Gusa Nordeste S.A.

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
Gusa Nordeste S.A.
Açailândia – MA

We have audited the financial statements of Gusa Nordeste S.A. ("Company"), which comprise the balance sheet as at December 31, 2015 and the statements of income, comprehensive income, 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 financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 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 entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

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

Emphasis of matter

As described in Note 1 to the financial statements, the Company 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 Açailândia unit, which is at the completion stage. In this context, considering the term of the investment, the Company presented negative working capital of R$ 257,261 thousand at December 31, 2015 (December 31, 2014 – R$ 211,740 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 financial statements. Our opinion is not qualified in respect of this matter.

Belo Horizonte, May 09, 2016

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

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

CBF – MANAGEMENT REPORT
2015

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

In view of its proven operational excellence, the Company believes in the success of its investment in the production verticalization process of converting 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. The Company will produce the world's first long steel without consumption of any fossil fuel, which justifies its brand AÇO VERDE DO BRASIL [GREEN STEEL FROM BRAZIL], the name of the verticalization process.

The steel mill and rolling equipment is the most modern in the sector, to ensure excellence in the production of long steel.

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 the Company, 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. As a result of the expected steel market expansion and the Company's recognition as a new international player in this commodity segment, the brand Aço Verde do Brasil has its first export already scheduled for the second half of 2016 and hopes to consolidate a strong position in this market by the end of this year.

The Company invests in the qualification and development of its staff, having about 150 employees enrolled 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 2016.

The Company thanks all its customers, suppliers, investors, communities in which it operates, business partners in general, and, particularly, its employees, who contributed to the achievement of our goals in 2015. We would also like to emphasize that, through modesty and perseverance, we will continue contributing to the Company's progress and the sustainable development of the society, focusing on the coming startup of the project which, in regional terms, can be considered as the most structuring industrial project at social and economic levels.

The Management.

Gusa Nordeste S.A.

Balance sheet at December 31
All amounts in thousands of reais

	Note	2015	2014
Current assets			
Cash and cash equivalents		1,511	1,378
Financial investments	5	71,805	19,570
Trade receivables	6	3,447	8,987
Inventories	7	13,201	25,360
Taxes recoverable	8	24,776	21,683
Advances to suppliers		1,252	5,851
Prepaid expenses		34	45
Other receivables		92	106
		116,118	82,980
Non-current assets			
Long-term receivables			
Financial investments	5	49,567	100,283
Taxes recoverable	8	7,607	7,607
Deferred tax assets	20	15,527	6,047
Related parties	9	122	
Deposits in court		384	369
		73,207	114,306
Biological assets	10	143,945	159,400
Investments	11	22,040	15,921
Property, plant and equipment	12	895,064	759,527
Intangible assets		2,431	2,309
		1,136,687	1,051,463
Total assets		1,252,805	1,134,443

	Note	2015	2014
Current liabilities			
Trade payables	13	98,128	97,197
Borrowings	14	102,357	20,833
Advances on foreign exchange contracts	15	82,111	121,111
Advances from customers	16	74,615	36,340
Labor charges		4,028	3,936
Tax liabilities		1,606	1,632
Dividends payable	9	9,999	13,111
Other payables		535	560
		373,379	294,720
Non-current liabilities			
Borrowings	14	457,581	491,410
Related parties	10	179,240	75,185
Contingencies	18	9,737	7,447
Export agents' commission	17	59,218	40,282
Deferred tax liabilities	20	14,660	15,206
Other payables		156	1,467
		720,592	630,997
Equity	19		
Share capital		40,000	40,000
Carrying value adjustments		39,520	43,241
Tax incentive reserve		50,456	50,456
Revenue reserve		39,121	85,292
Treasury shares		(10,263)	(10,263)
		158,834	208,726
Total liabilities and equity		1,252,805	1,134,443

Gusa Nordeste S.A.

Statement of operations
Years ended December 31
All amounts in thousands of reais unless otherwise stated

	Note	2015	2014
Net sales revenue	21	256,912	211,227
Cost of sales	22	(208,426)	(148,585)
Gross profit		48,486	62,642
Sales and distribution	22	(22,979)	(19,678)
General and administrative	22	(9,143)	(12,846)
Other operating income, net	22	1,065	3,417
Equity in the results of subsidiaries	9	2,086	3,353
Gain on biological assets	12	6,791	25,018
Operating profit		26,306	61,906
Finance result, net			
Finance costs		(12,952)	(15,361)
Finance income		14,555	7,810
Foreign exchange variation, net		(87,827)	(21,371)
Profit (loss) before taxation		(59,918)	32,984
Income tax and social contribution	20	10,026	(3,942)
Profit (loss) for the year		(49,892)	29,042
Earnings (loss) per share - R$		(82.30)	47.91

Gusa Nordeste S.A.

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

	2015	2014
Profit (loss) for the year	(49,892)	29,042
Total comprehensive income (loss) for the year	(49,892)	29,042

Gusa Nordeste S.A.

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
At December 31, 2013	37,418	117,785	43,454	80,115		(10,263)	268,509
Capital increase with reserves	12,639			(12,639)			
Partial split-off (Note 1.1)	(10,057)	(70,681)					(80,738)
Realization of reserves		(3,863)			3,863		
Dividends distributed				(3,600)			(3,600)
Profit for the year					29,042		29,042
Allocations to:							
Legal reserve				437	(437)		
Tax incentive reserve			7,002		(7,002)		
Unrealized profit reserve				1,880	(1,880)		
Operating reserve				19,099	(19,099)		
Mandatory minimum dividends					(4,487)		(4,487)
At December 31, 2014	40,000	43,241	50,456	85,292		(10,263)	208,726
Realization of reserves		(3,721)			3,721		
Loss for the year					(49,892)		(49,892)
Allocations to:							
Absorption of loss				(46,171)	46,171		
At December 31, 2015	40,000	39,520	50,456	39,121		(10,263)	158,834

Gusa Nordeste S.A.

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

	Note	2015	2014
Cash flows from operating activities			
Profit (loss) for the year		(49,892)	29,042
Items not affecting cash and cash equivalents			
Depreciation, amortization and depletion		30,455	23,380
Adjustment to present value		2,111	333
Monetary and foreign exchange variations, net		91,627	26,266
Gain on biological assets	12	(6,791)	(25,018)
Proceeds from the sale of property, plant and equipment		23	425
Deferred taxes		(10,026)	1,530
Equity in the results of subsidiaries	9	(2,086)	(3,353)
Provisions for tax debts	18	2,290	3,075
		57,711	55,680
(Increase) decrease in operating assets			
Trade receivables		5,535	(409)
Inventories		12,159	(10,600)
Taxes recoverable		(3,093)	8,234
Advances to suppliers		(48,547)	(4,215)
Prepaid expenses		11	6
Deposits in court		(15)	(1)
Other receivables		14	2,916
		(33,936)	(4,069)
Increase (decrease) in operating liabilities			
Trade payables		(3,153)	(9,128)
Advances from customers		18,765	(14,826)
Social security charges		92	714
Tax liabilities		(26)	(6,962)
Other payables		(1,336)	(3,036)
		14,342	(33,238)
Net cash provided by operating activities		38,117	18,373
Cash flows from investing activities			
Financial investments	9	(4,033)	(27)
Investments in property, plant and equipment		(115,168)	(205,628)
Investments in intangible assets		(122)	(2,309)
Financial investments		(1,519)	(100,562)
Disposal of property, plant and equipment		198	95,412
Net cash used in investing activities		(120,644)	(213,114)
Cash flows from financing activities			
Payment of dividends		(3,112)	(1,093)
Payables to/receivables from related parties		103,933	(73,013)
Advances on foreign exchange contracts		(32,107)	8,701
Borrowings		63,703	319,615
Amortizations		(14,350)	(40,657)
Payment of interest		(35,407)	(20,583)
Net cash provided by financing activities		82,660	192,970
Increase (decrease) in cash and cash equivalents		133	(1,771)
Statement of increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		1,378	3,149
Cash and cash equivalents at the end of the year		1,511	1,378
Increase (decrease) in cash and cash equivalents		133	(1,771)

1 General Information

Gusa Nordeste S.A. ("Gusa" or "Company") is mainly engaged in the manufacture, sale, import and export of steel products, especially steel and pig iron in all its forms and by-products, as well as the inputs and equipment necessary for their production, transformation or processing; sale of its own forests and products, 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 manufacturing; extraction of metallic and non-metallic minerals; sale, export and distribution of own or third-parties' agricultural products in general, either raw, processed, or manufactured; manufacturing of industrial gases; and investment in other companies, with due regard to the legal provisions.

Gusa is a privately-held corporation headquartered at Rodovia BR 222, Km 14.5 – Pequiá District, City of Açailândia, 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.

In 2012, the Company segregated the activity of cement production into "CVB" – CIMENTO VERDE DO BRASIL S/A" and sold 50% of its ownership interest to the Masaveu group, with expectations of annual dividends of approximately 10% on the capital invested, as from 2015.

The Company 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, without fossil fuel consumption, and with 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 was completed, with the start of production in January 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 issue of the financial statements of Gusa Nordeste S.A. for the year ended December 31, 2015, was authorized by Management on May 9, 2016.

1.1 Spin-off

In 2014, the Company's net assets were partially spun-off, based on the balance sheet as of April 30, 2014; net assets in the amount of R$80,738 were spun off and Gusa Nordeste S.A remained with an equity of R$187,635. The spun-off portion was merged into the related party Energia Viva Agroflorestal Ltda.

All amounts in thousands of reais unless otherwise stated

	4/30/2014	Spun-off portion	Remaining balance
Assets			
Current assets			
Prepayments	9,182	(2,365)	6,817
Other receivables	3,606	(3,078)	528
Outros current items	102,173		102,173
	114,961	(5,443)	109,518
Non-current assets			
Property, plant and equipment	747,572	(88,015)	659,557
Other non-current items	160,711		160,711
	908,283	(88,015)	820,268
Total assets	1,023,244	(93,458)	929,786
Liabilities			
Current liabilities	422,813		422,813
Non-current liabilities			
Deferred taxes	23,221	(12,720)	10,501
Other non-current items	308,837		308,837
	332,058	(12,720)	319,338
Equity			
Share capital	50,057	(10,057)	40,000
Carrying value adjustments	116,848	(70,681)	46,167
Other items of equity	101,468		101,468
	268,373	(80,738)	187,635
Total liabilities	1,023,244	(93,458)	929,786

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, or not effective yet, that would be expected to have a material impact on the Company's financial statements.

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in Brazilian reais (R$), which is the Company'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 and recognized in the statement of operations as "Foreign exchange variations, net".

2.3 Cash and cash equivalents

Cash and cash equivalents includes 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.

2.4 Financial assets

2.4.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity 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 Company had only financial assets classified as loans and receivables, and measured at fair value through profit or loss.

(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 Company's loans and receivables comprise "Trade receivables" and "Cash and cash equivalents".

2.4.2 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 subsequently 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 arise.

2.4.3 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.

2.4.4 Impairment of financial assets

The Company 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 the loss is recognized in the statement of operations. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, as determined in the contract. As a practical expedient, the Company 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 the 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 recognized impairment loss is recognized in the statement of operations.

2.5 Trade receivables

Trade receivables are amounts due for products sold in the ordinary course of the Company's activities. If collection is expected in one year or less, they 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 amounts, considering the average collection term.

2.6 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 net of a provision for inventory losses, established for cases of depreciation in the value of inventories, obsolescence of products and losses identified in physical inventory counts.

In addition, because of the nature of the Company's products, obsolete finished products may be recycled for reuse in production.

2.7 Property, plant and equipment

Property, plant and equipment items are stated at cost less accumulated depreciation. This cost was adjusted to reflect the deemed cost of land, buildings, machinery and equipment at the transition date to CPCs. Cost includes expenditures directly attributable to the acquisition, as well as the borrowing costs related to the acquisition of qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with these costs will flow to the Company and they can be measured reliably. The carrying amounts of the replaced items or parts are derecognized. All other repairs and maintenance are charged to the statement of operations during the financial period in which they are incurred.

Land is not depreciated. Depreciation of assets is calculated using the straight-line method to reduce their cost to their residual values over their estimated useful lives, as follows:

	Years.
Buildings	32-48
Facilities	3-10
Machinery and equipment	10-15
Furniture, fittings and equipment	3-5
Vehicles	3-8
Data center	3-8

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.

2.8 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.

2.9 Biological assets

The valuation of biological assets is carried out annually by the Company, and any gain or loss 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 value of biological assets at the beginning and at the end of the period, net of planting costs incurred to develop the biological assets and biological assets depleted during the period.

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

2.10 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 the 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.

2.11 Investment in jointly-controlled subsidiary

Jointly-controlled subsidiaries are all entities over which the Company has significant influence, but not control. Investments in jointly-controlled subsidiaries are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's share of profits or losses of its jointly-controlled subsidiary is recognized in the statement of operations. When the Company's share of losses in a jointly-controlled subsidiary equals or exceeds the carrying amount of the investment, including any other receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or jointly-controlled subsidiary.

2.12 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. In practice, the fair value of trade payables does not differ from the purchases amounts, considering the average payment term.

2.13 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 Company 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 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 Company and costs can be measured reliably. Other borrowing costs are recognized as finance costs in the period in which they are incurred.

2.14 Provisions

Provisions are recognized when (i) the Company has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of funds 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 is 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.

The assessment of the likelihood of loss includes the evaluation of existing evidence, hierarchy of laws, available case law, most recent court decisions and their relevance in the law system, as well as the opinion of outside legal advisors. Provisions are reviewed and adjusted to take into consideration changes in circumstances, such as applicable statute of limitation periods, conclusions arising from tax audits, or additional exposures identified based on new issues or court decisions.

2.15 Current and deferred income tax and social contribution

Current and deferred income tax and social contribution charges are calculated on the basis of tax laws enacted. Management periodically evaluates the positions taken by the Company 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 Company 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 Company.

2.16 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 Company's activities. Revenue is shown net of taxes, returns, rebates and discounts.

The Company recognizes revenue when the related 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 its activities. The estimates are based 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 Company makes estimates concerning the future. The resulting accounting estimates will, by definition, seldom match 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 Company's management is responsible for the risk management, ensuring that all financial risks are properly identified, assessed and managed. The Company's policy is not to take part in any derivative trades for speculative purposes.

The Company is exposed to market risk, including currency risk, cash flow or fair value interest rate risk, price risk, credit risk and liquidity risk.

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument fluctuates 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 Company's exposure to the risk of changes in market interest rates refers mainly to long-term obligations subject to floating interest rates. The Company'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 company's exposure to the risk of changes in foreign exchange rates relates primarily to the operational activities, since most of the Company's sales are made to the foreign market.

(iii) Commodity price risk

The main product sold by the Company, the pig iron, is a commodity 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 fails to fulfill an obligation established in a financial instrument or contract, which may lead to a financial loss. The Company 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 carried out through advances from customers.

The need for recording 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 Company's treasury area according to the policy established.

(c) Liquidity risk

The Company 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 Company is subject to laws and regulations pertinent to its activities. The Company 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 Company's operating activities are exposed to the risk of damage caused by climate changes, plagues, diseases, forest fires and other forces of Nature. The Company's processes aimed at mitigating these risks include regular inspections in the plantation area.

4.3 Capital management

	2015	2014
Total borrowings (Note 14)	559,938	512,243
Less: cash and cash equivalents	(1,511)	(1,378)
Less: financial investments (Note 5)	(121,372)	(119,853)
Net debt	437,055	391,012
Total equity	158,834	208,726
Total share capital	595,889	599,738
Gearing ratio (%)	73.3	65.2

5 Financial investments

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

The Company recognized income from financial investments in the amount of R$ 14,288 (2014 - R$ 6,801) as finance income.

6 Trade receivables

	2015	2014
Foreign market - pig iron	430	1,288
Domestic market - energy	2,199	6,380
Domestic market - other	370	310
Related parties (Note 9)	448	1,009
	3,447	8,987

Management believes that the risk of default on trade receivables is minimized by the fact that its portfolio is comprised of major clients, with long-term contracts that include interruption clauses. There is no history of loss recorded in the balances of trade receivables and, therefore, no provision has been recorded for the realization of these amounts.

7 Inventories

All amounts in thousands of reais unless otherwise stated

	2015	2014
Finished products	7,995	20,318
Raw materials	3,488	3,519
Intermediary materials	280	119
Store room	1,438	1,404
	13,201	25,360

8 Taxes recoverable

	2015	2014
State Value-Added Tax (ICMS) (a)	11,725	15,696
Social Integration Program (PIS)/ Social Contribution on Revenues (COFINS) (b)	14,497	11,955
Corporate Income Tax (IRPJ)/Social Contribution on Net Income (CSLL)	5,789	1,347
Excise Tax (IPI)	292	231
Other	80	61
	32,383	29,290
Current	24,776	21,683
Non-current	7,607	7,607

(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 (REINTEGRA), the objective of which is to refund amounts related to existing residual tax costs in production chains of exporting companies, by returning to the exporter of manufactured goods up to 3% (three per cent) of the amount exported.

9 Transactions with related parties

The amounts refer to receivables and payables between the Group companies, 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 the receivables from related parties.

All amounts in thousands of reais unless otherwise stated

	2015	2014
Assets		
Trade receivables (Note 6)		
Cimento Verde do Brasil S.A	401	1,009
Ferroeste Industrial Ltda.	47	
	448	1,009
Related parties		
Veredas Agro Ltda.	122	
	122	
Liabilities		
Trade payables (Note 13)		
Cimento Verde do Brasil S.A	143	24
G5 Agropecuária Ltda.	14,570	14,027
	14,713	14,051
Dividends payable		
Empresa de Mecanização Rural S.A.	6,113	6,113
Other shareholders	3,886	6,998
	9,999	13,111
Related parties		
Empresa de Mecanização Rural S.A.	133,260	30,052
CBF Indústria de Gusa S.A.	18,812	10,171
Energia Viva Agroflorestal Ltda.	13,879	21,471
Other related parties	13,289	13,491
	179,240	75,185
Transactions		
Purchases		
G5 Agropecuária Ltda.	870	8,538
	870	8,538

10 Biological assets

The Company's biological assets comprise the plantation and cultivation of eucalyptus forests for processing and utilization in pig iron production. Depletion is calculated based on the volume cut in relation to the existing potential volume.

At December 31, 2015, the Company had 16,766 (2014 – R$ 22,903) hectares of planted forests, not considering the permanent preservation and legal reserve areas that should be maintained to comply with Brazilian environmental legislation.

All amounts in thousands of reais unless otherwise stated

	Cost	Valuation	Total
At December 31, 2013			
Cancellation (a)	126,674		126,674
Addition	23,012		23,012
Depletion	(15,304)		(15,304)
Valuation		25,018	25,018
At December 31, 2014	134,382	25,018	159,400
Addition			
Depletion	(18,801)	(3,445)	(22,246)
Valuation		6,791	6,791
At December 31, 2015	115,581	28,364	143,945

(a) In 2013, the Company decided to sell its entire forest massif, of 22,190 hectares planted, to the related company Energia Viva Agroflorestal Ltda. for the market price of R$126,674, in accordance with assumptions for the fair value of biological assets. In 2014, the Company cancelled the agreement signed, due to the non-realization of the expected commercial transaction.

In accordance with CPC 29 - Biological Assets and Agricultural Products, the Company reviews the fair value of its biological assets annually, based on the following assumptions:

(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 prices of biological assets, denominated in R$/cubic meter, are obtained through market research.

11 Investments

	2015	2014
Cimento Verde do Brasil S.A (a)	21,980	15,894
Other	60	27
	22,040	15,921

(a) Cimento Verde do Brasil S.A - Changes in the investment

The Company 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 the equipment required for cement production. On October 1, 2012, the Company sold 50% of its interest in CBV to Masaveu.

All amounts in thousands of reais unless otherwise stated

	2015	**2014**
Opening balance	15,894	12,541
Payment of capital	4,000	
Equity in the results of investee	2,086	3,353
	21,980	15,894

In 2015, the investee's equity totaled R$ 31,788 (2014 – R$ 31,788) and profit for the year amounted to R$ 4,172 (2014 –R$6,706). The Company maintained a 50% ownership interest in the investee.

All amounts in thousands of reais unless otherwise stated

12 Property, plant and equipment

	Land	Buildings and facilities	Machinery and equipment	Furniture and fittings	Vehicles	Data center	Construction in progress (a)	Total
Cost:								
At December 31, 2014	5,171	38,350	118,044	936	6,985	415	669,705	839,606
Additions	2,300	901	4,946	54	88	20	135,658	143,967
Disposals /Write-offs			(94)	(5)	(148)	(7)	(85)	(339)
At December 31, 2015	7,471	39,251	122,896	985	6,925	428	805,278	983,234
Depreciation:								
At December 31, 2014		(11,986)	(63,943)	(468)	(3,392)	(290)		(80,079)
Additions		(1,652)	(6,056)	(66)	(390)	(45)		(8,209)
Disposals /Write-offs			46	3	62	7		118
At December 31, 2015		(13,638)	(69,953)	(531)	(3,720)	(328)		(88,170)
Net book value:								
At December 31, 2014	5,171	26,364	54,101	468	3,593	125	669,705	759,527
At December 31, 2015	7,471	25,613	52,943	454	3,205	100	805,278	895,064

(a) The balance of construction in progress refers to the construction of the steel mill and includes borrowing costs.

At December 31, 2015, there was no indication of impairment loss on property, plant and equipment items.

All amounts in thousands of reais unless otherwise stated

13 Trade payables

	2015	**2014**
Domestic market	73,199	72,937
Foreign market	10,216	10,209
Related parties (Note 10)	14,713	14,051
	98,128	97,197

14 Borrowings

			2015		**2014**	
Description	**Currency**	**Maturity**	**Current**	**Non-current**	**Current**	**Non-current**
BNB Rural (a)	R$	11/13/2017	2,649	2,649	4,717	2,606
BNB Industry (b)	Real	12/26/2025	31,324	386,679	15,471	354,123
Working capital (c)	Real	12/31/2017	68,113	68,027	341	134,205
Government Agency for Machinery and Equipment Financing (FINAME)	Real	10/15/2017	271	226	296	476
Consortium	Real	6/10/2015			8	
			102,357	457,581	20,833	491,410

Borrowing rates range from 1.4% to 14.3% p.a. (2014 - 1.4% to 14.3% p.a.). Borrowings are guaranteed by investments, surety and property, plant and equipment items, in the amount of R$ 663 million.

In 2015, the amount of R$ 39,730 (2014 - R$ 26,348) referring to interest on borrowings was recognized with a corresponding entry to:

	2015	**2014**
Finance costs in the result for the year	2,536	2,147
Property, plant and equipment	37,194	24,201
	39,730	26,348

The nature of the main borrowings is described below:

(a) Banco do Nordeste - Rural – Funds intended for eucalyptus plantation.

(b) Banco do Nordeste – Industry – Funds for the construction of a steel mill and rolling unit intended for the process of transforming pig iron into steel.

(c) Working capital – R$ 134,120, refers to amounts originally received as advances for future supplies, which, by virtue of changes in the contracts that governed said supplies, shall be refunded by the Company to the payer. As a guarantee of the fulfillment of this obligation to the payers, the Company pledged properties as collateral.

All amounts in thousands of reais unless otherwise stated

15 Advances on foreign exchange contracts

Advances on foreign exchange contracts (ACCs) are borrowings taken to finance the production for export. Interest rates range from 5.40% to 8.50 % p.a. (2014 - 5.40% to 8.50 %) and maturities are up to 360 days. Interest of R$ 6,237 (2014 - R$ 8,183) was incurred and R$ 6,892 (2014 - R$ 9,964) was accrued as foreign exchange variation, with a corresponding entry to profit or loss for the year.

16 Advances from customers

	2015	2014
Domestic market	21	24
Foreign market (a)	74,594	36,316
	74,615	36,340

(a) The balance refers to advances received from customers to be settled with future deliveries of pig iron. Foreign exchange variation recorded against profit or loss for the year amounted to R$ 33,636 (2014 - R$ 7,335).

17 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 established 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$ 18,936 (2014 - R$ 8,404) was recorded under foreign exchange variation, net, in the statement of operations.

18 Contingencies

	2015	2014
Contingencies		
Civil	5,342	969
Labor	495	2,571
	5,837	3,540
Tax debts		
Tax assessment notice (a)	3,900	3,907
Total	9,737	7,447

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

All amounts in thousands of reais unless otherwise stated

Contingencies

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.

The Company also identified the existence of judicial proceedings, the risk of loss of which was classified as possible by its legal advisors, with a contingent liability of R$2,889 (2014 - R$2,579). The amount was not provided for, according to management's judgment and accounting practices adopted in Brazil.

19 Equity

(a) Share capital

The subscribed and paid-up 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)	8,000	8,000
Unrealized profit reserve		1,880
Operating and investment reserve (ii)	31,121	75,412
	39,121	85,292

(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) Operating and investment reserve

This reserve refers to profits in excess of the mandatory dividends intended to support the Company's investments and operations.

(c) Tax incentive reserves

The Company has been granted by the Superintendency for the Development of the Northeast (SUDENE, formerly ADENE), a reduction of 75% on its income tax calculated based on the exploitation profit, limited to the production of 360,000 metric tons/year, maximum. This reduction was valid for 10 (ten) years, expiring on December 31, 2024.

The Company has been granted the Industry and Foreign Trade Support System of the State of Maranhão ("SINCOEX"), which is a tax incentive in the form of subsidized financing, intended for Industrial and Agribusiness Companies (EIA) with implementation, expansion and relocation projects, as well as for Foreign Trade Companies (ECEX).

All amounts in thousands of reais unless otherwise stated

Accordingly, the Company can deduct up to 75% of the ICMS due for a period of 10 (ten) years, with a grace period of three years. It should be noted that SINCOEX regulation foresees a 95% reduction on the debit balance.

The income tax reduction (SUDENE) and the SINCOEX are incentives accounted for in the statement of operations for the year. The portion of net income resulting from these incentives is allocated to the tax incentive reserve and excluded from the mandatory dividend calculation basis.

(d) Carrying value adjustments

These are 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.

(e) Treasury shares

At the Extraordinary General Shareholder's Meeting held on August 9, 2010, the shareholders unanimously decided to acquire 400 common shares and 363,459 preferred shares from the shareholder Ricardo Nascimento, for R$ 10,263, to be held in Treasury, in accordance with the provisions of Law 6,404/76, item "b", paragraph 1.

(f) Dividends

Distribution of dividends to the shareholders of the Company is recognized as a liability in the Company's financial statements at year-end, based on the Company's bylaws. The shareholders are entitled to a mandatory minimum dividend corresponding to 25% of the profit for the year, adjusted in accordance with the Brazilian Corporate Law and as established in the Company's bylaws. Any amount that exceeds the minimum established, is only provided on the date it is approved by the shareholders.

	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
Portion of unrealized profit		(1,880)
Dividends proposed by management		4,487

All amounts in thousands of reais unless otherwise stated

20 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		(2,414)
Deferred	10,026	(1,528)
	10,026	(3,942)

(b) Deferred taxes

	2015	2014
Assets		
Income tax and social contribution losses	4,175	353
Contingencies	890	539
Foreign exchange variation	10,462	5,155
	15,527	6,047
Liabilities		
Difference in depreciation	3,023	3,087
Adjustment to present value	200	523
Carrying value adjustments	7,111	7,781
Valuation of biological assets	4,326	3,815
	14,660	15,206

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

(c) Reconciliation of income tax and social contribution for the year

	2015	2014
Profit before income tax and social contribution	(59,918)	32,984
Standard rate	34%	34%
	20,372	(11,215)
Permanent exclusions (additions)		
- REINTEGRA	1,095	
- SINCOEX	148	811
- Equity in the results of subsidiaries	709	1,140
- Other	(3)	40
Income tax and social contribution	22,321	(9,224)
Worker's Meal Program (PAT) and others	14	10
Rate differential arising from profit on exports	(12,309)	5,087
Tax losses not recognized in 2013		185
Income tax and social contribution	10,026	(3,942)

21 Net sales revenue

	2015	2014
Foreign market - pig iron	158,507	158,700
Foreign market - soybean (a)	43,936	
Domestic market - pig iron	2,555	7,547
Electrical energy	54,868	51,212
Granulated slag	1,039	2,772
Limestone	1,495	
Other products	602	15
(-) ICMS	(463)	(3,215)
(-) PIS	(998)	(1,018)
(-) COFINS	(4,599)	(4,689)
(-) IPI	(6)	
(-) INSS - tax burden reduction	(24)	(97)
	256,912	211,227

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

All amounts in thousands of reais unless otherwise stated

22 Costs and expenses by nature

	2015	2014
Raw materials and intermediate materials	(61,550)	(69,115)
Salaries, payroll charges and benefits	(34,993)	(21,909)
Depletion of biological assets	(36,757	(16,073)
Depreciation and amortization	(13,379)	(8,502)
Outsourced services	(15,394)	(9,455)
Maintenance and upkeep	(4,719)	(3,103)
Electrical energy	(15,935)	(9,535)
Lease of equipment	(17,604)	(9,589)
Taxes	(17,013)	(16,617)
Distribution and logistics	(8,494)	(6,423)
Fuel and lubricants	(2,688)	(1,440)
Tax incentives	3,656	4,433
Inventory adjustment	(5,154)	(1,231)
Other income and expenses	(9,459)	(9,133)
	(239,483)	(177,692)
Cost of sales	(208,426)	(148,585)
Sales and distribution	(22,979)	(19,678)
General and administrative	(9,143)	(12,846)
Other operating income, net	1,065	3,417
	(239,483)	(177,692)

* * *

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