debts		
Tax assessment notice (a)	3,900	3,907
Total	10,975	8,769

(a) Refers to the tax assessment notice received in 2005, in the amount of R$3,402, related to federal tax and contributions. At the administrative level, Gusa used offset statements for the settlement of the tax assessment notices issued. However, no administrative decisions in respect of offset claims have been handed down to date.

The Group also identified, in the subsidiaries G5, CBF and Veredas, the existence of administrative and judicial proceedings, of which the risk of loss was classified by its legal advisors as possible, with a contingent liability of R$4,113 at December 31, 2015 (2014 - R$1,246). The amount was not provided for, according to management's judgment and accounting practices adopted in Brazil.

21 Equity

(a) Share capital

Empresa de Mecanização Rural S.A.

Subscribed and paid-up share capital of Empresa de Mecanização Rural S.A. is R$ 210,000, comprising 210,000,000 shares.

All amounts in thousands of reais unless otherwise stated

Gusa Nordeste S.A.

Subscribed and paid-up share capital of Gusa Nordeste S.A. is R$40,000, comprising 970,049 shares, of which 606,590 are registered common shares and 363,459, registered preferred shares. Each common share entitles the holder to one vote in Shareholders' General Meetings.

(b) **Revenue reserves**

	2015	2014
Legal reserve (i)	9,171	8,819
Unrealized profit reserve (ii)	7,148	6,256
Profit retention reserve (iii)	114,699	150,674
	131,018	165,749

(i) Legal reserve

This reserve is recorded at the rate of 5% of each year's profit, in compliance with Article 193 of Law 6,404/76, up to the limit of 20% of the share capital.

(ii) Unrealized profit reserve

Refers to the unrealized portion of profit for the year.

(iii) Profit retention reserve

This reserve is set up with the remaining balance of retained earnings after the transfers, to be subsequently allocated as defined by the General Meeting.

(c) Carrying value adjustment

Recorded, net of tax charges, as a result of the adoption of the deemed cost for property, plant and equipment items, being realized through depreciation or write-off.

(d) Profit distribution

The shareholders are entitled to a mandatory minimum dividend corresponding to 25% of the profit for the year, adjusted as established in the bylaws.

All amounts in thousands of reais unless otherwise stated

Empresa de Mecanização Rural S.A.

	2015	2014
Profit for the year	7,034	7,866
Realization of reserve	4,406	5,165
Transfer to legal reserve	(352)	(393)
Minimum dividend calculation basis	11,088	12,638
Dividends computed (25%)	2,771	3,160
Profit for the year	7,034	7,866
Less: equity in the results of subsidiaries	(7,522)	(7,060)
Realized and distributable share of profit		806
Unrealized share of profit (unrealized profit reserve)	2,771	2,354

Gusa Nordeste S.A.

	2015	2014
Profit (loss) for the year	(49,892)	29,042
Realization of reserve	3,721	3,863
Transfer to legal reserve		(437)
Transfer to tax incentive reserve		(7,002)
Minimum dividend calculation basis	(46,171)	25,466
Dividends computed (25%)		6,367
Realized share of profit to be distributed		4,487
Unrealized share of profit (unrealized profit reserve)		1,880

22 Income tax and social contribution

The current and deferred income tax and social contribution were calculated based on the current tax rates. Deferred income tax and social contribution are calculated on temporary differences and accumulated income tax and social contribution losses.

(a) Income tax and social contribution

	2015	2014
Current	(11,343)	(9,888)
Deferred	16,426	5,902
	5,083	(3,986)

All amounts in thousands of reais unless otherwise stated

(b) Reconciliation of income tax

	2015	2014
Profit (loss) before income tax and social contribution	(48,003)	41,035
Combined standard rate of income tax and social contribution - %	34%	34%
Income tax and social contribution at statutory rates	16,321	(13,952)
Adjustments for the calculation of the effective rate		
Permanent exclusions (additions)		
REINTEGRA	2,256	698
System of Support to Industry and Foreign Commerce (SINCOEX)	148	811
Equity in the results of subsidiaries	3,267	3,541
Other	(3,202)	(238)
Income tax and social contribution	18,790	(9,140)
Write-off of losses	(1,495)	
Worker's Meal Program (PAT), Rouanet Law and other	97	67
Rate differential arising from profit on exports	(12,309)	5,087
Current and deferred income tax and social contribution	5,083	(3,986)

(c) Deferred taxes

	2015	2014
Assets		
Income tax and social contribution losses	7,567	4,721
Contingencies	926	587
Foreign exchange variations	18,177	7,541
Difference in depreciation		116
	26,670	12,965
Liabilities		
Carrying value adjustments	93,971	97,096
Valuation of biological assets	12,720	11,522
Difference in depreciation	7,308	7,086
Adjustment to present value	709	1,717
Deferred revenue	40	48
	114,748	117,469

(d) Law 12,973/14

At January 1, 2015, the provisions of Law 12,973/14 entered into effect, since the Company did not opt for the early adoption, in 2014. From 2015, sub-accounts were opened for the recording of positive and negative differences between the value of assets measured according to the Brazilian corporate law and the accounting criteria in force at December 31, 2007 (Transitional Tax System (RTT)), so that the tax effects of these adjustments are reflected as the assets are realized.

All amounts in thousands of reais unless otherwise stated

23 Net sales revenue

The reconciliation between gross sales revenue and net revenue, presented in the statement of operations for the year, is as follows:

	2015	2014
Foreign market - pig iron	307,989	278,225
Domestic market - pig iron	30,978	48,062
Foreign market - soybean (a)	43,936	
Electrical energy	55,665	51,367
Ethanol	53,577	28,959
Other products	9,646	10,267
(-) ICMS	(8,793)	(10,102)
(-) PIS/COFINS	(8,467)	(8,127)
(-) IPI	(695)	(407)
(-) INSS	(385)	(978)
(-) Cancellations and returns	(157)	(1,031)
	483,294	396,235

(a) Refers to the performance operation carried out for purposes of compliance with foreign exchange contract.

24 Costs and expenses by nature

	2015	2014
Raw materials and intermediate materials	(155,073)	(162,566)
Salaries, payroll charges and benefits	(67,515)	(35,015)
Depletion of biological assets	(47,857)	(39,398)
Depreciation and amortization	(21,550)	(22,141)
Outsourced services	(26,774)	(17,890)
Taxes	(24,342)	(21,985)
Maintenance and upkeep	(10,922)	(11,186)
Electrical energy	(18,573)	(14,355)
Lease of equipment	(21,824)	(4,282)
Distribution and logistics	(13,732)	(10,418)
Other income and expenses	(22,870)	(15,356)
	(431,032)	(354,592)
Cost of sales	(375,533)	(296,696)
Sales and distribution	(33,102)	(26,957)
General and administrative	(27,500)	(34,500)
Other operating income, net	5,103	3,561
	(431,032)	(354,592)

* * *

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