Financial Statements

Carta Goiás Indústria e Comércio de Papéis S.A.

December 31, 2015 and 2014
with Independent Auditor's Report on Financial Statements

Carta Goiás Indústria e Comércio de Papéis S.A.

Financial statements
At December 31, 2015 and 2014

Contents

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A free translation from Portuguese into English of Independent Auditor's Report on Individual and Consolidated Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil

Independent auditor's report on financial statements

The Board of Directors, Shareholders and Officers
Carta Goiás Indústria e Comércio de Papéis S.A.
Niterói - RJ

We have audited the accompanying individual and consolidated financial statements of Carta Goiás Indústria e Comércio de Papéis S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2015, and the related statements of income, of comprehensive income, of changes in equity and of cash flow for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these individual and 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 consolidated 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 the 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 misstatements.

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 in 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting practices 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Carta Goiás Indústria e Comércio de Papéis S.A. as at December 31, 2015, its individual and consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Rio de Janeiro, March 24, 2016.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/F-6

Fernando Alberto S. Magalhães
Accountant CRC-1SP133169/O-0

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Carta Goiás Indústria e Comércio de Papéis S.A.

Balance sheets
At December 31, 2015 and 2014
(In thousands of reais)

		Company		Consolidated	
	Note	2015	2014	2015	2014
Assets					
Current assets					
Cash and cash equivalents	4	27,941	3,814	28,237	3,817
Restricted short-term investments	4	3,650	-	3,650	-
Trade accounts receivable	5	73,894	54,987	73,894	54,987
Inventories	6	33,717	28,855	33,717	28,855
Taxes recoverable	7	46,114	28,014	46,114	28,014
Advances to suppliers		9,392	4,248	9,392	4,248
Other current assets		1,788	2,045	1,788	2,045
		196,496	121,963	196,792	121,966
Noncurrent assets					
Derivative financial instruments	9	24	-	24	-
Other receivables		1,883	2,925	1,883	2,925
Investments	8	8,018	8,309	-	-
Property, plant and equipment	10	312,600	296,239	361,309	345,872
		322,525	307,473	363,216	348,797
Total assets		519,021	429,436	560,008	470,763
Liabilities and equity					
Current liabilities					
Trade accounts payable	11	74,699	34,747	74,699	34,747
Loans and financing	12	60,203	63,268	60,203	63,268
Taxes, charges and contributions	13	5,431	8,334	5,431	8,334
Labor and social security liabilities	14	8,956	7,691	8,956	7,691
Taxes payable in installments	15	3,536	4,705	3,536	4,705
Dividends payable	18	2,479	-	2,479	-
Advances from customers		8,105	7,562	8,105	7,562
Tax incentives		270	1,303	270	1,303
		163,679	127,610	163,679	127,610
Noncurrent liabilities					
Accounts payable		14,400	10,525	14,400	10,525
Loans and financing	12	153,298	135,969	153,298	135,969
Deferred government grant – donation	10	-	-	30,000	30,000
Provision for contingencies	16	17,799	30,807	17,799	30,807
Tax in installments	15	13,295	15,623	13,295	15,623
Deferred income tax and social contribution tax payable	17	3,609	1,547	7,963	6,000
		202,401	194,471	236,755	228,924
Equity	18				
Capital		96,289	96,289	96,289	96,289
Legal reserve		2,403	-	2,403	-
Income reserve		-	37,525	-	37,525
Equity adjustments		54,249	56,252	54,249	56,252
Accumulated losses		-	(82,711)	-	(82,711)
		152,941	107,355	152,941	107,355
Noncontrolling interest		-	-	6,633	6,873
Total equity		152,941	107,355	159,574	114,228
Total liabilities and equity		519,021	429,436	560,008	470,763

See accompanying notes.

Carta Goiás Indústria e Comércio de Papéis S.A.

Income statements
Years ended December 31, 2015 and 2014
(In thousands of reais)

	Note	Company 2015	Company 2014	Consolidated 2015	Consolidated 2014
Net operating revenue	**19**	**542,523**	416,342	**542,523**	416,342
Cost of goods sold	**20**	**(326,879)**	(256,720)	**(326,879)**	(256,720)
Gross profit		**215,644**	159,622	**215,644**	159,622
Operating income (expenses)					
Selling and logistics expenses	**21**	**(97,343)**	(78,552)	**(97,343)**	(78,552)
General and administrative expenses	**22**	**(47,895)**	(40,509)	**(48,818)**	(41,874)
Equity pick-up	**8**	**(291)**	(675)	**-**	-
Other operating income, net	**23**	**24,854**	17.538	**25,147**	17,538
		(120,675)	(102,198)	**(121,014)**	(102,888)
Income before financial income (expenses) and income taxes		**94,969**	57,424	**94,630**	56,734
Financial income (expenses)					
Financial expenses	**24**	**(48,016)**	(32,543)	**(48,016)**	(32,544)
Financial income	**24**	**3,173**	2,196	**3,173**	2,196
		(44,843)	(30,347)	**(44,843)**	(30,348)
Income before income taxes		**50,126**	27,077	**49,787**	26,386
Income tax	**17**	**(1,514)**	7,104	**(1,441)**	7,201
Social contribution tax	**17**	**(547)**	2,546	**(521)**	2,582
Net income for the year		**48,065**	36,727	**47,825**	36,169

See accompanying notes.

Carta Goiás Indústria e Comércio de Papéis S.A.

Statements of comprehensive income
Years ended December 31, 2015 and 2014
(In thousands of reais)

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Net income for the year	**48,065**	36,727	**47,825**	36,169
Other comprehensive income not reclassified to income in subsequent periods				
Realization of revaluation reserves and deemed cost	**(3,035)**	(10,029)	**(3,103)**	(10,420)
Taxes on realization of revaluation reserve and deemed cost	**1,032**	3,410	**1,055**	3,543
Total comprehensive income for the year	**46,062**	30,108	**45,776**	29,292

See accompanying notes.

Carta Goiás Indústria e Comércio de Papéis S.A.

Statements of changes in equity
Years ended December 31, 2015 and 2014
(In thousands of reais)

	Capital	Revaluation reserve	Equity adjustment	Legal reserve	Reserve for grants	Accumulated losses	Equity attributed to controlling shareholders	Noncontrolling interest	Total equity
Balances at December 31, 2013	96,289	3,394	62,167	-	9,945	(98,477)	73,318	4,741	78,059
Indirect allocation of deemed cost	-	-	(2,690)	-	-	-	(2,690)	2,690	-
Realization of deemed cost and revaluation reserve, net of taxes	-	(3,394)	(3,225)	-	-	6,619	-	-	-
Net income for the year	-	-	-	-	-	36,727	36,727	(558)	36,169
Allocation reserve for grants C	-	-	-	-	27,580	(27,580)	-	-	-
Balances at December 31, 2014	96,289	-	56,252	-	37,525	(82,711)	107,355	6,873	114,228
Realization of equity adjustments, net of taxes	-	-	(2,003)	-	-	2,003	-	-	-
Absorption of accumulated losses with reserve for grants from prior years	-	-	-	-	(37,525)	37,525	-	-	-
Net income for the year	-	-	-	-	-	48,065	48,065	(240)	47,825
Setup of legal reserve	-	-	-	2,403	-	(2,403)	-	-	-
Allocation of reserve for grants (Note 18.b)	-	-	-	-	39,886	(39,886)	-	-	-
Absorption of accumulated losses with grants reserve from the year (Note 18.b)	-	-	-	-	(39,886)	39,886	-	-	-
Proposed dividends (Note 18.d)	-	-	-	-	-	(2,479)	(2,479)	-	(2,479)
Balances at December 31, 2015	96,289	-	54,249	2,403	-	-	152,941	6,633	159,574

See accompanying notes.

Carta Goiás Indústria e Comércio de Papéis S.A.

Cash flow statements
Years ended December 31, 2015 and 2014
(In thousands of reais)

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Cash flows from operating activities				
Income for the year before income tax and social contribution tax	**50,126**	27,076	**49,787**	26,386
Adjustments to reconcile P&L to cash provided by operating activities				
Allowance for doubtful accounts	**815**	559	**815**	559
Provision for contingencies	**(12,826)**	(8,898)	**(12,826)**	(8,898)
Depreciation	**20,108**	26,340	**21,032**	27,705
Loss on write-off of property, plant and equipment	**-**	179	**-**	179
Unrealized interest, commissions and exchange gain (loss) on loans	**4,409**	3,072	**4,409**	3,072
Unrealized derivative transaction losses	**82**		**82**	
Equity pickup	**291**	675	**-**	-
	63,005	49,003	**63,299**	49,003
(Increase) decrease in assets and increase (decrease) in liabilities				
Trade accounts receivable	**(19,722)**	(26,211)	**(19,722)**	(26,211)
Inventories	**(4,862)**	(3,781)	**(4,862)**	(3,781)
Advances granted	**(5,144)**	3,766	**(5,144)**	3,766
Taxes recoverable	**(18,100)**	(16,235)	**(18,100)**	(16,235)
Other current assets	**233**	(1,228)	**233**	(1,228)
Judicial deposits	**1,042**	(2,592)	**1,042**	(2,592)
Trade accounts payable	**43,827**	(1,081)	**43,827**	(1,081)
Taxes and contributions payable	**(2,903)**	522	**(2,903)**	522
Labor and social security liabilities	**1,265**	4,398	**1,265**	4,398
Receivables from customers	**543**	4,668	**543**	4,668
Tax in installments	**(3,497)**	(1,698)	**(3,497)**	(1,698)
Other liabilities	**(182)**	-	**(182)**	-
Cash and cash equivalents from operating activities	**55,505**	9,531	**55,799**	9,531
Cash and cash equivalents flows from investing activities				
Receivable – investment/Tax Incentive Program *Fomentar* – Goiás State	**(1,033)**	1,179	**(1,033)**	1,179
Acquisition of PP&E items, net	**(16,413)**	(9,143)	**(16,414)**	(9,145)
Short-term investments	**(3,650)**	-	**(3,650)**	-
Net cash and cash equivalents used in investing activities	**(21,096)**	(7,964)	**(21,097)**	(7,966)
Cash and cash equivalents flows from financing activities				
Loans and financing raised	**149,447**	105,698	**149,447**	105,698
Loans and financing settled – principal	**(126,043)**	(89,806)	**(126,043)**	(89,806)
Loans and financing settled – interest and foreign exchange difference	**(33,686)**	(15,009)	**(33,686)**	(15,009)
Net cash and cash equivalents from (used in) financing activities	**(10,282)**	883	**(10,282)**	883
Net increase in cash and cash equivalents	**24,127**	2,450	**24,420**	2,448
Cash and cash equivalents at beginning of year	**3,814**	1,364	**3,817**	1,369
Cash and cash equivalents at end of year	**27,941**	3,814	**28,237**	3,817
Non-cash transactions:				
Acquisition of PP&E item through financing	**20,057**	43,507	**20,057**	43,507

See accompanying notes.

1. Operations

a) Operations of Company and subsidiary

Carta Goiás Indústria e Comércio de Papéis S.A. (“Carta Goiás” or “Company”) was organized on March 3, 2000 and is mainly engaged in the manufacturing, selling, distribution and transportation of paper products, cardboard, toilet paper, paper napkin, paper towel, tissue, disposable diaper, sanitary napkin and toiletries.

Carta Goiás has plants in Anápolis – Goiás State, and São Gonçalo – Rio de Janeiro State, as well as branches in Olinda – Pernambuco State, and Salvador – Bahia State.

In 2015, the Company consolidated its position in the production of tissue paper in Brazil, by using the full production capacity of its assets, especially Paper Machine 5, located in Anápolis and operating since May 2014. In addition, the processes for acquisition of a new paper conversion line and a new and modern machine to manufacture diapers were completed. These equipments were received between December 2015 and February 2016, and became operational in Anápolis, in February and March, 2016, respectively.

In addition, Carta Goiás owns the controlling interest of Carta Industrial Produtos de Higiene e Limpeza S.A. (“Carta Industrial”), holding 54.73% interest in its capital.

Carta Industrial has industrial equipment in Anápolis, Goiás State, and land in Aracruz, Espírito Santo State. This land is intended to the development of the project for expansion of the Company’s production capacity, called Aracruz Project. See Note 10.

b) Financial position

At December 31, 2015, the Company recorded net working capital of R$32,817 (Consolidated – working capital surplus of R$33,113), reverting the net working capital deficit of R$5,647 (Consolidated – working capital deficit of R$5,644) recorded at December 31, 2014.

1. Operations (Continued)

b) Financial position (Continued)

This surplus at December 31, 2015 is the result of the continuing improvement of the Company capital structure, combined with operating efficiency measures. From September to December 2015, major credit transactions that helped improve the Company indebtedness were completed. The main transactions, such as new loans and agreements, totaled R$131,400 and mature within up to 60 months, with up to 12-month grace period for principal. The funds raised were used to settle short-term transactions and to set up an important working capital reserve, which will enable Carta Goiás to conduct its business with tranquility. In addition, the Company's current financial position gives it a solid base for its strategic planning for the next years, especially as regards new investments in production, resulting in increase in its market share.

Management is implementing several actions to further improve the Company's financial and economic situation, such as: (i) taking out of credit transactions with longer terms and grace period for principal; (ii) better operating efficiency and increase in productivity; and (iii) review and diversification of product lines, such as the introduction of the wet tissue line *Looping* in the Company portfolio, in June 2015.

2. Presentation and preparation of individual and consolidated financial statements

a) Going concern

Management evaluated the Company's ability to continue as going concern and is convinced that the Company has resources to continue as a going concern in the future. Additionally, management has no knowledge of any material uncertainty that may raise significant doubts as to its ability to continue as a going concern. Therefore, the individual and consolidated financial statements were prepared based on the going concern principle.

2. Presentation and preparation of individual and consolidated financial statements (Continued)

b) Statement of compliance

The financial statements were prepared in accordance with accounting practices adopted in Brazil, which comprise the standards provided for in the Brazilian Corporation Law and the Pronouncements, Guidance and Interpretations issued by the Brazilian Financial Accounting Standards Board (CPC).

The main accounting policies applied in the preparation of these financial statements are defined in Note 3. These policies have been consistently applied in the reported years.

The completion of these consolidated financial statements preparation was authorized by the Company management on March 24, 2016.

c) Consolidation criteria

The consolidated financial statements include the financial statements of Carta Goiás and Carta Industrial, both controlled by the same shareholders.

All intercompany transactions, balances, revenues and expenses are fully eliminated in the individual and consolidated financial statements.

The year coincides for all companies included in the individual and consolidated financial statements, as well as the accounting policies adopted for their financial statements.

d) Functional and reporting currency

The transactions and balances in the Company's individual and consolidated financial statements are presented in Brazilian Reais, the main currency of the economic environment where the Company operates ("functional currency").

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction or valuation dates, when the items are remeasured. Exchange gains and losses stemming from the settlement of these transactions and translation at the exchange rate at year-end, referring to monetary assets and liabilities in foreign currency, are recognized in the income statement as exchange gains or losses.

3. Significant accounting policies

The significant accounting policies used to prepare the individual and consolidated financial statements are described below.

a) Cash and cash equivalents

Cash, banks and cash equivalents include cash, bank checking accounts and high-liquidity investments incurring low risk of fluctuation in market value, that are kept for the purpose of meeting the Company's short-term commitments. For an asset to be qualified as cash equivalent, it needs to be readily convertible into a known amount of cash and should be subject to insignificant risk of changes in value. Accordingly, an investment normally qualifies as cash equivalent when it is redeemable in the short term, for instance, within three months or less as from the investment date. These investments are valued at cost plus interest up to the balance sheet date and marked to market, and their earnings or loss are recorded in P&L for the year.

b) Financial instruments – initial recognition and subsequent measurement

Financial assets are initially classified as financial assets at fair value through profit or loss, loans and receivables, investments held to maturity, financial assets available for sale or derivatives classified as effective hedging instruments, as applicable. Financial assets are recognized initially at fair value plus, in the case of financial assets not recognized at fair value through profit or loss, transaction costs directly attributable to their acquisition.

When the Company is unable to trade these financial assets as a consequence of market inactivity, and management's intention of selling them in the near future changes significantly, the Company has the option to reclassify these financial assets in certain circumstances. This evaluation does not affect any financial assets at fair value through profit or loss using the fair value option upon presentation.

The main financial assets recognized by the Company are cash and cash equivalents and trade accounts receivable.

3. Significant accounting policies (Continued)

b) Financial instruments – initial recognition and subsequent measurement (Continued)

Financial liabilities are classified among the categories below, according to the nature of the financial instruments taken out or issued:

i. Financial liabilities measured at fair value through profit or loss include derivatives. They are measured at fair value at each balance sheet closing date. Interest, monetary restatement, foreign exchange gains or losses and differences arising from fair value measurement, where applicable, are recognized in the income statement. Derivatives taken out to hedge currency and interest rate (swap) risks are recognized at fair value against P&L, in accordance with the criteria described in Note 9.

ii. Other financial liabilities: correspond mainly to trade accounts payable and loans. After initial recognition, loans and financing subject to interest are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the income statement when liabilities are derecognized, and over the amortization process by using the effective interest rate method.

iii. Derecognition (write-off): A financial liability is derecognized when the obligation is discharged, cancelled or expires. When an existing financial liability is replaced with another of the same lender under substantially different terms, or the terms of an existing liability are significantly changed, such replacement or change is treated as a derecognition of the original liability and recognition of a new one, and the difference in the corresponding book values is recognized in the income statement.

The main financial liabilities recognized by the Company are trade accounts payable and loans and financing.

3. Significant accounting policies (Continued)

c) Trade accounts receivable

Trade accounts receivable correspond to trade accounts receivable for sale of goods in the ordinary course of the Company's business. If the collection period is equivalent to one year or less, the accounts receivable are classified in current assets. Otherwise, they are stated as noncurrent assets.

Trade accounts receivable are initially recognized at present value, less allowance for doubtful accounts. The allowance for doubtful accounts is set up when there is an objective evidence that the Company will not be able to collect all the amounts owed to it in conformity with the original accounts receivable terms, and is analyzed individually. The value of the allowance is the difference between the book value and the recoverable amount.

d) Inventories

Inventories are stated at the lower of cost or net realizable value. The cost is determined by using the average cost method.

The historical costs are computed based on the average cost method and include all the expenses incurred to take the inventories to their current location and condition. They include import duties, freight and logistics costs, and any other costs attributable to acquisition.

The net realizable value is the estimated selling price in the ordinary course of business, minus any estimated cost to complete and to sell the goods. Imports in transit are stated at accumulated cost of each import.

The provisions for inventories, where applicable, are set up based on slow-moving and obsolete inventory items, or items that are not expected to be realized.

3. Significant accounting policies (Continued)

e) Property, plant and equipment

PP&E items are recorded at acquisition, formation or construction cost, and adjusted to the deemed cost due to the adoption of CPC 27 – Property, plant and equipment, less accumulated depreciation and adjustments to their recoverable value, where applicable. The depreciation or amortization is calculated by the straight-line method, based on the rates below.

Gains and losses in disposals are determined by comparing the value of disposal with book value, and are recognized in “Other operating income (expenses), net” in the income statement.

Repair and maintenance expenses are allocated to income or loss over the period they are incurred. The cost of major renovations is included in the asset's carrying amount, when it is likely that future economic rewards exceeding the initially measured performance standard for the existing asset will flow to the Company. Major renovations are depreciated over the remaining useful life of the related asset.

Land is not depreciated. The depreciation of other assets is calculated using the straight-line method to allocate their costs to their net book value throughout their estimated useful life, as follows:

	Annual average depreciation rate %
Buildings	3
Construction work	5
Facilities	5
Machinery and equipment	6
Vehicles	10
IT equipment	4

The net book value and the useful life of assets are reviewed and adjusted, where appropriate, at each year-end.

3. Significant accounting policies (Continued)

f) Impairment of non-financial assets

The assets subject to depreciation are tested for impairment whenever events or chances in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized at the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

In estimating the value in use of an asset, estimated future cash flows are discounted to present value, using a pre-tax discount rate that reflects the weighted average cost of capital (WACC) for the industry in which the cash-generating unit operates. The net selling price is determined considering, whenever possible, firm sale contracts on an arm's length basis, between knowledgeable, willing parties, adjusted by costs to sell the asset, or, in the absence of a firm sale contract, based on the observable market price in an active market, or on the price of the most recent transaction involving similar assets.

Non-financial assets that suffered impairment are reviewed subsequently for a possible reversal of impairment at the reporting date.

g) Trade accounts payable

Trade accounts payable are obligations payable for goods or services acquired from suppliers in the ordinary course of business, and are classified as current liabilities if payment is due within one year or less. Accounts payable are otherwise stated as noncurrent liabilities. They are actually recognized at the corresponding billing amount (fair value).

h) Judicial deposits

Judicial deposits are monetarily restated and recorded in noncurrent assets.

3. Significant accounting policies (Continued)

i) Loans

Loans taken out are initially recognized at fair value when funds are received, net of transaction costs. They are subsequently stated at amortized cost, i.e. plus charges and interest proportional to the period incurred (on a “pro rate temporis” basis). Any difference between the funds raised (net of transaction costs) and the total amount repayable is recognized in the income statement over the period the loans remain outstanding, using the effective interest rate method.

If the settlement period is one year or less, loans are classified under current liabilities. Otherwise, they are stated as noncurrent liabilities.

j) Government grants

Government grants are recognized when there is reasonable certainty that the benefit will be received and that all the related conditions will be met.

When the benefit refers to an expense item, it is systematically recognized as revenue over the grant period in relation to the costs that the benefit intends to offset. When the benefit refers to an asset, it is recognized as deferred revenue and allocated to income or loss at equal amounts over the expected useful life of the corresponding item.

k) Provisions

Provisions for contingencies (labor, civil, social security and tax) are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of funds will be required to settle the obligation and a reliable estimate of the amount can be made.

3. Significant accounting policies (Continued)

k) Provisions (Continued)

The Company is party to various legal and administrative proceedings. The provision for contingencies is set up for legal claims for which an outflow of funds will probably be required to settle the contingency and a reliable estimate can be made. Assessment of the likelihood of loss includes analysis of available evidence, the hierarchy of laws, available case law, the most recent court rulings and their relevance to the legal system, as well as the opinion of external legal advisors. Provisions are reviewed and adjusted considering changes in existing circumstances, such as the applicable statutes of limitation, tax audit conclusions, or additional exposures identified based on new matters or court rulings.

Provisions are measured at the present value of the expenditures 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 obligation due to passage of time is recognized as a financial expense.

l) Income and social contribution taxes and other taxes

Sales revenues are subject to the State Value-Added Tax (ICMS), Federal Value-Added Tax (IPI), Contribution Tax on Gross Revenue for Social Integration Program (PIS), and Contribution Tax on Gross Revenue for Social Security Financing (COFINS), at statutory rates, and the respective amounts are stated as sales deductions in the income statement.

3. Significant accounting policies (Continued)

l) Income and social contribution taxes and other taxes (Continued)

Current tax assets and liabilities for the last and prior years are measured at the estimated amount recoverable from or payable to tax authorities. Income and social contribution taxes are calculated based on income or loss for the year, adjusted by the additions and exclusions provided for by the effective tax legislation.

Deferred income and social contribution tax assets are recognized on income and social contribution tax losses and temporary differences between the tax base of assets and liabilities and their carrying values. Deferred income and social contribution tax assets are recognized only to the extent that future taxable income is likely to be available, against which temporary differences may be used.

Deferred tax liabilities refer to (i) tax on equity adjustment of assets at deemed cost conducted in 2010, which is realized in income or loss proportionally to the depreciation of the asset adjusted at deemed cost; (ii) taxable temporary differences arising mainly from the recording of depreciation of assets calculated at rates that differ from those estimated by tax authorities, as provided for by the effective tax legislation.

Deferred tax assets and liabilities are stated net if there is a legal or contractual right to offset tax assets against tax liabilities and the deferred taxes are related to the same taxable entity and subject to the same tax authority. Consequently, management presented a deferred income and social contribution tax asset balance net of liabilities balance.

3. **Significant accounting policies** (Continued)

m) Revenue recognition

Revenue is recognized to the extent that economic benefits are likely to flow to the Company and as long as such revenue may be fairly measured:

i. Interest income

Interest income is recognized by the straight-line method based on time and effective interest rate on the outstanding principal, and the effective interest rate discounting exactly estimated future cash flow receipts over the financial asset estimated life vis-à-vis the initial net book value of this asset.

ii. Revenue from sale of products and goods

Revenue from sale of products and goods is recognized in the income statement when all the risks and rewards of ownership of the product are transferred to buyer; the amount of revenue can be reliably measured; and it is probable that future economic benefits will flow to the Company. Revenue is not recognized if there is a significant uncertainty as to its realization.

Revenue comprises the fair value of the consideration received or receivable for selling products and goods over the ordinary course of the Company activities. Revenue is stated net of taxes, returns, rebates and discounts. Net revenue also includes revenue from ICMS grants (Note 18.b).

(In thousands of reais)

3. Significant accounting policies (Continued)

n) Accounting judgment, estimates and assumptions

The preparation of financial statements in accordance with accounting practices adopted in Brazil require that management uses judgment, estimates and assumptions that affect the amounts of revenues, expenses, assets and liabilities reported in the financial statements and the related notes. Significant items subject to these estimates and assumptions include the economic useful life and the net book value of the PP&E items, allowance for doubtful accounts, provision for contingencies, impairment of assets and fair value of financial instruments. The use of estimates and judgments is complex and takes into consideration several assumptions and projections; consequently, the settlement of transactions may result in amounts other than the estimated amounts. The Company reviews its estimates and assumptions on an annual basis.

o) New pronouncements and interpretations

In 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers, applicable to annual periods beginning on or after January 1, 2018. IFRS 15 (still without the corresponding CPC) provides revenue recognition principles based on a five-step model to be applied to all contracts with customers and introduces new required disclosures. The Company management is analyzing the impacts of these amendments on its financial statements.

4. Cash and cash equivalents and restricted short-term investments

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Cash and banks	**12,822**	3,814	**13,118**	3,817
Cash equivalents	**15,119**	-	**15,119**	-
	27,941	3,814	**28,237**	3,817

(In thousands of reais)

4. Cash and cash equivalents and restricted short-term investments (Continued)

	Company		Consolidated	
	2015	2014	2015	2014
Restricted short-term investments	3,650	-	3,650	-
	3,650	-	3,650	-

The cash equivalents balance primarily includes short-term investments in prime banks, redeemable within 90 days, and subject to yield of 100% of the Interbank Deposit Certificate (CDI) variation.

Restricted short-term investments collateralize loans taken out for working capital purposes, with yield of 98% of CDI variation.

5. Trade accounts receivable

	Company and Consolidated	
	2015	2014
Falling due	**70,925**	53,373
Overdue		
1 to 30 days	**1,688**	1,043
31 to 60 days	**379**	165
61 to 90 days	**290**	121
91 to 180 days	**612**	285
Over 180 days	**1,232**	1,986
(-) Allowance for doubtful accounts	**(1,232)**	(1,986)
Trade notes receivable	**73,894**	54,987

A part of trade notes receivable were offered as collateral of loans and financing taken out from banks. At December 31, 2015, such collaterals totaled R$62,066 (R$40,076 at December 31, 2014).

Management set up an allowance for doubtful accounts based on an analysis of overdue balances, in order to identify those balances that are unlikely to be received, and an allowance is set up for receivables whose realization is not expected.

(In thousands of reais)

5. Trade accounts receivable (Continued)

Changes in allowance for doubtful accounts are as follows:

Changes in ADA	Company and Consolidated 2015	2014
Balance at beginning of year	**(1,986)**	(1,427)
Setting up of allowance	**(815)**	(559)
Amounts written-off as unrecoverable	**1,569**	-
Balance at the end of year	**(1,232)**	(1,986)

6. Inventories

	Company and Consolidated 2015	2014
Finished products	**10,295**	9,513
Work-in-process	**5,201**	2,314
Raw materials	**8,288**	6,569
Packaging	**3,402**	4,286
Maintenance and supply materials	**6,531**	6,173
	33,717	28,855

(In thousands of reais)

7. Taxes recoverable

	Company and Consolidated	
	2015	**2014**
IPI (a)	**6,970**	7,467
PIS (b)	**7,084**	3,899
COFINS (b)	**24,410**	13,845
Income and social contribution taxes (IRPJ and CSLL) (c)	**4,622**	2,612
ICMS Goiás – Revenue Procedure 1208/2015 (d)	**1,024**	-
Other	**2,004**	191
	46,114	28,014

(a) The IPI balance refers to tax credit taken out in the purchase of raw materials abroad. Balances have been used to offset other federal taxes.

(b) PIS and COFINS credits were implemented by the Provisional Executive Order No. 609, of March 8, 2013, which reduces to zero the tax rates levied on revenue from sales in the domestic market of goods included in the basket of food staples. Currently, the Company has been using the balances to offset federal taxes. In addition, these amounts are being refunded to the Brazilian IRS and the amounts generated more than one year ago are expected to be refunded in 2016. The refunded amounts will be used firstly to settle federal tax installments early, in accordance with the effective legislation.

(c) IRPJ and CSLL refer to prepayments to be offset with taxes payable in the subsequent year.

(d) Prepayments made under Revenue Procedure No. 1208/2015 until February 2016, to be offset with future payments, under the terms to be defined by Goiás State.

8. Investments

a) Significant information on investees

The ownership interest in Carta Industrial is recorded under the equity method and the Company shareholding structure is as follows:

	2015	**2014**
Direct interest	**54.73%**	54.73%
Equity	**14,651**	15,182
Loss for the year	**(531)**	(1,233)
Total assets	**49,005**	49,635

The capital of Carta Industrial is composed of 12,077,220 common shares.

(In thousands of reais)

8. Investments (Continued)

b) Changes in investments

	2015	2014
Balance at beginning of year	**8,309**	8,984
Equity pickup	**(291)**	(675)
Balance at end of year	**8,018**	8,309

c) Summary of balance sheets and income statements

The summaries of financial statements of companies included in the consolidated financial statements and the amounts adjusted in the consolidation process at December 31, 2015 and December 31, 2014 are as follows:

	December 31, 2015				
	Carta Goiás	Carta Industrial	Total	Eliminations	Consolidated financial statements
Balance sheets					
Assets					
Current assets	196,496	296	196,792	-	196,792
Noncurrent assets					
Investments	8,018	-	8,018	(8,018)	-
Other	1,907	-	1,907	-	1,907
Property, plant and equipment	312,600	48,709	361,309	-	361,309
Total assets	519,021	49,005	568,026	(8,018)	560,008
Liabilities and equity					
Current liabilities	163,679	-	163,679	-	163,679
Noncurrent liabilities					
Loans and financing	153,298	-	153,298	-	153,298
Deferred tax liabilities	3,609	4,354	7,963	-	7,963
Other	45,494	30,000	75,494	-	75,494
Equity					
Capital	96,289	12,077	108,366	(12,077)	96,289
Legal reserve	2,403	-	2,403	-	2,403
Equity adjustments	54,249	8,453	62,702	(8,453)	54,249
Accumulated losses	-	(5,879)	(5,879)	5,879	-
Noncontrolling interests	-	-	-	6,633	6,633
Total liabilities and equity	519,021	49,005	568,026	(8,018)	560,008
Income statements					
Net operating revenue	542,523	-	542,523	-	542,523
Cost	(326,879)	-	(326,879)	-	(326,879)
Operating expenses, net	(120,675)	(630)	(121,305)	291	(121,014)
Financial income (expenses)	(44,843)	-	(44,843)	-	(44,843)
Income and social contribution taxes (IRPJ and CSL)	(2,061)	99	(1,962)	-	(1,962)
Net income (loss) for the year	48,065	(531)	47,534	291	47,825

(In thousands of reais)

8. **Investments** (Continued)

c) Summary of balance sheets and income statements (Continued)

	December 31, 2014				
	Carta Goiás	**Carta Industrial**	**Total**	**Eliminations**	**Consolidated financial statements**
Balance sheets					
Assets					
Current assets	121,963	3	121,966	-	121,966
Noncurrent assets					
Investments	8,309	-	8,309	(8,309)	-
Other	2,925	-	2,925	-	2,925
Property, plant and equipment	296,239	49,633	345,872	-	345,872
Total assets	429,436	49,635	479,071	(8,309)	470,763
Liabilities and equity					
Current liabilities	127,610	-	127,610	-	127,610
Noncurrent liabilities					
Loans and financing	135,969	-	135,969	-	135,969
Deferred tax liabilities	1,547	4,453	6,000	-	6,000
Other	56,955	30,000	86,955	-	86,955
Equity					
Capital	96,289	12,077	108,366	(12,077)	96,289
Grant reserves	37,525	-	37,525	-	37,525
Equity adjustments	56,252	8,644	64,896	(8,644)	56,252
Accumulated losses	(82,711)	(5,539)	(88,250)	5,539	(82,711)
Noncontrolling interest	-	-	-	6,873	6,873
Total liabilities and equity	429,436	49,635	479,071	(8,309)	470,763
Statements of income					
Net operating revenue	416,342	-	416,342	-	416,342
Cost	(256,720)	-	(256,720)	-	(256,720)
Operating expenses, net	(102,198)	(1,365)	(103,563)	675	(102,888)
Financial income (expenses)	(30,347)	(1)	(30,348)	-	(30,348)
IRPJ and CSL	9,650	133	9,783	-	9,783
Net income (loss) for the year	36,727	(1,233)	35,494	675	36,169

9. Derivative financial instruments

a) Policies, objectives and hedge accounting

The Company maintains derivative financial instruments managed through the definition of strategies and risk monitoring.

The derivative instruments taken out by the Company are intended to hedge its transactions against the risks of fluctuations in foreign exchange rates in certain loans in foreign currency, and are not used for speculative purposes.

9. Derivative financial instruments (Continued)

a) Policies, objectives and hedge accounting (Continued)

Derivatives are initially recognized at fair value on the date when a derivative agreement is entered into, and are subsequently remeasured at fair value through profit or loss at the end of each period.

The Company formally assigned the transactions subject to hedge accounting to derivative financial instruments, in order to hedge loans denominated in foreign currency, documenting:

- Hedge relationship.
- The Company's risk management objective and strategy in contracting the hedge transaction.
- Identification of financial instrument.
- Hedging object or transaction.
- Nature of the hedged risk.
- Description of hedge relationship.
- Prospective statement of the hedge effectiveness.

The expected effectiveness is higher than the one defined in the hedge accounting standard (80% and 125%), since the initial flows are 100% hedged by swap in the total amounts, maturities and terms of the hedged object. Fair value changes in any of these derivative instruments are immediately recognized in the income statement under "Financial income (expenses)".

The Company applies the Marked-to-Market (MtM) method to measure the market value of its instruments. MtM consists of computing future amounts based on the agreed-upon conditions and determining the present value base on market curves extracted from the São Paulo Securities, Commodities & Futures Exchange (BM&FBOVESPA).

The Company decided to set up a fair value hedge for the above-described object, for certain long-term financing agreements, in order to hedge currency risk and denominate the transaction in Reais (R$), at the interest rates applied in the domestic market.

The hedging instrument chosen is a derivative transaction, through currency and interest rate swap. Swaps were taken out at the same amounts of the hedged loans and with maturities identical to those of financing agreements.

(In thousands of reais)

9. Derivative financial instruments (Continued)

b) Hedging transactions portfolio

Derivative financial instruments were taken out from prime financial institutions in Brazil.

At December 31, 2015, the derivatives portfolio can be summarized by the tables below.

(i) *Contracts subject to hedge accounting – Company and Consolidated:*

Hedged item	Counterparty of principal	Notional value 2015
Exchange rate and change of index	Banco Citibank	**17,500**
Exchange rate and change of index	Banco Citibank	**3,500**
		21,000

The above-described swap transactions are pegged to hedged financing agreements and mature on a quarterly basis, their final due date falling between August and November 2020.

(ii) *Short-term contracts (Finimp) not subject to hedge accounting – Company and Consolidated:*

Hedged item	Counterparty of principal	Notional value 2015
Exchange rate and change of index	Banco Citibank	3,693
Exchange rate and change of index	Banco Citibank	1,553
		5,246

Swap transactions referring to Finimp contracts have final maturity linked to the respective import financing agreements between July and August 2016, with one single maturity date.

(In thousands of reais)

9. Derivative financial instruments (Continued)

c) Breakdown of derivative transactions at December 31, 2015

(i) *Contracts subject to hedge accounting – Company and Consolidated:*

	Notional value	Fair value	Instrument yield curve	Gains/ (losses) in P&L
Long position				
Foreign currency	21,000	22,486	21,232	1,718
Short position				
Index - CDI	(21,000)	(24,054)	(21,208)	(3,262)
Total	-	(1,568)	24	(1,544)
Financing subject to hedge accounting	21,000	22,486		1,486
Net effect on P&L				(58)

Derivative transactions' gains and losses are recognized in the income statement, considering the fair value of these instruments and the yield curve variation.

The provision for unrealized gains and/or losses is recognized in the "Derivative financial instruments" account, under Assets or Current liabilities, in the balance sheet, as the case may be, having "Financial income (expenses)" as a matching entry.

Changes in the financing fair value are recognized under "Loans and financing", having "Financial income (expenses)" as a matching entry.

(In thousands of reais)

9. Derivative financial instruments (Continued)

c) Breakdown of derivative transactions at December 31, 2015 (Continued)

(ii) *Short-term agreements not subject to hedge accounting – Finimp – Company and Consolidated:*

	Notional value	Fair value
Long position		
Foreign currency	**5,246**	**5,677**
Short position		
Index - CDI	**(5,246)**	**(5,567)**
Total	**-**	**110**

Derivative transactions' gains and losses are recognized in the income statement, considering the fair value of these instruments.

10. Property, plant and equipment

	Company			
	12/31/2015			12/31/2014
Description	Cost	Accumulated depreciation	Net	Net
Land	**17,719**	**-**	**17,719**	12,326
Buildings	**55,654**	**(9,389)**	**46,265**	45,786
Building facilities	**17,461**	**(5,221)**	**12,240**	10,318
Construction work	**9,457**	**(2,904)**	**6,553**	5,967
Machinery and equipment	**310,788**	**(121,670)**	**189,118**	193,355
Furniture and fixtures	**1,583**	**(698)**	**885**	817
IT equipment	**3,081**	**(579)**	**2,502**	1,601
Vehicles	**29,071**	**(9,552)**	**19,519**	15,568
Other	**56**	**-**	**56**	51
Construction in progress	**17,743**	**-**	**17,743**	10,450
	462,613	**(150,013)**	**312,600**	296,239

(In thousands of reais)

10. Property, plant and equipment (Continued)

	Consolidated			
	2015			2014
Description	Cost	Accumulated depreciation	Net	Net
Land	**47,719**	**-**	**47,719**	42,326
Buildings	**66,246**	**(10,530)**	**55,716**	55,426
Building facilities	**17,461**	**(5,221)**	**12,240**	10,318
Construction work	**9,457**	**(2,904)**	**6,553**	5,967
Machinery and equipment	**329,842**	**(131,465)**	**198,377**	203,347
Furniture and fixtures	**1,583**	**(698)**	**885**	817
IT equipment	**3,081**	**(579)**	**2,502**	1,601
Vehicles	**29,071**	**(9,552)**	**19,519**	15,568
Other	**56**	**-**	**56**	51
Construction in progress	**17,742**	**-**	**17,742**	10,451
	522,258	**(160,949)**	**361,309**	345,872

On November 23, 2012, Carta Industrial received a government grant from Aracruz Municipality, through the donation of a 550,000 square-meter plot of land, where a new plant will be built. Based on the assessment reports prepared by specialists, the fair value of this asset was set at R$30,000. According to the Brazilian accounting standards – CPC 07 *Government Grants and Assistance* – this land was recorded under property, plant and equipment against a deferred revenue. The realization of this deferred revenue is contingent on the beginning of operation of the new machine.

In August 2014, the subsidiary obtained the Local Installation Permit and is currently obtaining additional permits to prepare the area for the referred to project development. In addition, in October 2014, Carta Industrial signed the INVEST-ES 352/2014 Agreement, which guarantees ICMS tax incentives to the company for the implementation and operation of Aracruz Project. In 2015, the cleaning works in the 550,000 square-meter plot of land began, with removal of vegetation and preparation of the area.

	Company	
Changes in PP&E	2015	2014
Balance at beginning of year	**296,239**	270,106
Additions	**36,562**	53,291
Depreciation	**(20,108)**	(26,340)
Write-offs	**(93)**	(818)
Balance at end of year	**312,600**	296,239

(In thousands of reais)

10. Property, plant and equipment (Continued)

Changes in PP&E	Consolidated 2015	2014
Balance at beginning of year	**345,872**	321,104
Additions	**36,562**	53,291
Depreciation	**(21,032)**	(27,705)
Write-offs	**(93)**	(818)
Balance at end of year	**361,309**	345,872

Part of the PP&E items were offered as collateral for bank loans and financing, as described in Note 12.

11. Trade accounts payable

	Consolidated 2015	2014
Trade accounts payable – domestic	**71,431**	24,004
Trade accounts payable - foreign	**3,268**	10,743
	74,699	34,747

The balances in foreign currency usually refer to import financing (Finimp), in which case they are transferred to Loans and financing. At December 31, 2015, trade accounts payable – foreign total approximately US$840 thousand (US$4,040 thousand at December 31, 2014).

(In thousands of reais)

12. Loans and financing

	2015	Company and Consolidated	
	Weighted average interest rate	2015	2014
Loans for working capital	CDI + 5.65% p.a.	**146,086**	121,298
FINAME	6.07% p.a.	**49,414**	54,383
FINIMP	USD exchange difference + 5.89% p.a.	**17,284**	16,560
Related parties (a)	-	**-**	3,515
Other	CDI + 2.30% p.a.	**717**	3,481
		213,501	199,237
Current installments		**60,203**	63,268
Noncurrent installments		**153,298**	135,969

At December 31, 2015, the balances of loans in foreign currency are broken down as follows:

	US$ thousand	Euro thousand
Working capital (Note 9)	**5,426**	**-**
Loans and financing - FINIMP	**4,198**	**202**
	9,624	**202**

(a) See Note 25.

Changes in loans	Company and Consolidated 2015	2014
Balance at beginning of year	**199,237**	151,775
Loan raising	**141,515**	131,365
Interest and foreign exchange difference	**32,478**	20,912
Amortizations – principal	**(126,043)**	(89,806)
Amortizations – interest, exchange difference and commissions	**(33,686)**	(15,009)
Balance at end of year	**213,501**	199,237

(In thousands of reais)

12. Loans and financing (Continued)

At December 31, 2015 and 2014, the aging list of noncurrent balances is as follows:

Year	2015	2014
2016	**-**	78,616
2017	**50,908**	33,482
2018	**45,313**	15,708
2019	**32,575**	4,095
2020	**22,067**	1,543
2021	**1,453**	1,543
2022 onwards	**982**	982
	153,298	135,969

Guarantees

The main guarantees granted by the Company refer to first mortgage of certain assets located in the Rio de Janeiro and Goiás plants, for the total amount of R$77,917; machinery and equipment located in the respective plants, for R$119,863; restricted short-term investments in the amount of R$3,650 (see Note 4); in addition to trade notes receivable from customers in the amount of R$62,066 (see Note 5).

Financial covenants

Some working capital transactions are subject to certain covenants, such as limits to new debts, payments to shareholders, and presentation of audited financial statements within previously agreed-upon terms.

Non-compliance with these covenants could cause the transactions relating to working capital transactions to mature earlier.

Management monitors the compliance with such covenants, as well as with other obligations relating to working capital transactions, and understands that they are fully complied with.

(In thousands of reais)

13. Taxes, charges and contributions

	Company and Consolidated	
	2015	**2014**
ICMS – normal and tax substitution regime	**2,600**	1,767
IRPJ and CSLL	**31**	238
Service Tax (ISS)	**366**	423
PIS, COFINS and CSLL – third parties	**761**	915
Withholding Income Tax (IRRF) on salaries and management fees	**573**	3,630
IRRF - third parties	**241**	314
Social Security Tax (INSS) – third parties	**859**	1,047
	5,431	8,334

14. Labor and social security obligations

	Company and Consolidated	
	2015	**2014**
INSS payable	**2,215**	2,444
Unemployment Compensation Fund (FGTS) payable	**466**	404
Accrual for vacation pay and social charges	**5,691**	4,360
Other	**584**	483
	8,956	7,691

15. Taxes payable in installments

	Company and Consolidated	
	2015	**2014**
PIS/COFINS	**13,205**	13,670
INSS	**3,436**	6,382
ICMS	**112**	157
Other	**78**	119
	16,831	20,328
Current	**3,536**	4,705
Noncurrent	**13,295**	15,623

(In thousands of reais)

15. Taxes payable in installments (Continued)

At December 31, 2015, the aging list of noncurrent balances is as follows:

Year	Company and Consolidated
2017	**2,561**
2018	**1,698**
2019	**1,549**
2020	**1,549**
2021 onwards	**5,938**
	13,295

16. Contingencies

The Company is a party to lawsuits and administrative proceedings filed with courts and governmental agencies, arising in the ordinary course of its business, involving tax, labor and civil claims and other matters.

Following their legal counsels' opinion, the Company analyzes unsettled lawsuits and, based on its experience referring to amounts claimed by plaintiffs, it sets up a provision in an amount deemed sufficient to cover estimated losses incurred from such ongoing lawsuits.

According to the analysis made by management and its outside legal advisors, probable contingencies and contingencies for which a provision was set up are as follows:

	Company and Consolidated	
	2015	**2014**
Labor and social security	**11,557**	12,222
Tax	**6,242**	18,585
	17,799	30,807

(In thousands of reais)

16. Contingencies (Continued)

Changes in contingencies are summarized below:

	Company and Consolidated		
	Labor and social security	Tax	Total
Balance at December 31, 2013	13,456	26,249	39,705
Additions and restatement	1,614	3,531	5,145
Reversals	(2,848)	(11,195)	(14,043)
Balance at December 31, 2014	12,222	18,585	30,807
Additions and restatement	2,400	653	3,053
Reversals	(2,883)	(12,996)	(15,879)
Payments	(182)	-	(182)
Balance at December 31, 2015	11,557	6,242	17,799

In 2015, the Company reviewed the likelihood of loss in tax claims and, based on the opinion of its legal advisors, reversed the balance of certain provisions set up in prior years, in the amount of R$7,208, since it considers that the current case law favors the Company and, consequently, the likelihood of loss is no longer probable. Tax contingencies reversed in 2014, in the amount of R$11,195, and other reversals made in 2015, in the amount of R$5,788, refer to contingency installments expired in the respective years.

Management believes that the provisions set up are sufficient to cover any losses deemed probable.

Nonetheless, the Company is still exposed to labor claims, and its operations are likely to be inspected by governmental authorities (labor, pension/social security or tax). Such claims and inspections may result in eventual fines and additional payment of social contribution tax or other taxes, during statute barring periods, according to the applicable law. However, management does not anticipate losses due to future labor claims or reviews by the above-mentioned governmental authorities, in addition to those already subject to provision.

(In thousands of reais)

16. Contingencies (Continued)

In addition, the Company is a party to civil, labor and tax claims involving possible risk of loss, and for which no provision for contingencies was set up. These contingencies are broken down as follows:

Type	Company and Consolidated 2015	2014
Tax contingencies	**7,949**	33
Civil contingencies	**1,276**	406
Labor contingencies	**1,463**	1,162
	10,688	1,601

Tax contingencies classified as possible loss mainly refer to ICMS-related tax assessments notices that are currently under discussion at the administrative level. The amounts above include fines, interest and monetary restatement.

17. Income tax and social contribution tax

a) Deferred income and social contribution taxes – assets and liabilities

Based on the expectation of future taxable income, the Company recognized tax credits on income and social contribution tax losses and temporary differences. The book value of deferred tax assets and liabilities are reviewed on an annual basis by the Company for the purpose of maintaining such assets and liabilities at the estimated realizable value.

Deferred income and social contribution taxes are broken down as follows:

	Company		Consolidated	
	2015	2014	2015	2014
Deferred tax assets				
IRPJ and CSLL on carryforward tax losses	**21,971**	19,209	**21,972**	19,209
IRPJ and CSLL on deductible temporary differences	**8,084**	9,270	**8,084**	9,270
Subtotal - deferred tax assets	**30,055**	28,479	**30,055**	28,479
Tax liabilities				
IRPJ and CSLL on equity adjustment	**(27,806)**	(29,104)	**(32,160)**	(33,557)
IRPJ and CSLL on taxable temporary differences	**(5,858)**	(922)	**(5,858)**	(922)
Subtotal - deferred tax liabilities	**(33,664)**	(30,026)	**(38,019)**	(34,479)
Deferred income tax and social contribution tax, net (Note 17.b)	**(3,609)**	(1,547)	**(7,963)**	(6,000)

(In thousands of reais)

17. Income tax and social contribution tax (Continued)

b) Changes in deferred taxes

Changes in deferred taxes are stated below, on a net basis:

	Company			
	Carryfoward tax losses	**Temporary differences**	**Equity adjustment**	**Total**
Balance at December 31, 2014	**19,209**	**8,348**	**(29,104)**	**(1,547)**
Income and social contribution tax losses for the year	**2,763**	**-**	**-**	**2,763**
Reversal of provisions for contingencies	**-**	**(3,125)**	**-**	**(3,125)**
Depreciation rate differences	**-**	**(4,192)**	**-**	**(4,192)**
Other additions and exclusions, net	**-**	**1,194**	**-**	**1,194**
Realization of equity adjustment	**-**	**-**	**1,298**	**1,298**
Balance at December 31, 2015	**21,972**	**2,225**	**(27,806)**	**(3,609)**

	Consolidated			
	Carryfoward tax losses	**Temporary differences**	**Equity adjustment**	**Total**
Balance at December 31, 2014	**19,209**	**8,348**	**(33,557)**	**(6,000)**
Income and social contribution tax losses for the year	**2,763**	**-**	**-**	**2,763**
Reversal of provisions for contingencies	**-**	**(3,125)**	**-**	**(3,125)**
Depreciation rate differences	**-**	**(4,192)**	**-**	**(4,192)**
Other additions and exclusions, net	**-**	**1,194**	**-**	**1,194**
Realization of equity adjustment	**-**	**-**	**1,397**	**1,397**
Balance at December 31, 2015	**21,972**	**2,225**	**(32,160)**	**(7,963)**

c) Reconciliation of income and social contribution tax income (expenses):

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Net income before income and social contribution taxes	**50,126**	27,077	**49,787**	26,386
Statutory tax rate	**34%**	34%	**34%**	34%
Income and social contribution taxes at statutory rate	**(17,043)**	(9,206)	**(16,928)**	(8,971)
Deferred income tax assets from prior years recognized in the year	**-**	9,697	**-**	9,697
Reversal of non-deductible portion of contingencies – fines	**1,387**	-	**1,387**	-
Equity pickup	**(99)**	230		
Tax benefits and grants	**13,561**	9,377	**13,561**	9,377
Other non-deductible expenses	**133**	(448)	**17**	(320)
Income tax and social contribution tax income (expenses)	**(2,061)**	9,650	**(1,962)**	9,783

(In thousands of reais)

18. Equity

a) Capital

The Company capital is broken down as follows:

Shareholder	Number of common shares 2015	Number of common shares 2014	Value 2015	Value 2014
Carta Fabril S.A.	**96,289,235**	96,289,235	**96,289**	96,289

b) Grant reserve

i) On November 7, 2000, the State of Goiás, through its Finance Department, and Carta Goiás Indústria e Comércio de Papel Ltda. entered into an agreement relating to a special regime for the use of benefits of the Participation Fund to Promote the Industrialization of the State of Goiás (FOMENTAR), which provides for ICMS paid on 30% of the amount payable. From the remaining 70%, a part is recognized as Revenue from grants for the month the tax is paid, and another part is recognized in Current liabilities, under Tax incentives, for later settlement through FOMENTAR bids promoted by the Goiás State Government. At December 31, 2015, the benefit unused balance is R$55,734, which can be used until 2040 (R$59,836 at December 31, 2014).

ii) Through Decree no. 39853, of September 5, 2006, the Rio de Janeiro State approved the inclusion of Carta Goiás in the Incentive Program for the Recycling Industry Companies, created by Law No. 4178/2003 (“Reciclario”). This benefit expires in 10 years and the Company is currently renewing it at the Rio de Janeiro State relevant bodies. The benefit is expected to be renewed for the same period of time.

iii) The incentives computed for the year ended December 31, 2015, in the amount of R$39,886 (R$16,069 for FOMENTAR and R$23,817 for RECICLARIO), were recorded as revenue in the income statement and, at the end of the period, they were transferred from Retained earnings (accumulated losses) to Income reserve from grants in Carta Goiás. The reserve balances at December 31, 2015 were used to absorb accumulated losses, as provided for by articles 189 and 195-A of Law No. 6404/76.

(In thousands of reais)

18. **Equity** (Continued)

c) Equity adjustment

On January 1, 2010, by virtue of the adoption of new accounting standards in Brazil, especially Technical Interpretation 10 ("ICPC 10"), the Company decided to remeasure certain PP&E items at their deemed cost on the transition date, and the matching entry was recorded in the Equity adjustment account.

d) Minimum mandatory dividends

The Company's articles of incorporation sets forth a minimum dividend of 25%, calculated on the annual net income and adjusted as provided for by article 202 of Law No. 6404/76. Minimum mandatory dividends are recognized as a liability at year-end.

In December 2015, the Company management proposed distribution of net income as follows:

	2015
Net income for the year	**48,065**
Legal reserve – 5%	**(2,403)**
Adjusted net income – Art. 202, Law No. 6404/76	**45,662**
Absorption of accumulated losses with income for the year:	
Grant reserve portion generated in the year	**(39,886)**
Remaining balance of accumulated losses for the year	**(3,297)**
Minimum mandatory dividend, under the articles of incorporation	**2,479**
Proposed dividends	**2,479**
Percentage of dividends on adjusted net income	**5.4%**

19. Net operating revenue

	Company and Consolidated	
	2015	**2014**
Gross operating revenue		
Sale of products and goods	**615,026**	473,932
Deductions from gross revenue:		
Taxes on sales	**(99,790)**	(72,369)
Revenue from grants (Note 18.b)	**39,886**	27,580
Returns and rebates	**(12,599)**	(12,801)
	542,523	416,342

(In thousands of reais)

20. Cost of goods sold

	Company and Consolidated	
	2015	**2014**
Raw material	**(170,654)**	(109,470)
Packaging material	**(34,409)**	(31,946)
Personnel and charges	**(39,096)**	(39,739)
Electric power	**(22,604)**	(13,075)
Gas	**(15,415)**	(11,261)
Depreciation	**(16,764)**	(24,201)
Cost of goods sold	**(2,031)**	-
Other costs	**(25,906)**	(27,028)
	(326,879)	(256,720)

21. Selling and logistics expenses

	Company and Consolidated	
	2015	**2014**
Personnel and charges	**(22,380)**	(15,807)
Commissions paid to representatives	**(11,988)**	(6,785)
Third-party services	**(3,333)**	(1,749)
Funds and bonus	**(32,553)**	(25,231)
Freight	**(17,272)**	(17,540)
Maintenance, toll fee, fuel and insurance	**(5,844)**	(7,698)
Other travel expenses	**(2,359)**	(2,625)
Other	**(1,614)**	(1,117)
	(97,343)	(78,552)

(In thousands of reais)

22. General and administrative expenses

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Depreciation	**(3,344)**	(2,139)	**(4,268)**	(3,504)
Personnel and charges	**(22,903)**	(15,338)	**(22,903)**	(15,338)
Promotions	**(8,381)**	(7,126)	**(8,381)**	(7,126)
Occupation	**(1,258)**	(799)	**(1,258)**	(799)
Marketing	**(1,202)**	(1,711)	**(1,202)**	(1,711)
Communications	**(983)**	(1,382)	**(983)**	(1,382)
Professional services	**(3,382)**	(5,284)	**(3,382)**	(5,284)
Freight	**(17)**	(13)	**(17)**	(13)
Maintenance material	**(36)**	(35)	**(36)**	(35)
Utilities	**(119)**	(72)	**(119)**	(72)
Travel	**(436)**	(325)	**(436)**	(325)
Vehicles	**(168)**	(207)	**(168)**	(207)
Labor and tax contingencies	**(2,823)**	(3,142)	**(2,823)**	(3,143)
Other	**(2,843)**	(2,936)	**(2,842)**	(2,936)
	(47,895)	(40,509)	**(48,818)**	(41,874)

23. Other operating income, net

	Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Reversal of provision for contingencies, net of additions	**16,013**	13,796	**16,013**	13,796
Sale of electric power	**874**	1,330	**874**	1,330
Sale of scrap	**650**	713	**650**	713
Insurance indemnification	**-**	448	**-**	448
Recovery of expenses	**6,552**	-	**6,552**	-
Other income (expenses)	**765**	1,252	**1,058**	1,252
	24,854	17,538	**25,147**	17,538

(In thousands of reais)

24. Financial income (expenses)

	Consolidated	
	2015	**2014**
Interest and trade notes discount	**(7,258)**	(6,140)
Discounts	**(249)**	(174)
Bank fees	**(2,787)**	(2,263)
Financial charges	**(23,682)**	(16,608)
Exchange gains (losses)	**(6,225)**	(3,326)
Taxes on financial transactions	**(807)**	(1,218)
Interest and fines on payment in installments	**(1,585)**	(2,035)
Fair-value adjustment loss (Note 9)	**(1,568)**	-
Other	**(3,855)**	(779)
Total financial expenses	**(48,016)**	(32,543)
Exchange gains (losses)	**376**	1,022
Interest	**575**	394
Discounts	**173**	312
Earnings from short-term investments	**537**	21
Fair-value adjustment gain (Note 9)	**1,510**	-
Other	**2**	447
Total financial income	**3,173**	2,196
Financial income (expenses), net	**(44,843)**	(30,347)

25. Related parties

a) Intercompany loans

At December 31, 2014, the balances of related-party transactions were represented by loans totaling R$3,515. In 2015, a new loan of R$2,990 was granted, but it was settled over the year together with the existing balances at December 31, 2014. Interest paid in 2015 amounted to R$1,517.

25. Related parties (Continued)

b) Key management personnel compensation

The Company considers the statutory chief executive officer, the statutory deputy chief executive officer, and the vice presidents as its key management personnel. The amount recorded in P&L for the year, referring to total key management personnel compensation, including bonus, was the following:

	2015
Management fees – statutory executive officers	**8,145**
Compensation of vice presidents	**6,198**

26. Risk management

The Company's risk management consists of permanent monitoring of the agreed-upon conditions versus effective market conditions and future expectations.

The main financial assets recognized by the Company are cash and cash equivalents and accounts receivable, while the main financial liabilities recognized are trade accounts payable and loans and financing.

Accordingly, the estimates presented do not necessarily reflect the current market values. The use of different market hypotheses and/or methodologies may have a significant effect on estimated realizable values.

Fair value of financial assets and liabilities is included in the value for which the instrument could be exchanged in a current transaction between willing parties, rather than in a forced sale or settlement.

The fair values of cash and cash equivalents, trade accounts receivable, trade accounts payable and loans and financing approximate their respective carrying amounts largely due to the short-term maturity of these instruments. Loans and financing are initially recognized at fair value plus directly related transaction cost. After initial recognition, loans are subsequently measured at amortized cost, by using the effective interest rate method.

26. Risk management (Continued)

The Company is exposed to market risk, credit risk and liquidity risk, which are monitored by management. The significant market risks that affect the Company business can be summarized as follows:

Market risk

Market risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate due to market price changes. In the Company’s case, market prices comprise two main risks: (i) interest rate risk; and (ii) currency risk.

Interest rate risk

The Company is exposed to the risk of shift in the structure of interest rates, which could be associated with the payment flows of principal and debt interest rates that are currently backed by CDI and Libor. The Company analyzes its exposure to interest rate by following changes in the market. Considering the maintenance of cash equivalents position pegged to CDI, customer financing positions at amounts equivalent to credit facilities taken out to fund these transactions and pegged to the same rates, Management understands that the Company’s P&L sensitivity to fluctuations in market interest rates is low.

Currency risk

Currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in exchange rates. The Company's exposure to currency risk refers mainly to its operating activities (inputs acquired at amounts pegged to or denominated in a currency other than its functional currency), as well as loans and financing.

The associated risk arises from the possibility of the Company incurring losses due to exchange rate fluctuations that decrease the amounts billed or increase funds raised in the marketplace.

The Company takes out derivative financial instruments to hedge currency risks of loans and financing, as described in Note 9.

26. Risk management (Continued)

Credit risk

Credit risk is the risk that a counterparty of a business will fail to comply with an obligation under a financial instrument or agreement with the customer, leading to a financial loss. The Company is exposed to credit risk in its operating activities (particularly with respect to accounts receivable), including deposits in banks and financial institutions.

Accounts receivable

Credid risk arises from the possibility of the Company incurring losses as a result of default of counterparties or of depository or investment financial institutions. This risk factor could arise from selling transactions and cash management.

In order to mitigate these risks, management analyzes the financial position of its counterparties, and monitors outstanding positions permanently.

The Company's sales policy considers the credit risk level to which it is willing to be exposed in the ordinary course of its business, as well as diversification of its receivables portfolio, its customer selection, and monitoring of sales financing terms and individual credit limits. Such procedures are adopted in order to mitigate any default issues in its accounts receivable. Management considers that the credit risk is substantially covered by the allowance for doubtful accounts, which contemplates 100% of receivables overdue for over 180 days (Note 5).

Deposits in banks and financial institutions

In relation to short-term investments and other investments, the Company's policy is to work with prime financial institutions. In addition, all the Company's transactions are diluted in several financial institutions, which mitigates its risks.

(In thousands of reais)

26. Risk management (Continued)

Liquidity risk

Management monitors the Company's liquidity level on a daily basis, considering cash flows expected against the amount available in cash and cash equivalents. The liquidity risk management implies the Company's capacity to maintain an appropriate level of cash that is sufficient to settle short-term market positions.

Management has been restructuring the debt currently recorded in the financial statements, and as has been seeking additional funds to expand the Company's business. On the date these consolidated financial statements were issued, the Company had already obtained funds and credit facilities from prime financial institutions, allowing it to extend its debt maturity profile and improve its operating cash flow. Management continues to take the actions planned to obtain the funds required to continue the Company's business expansion.

27. Financial instruments

The main financial assets are classified by category as follows:

	2015			2014		
	Financial assets at fair value through profit or loss (a)	**Receivables**	**Total**	**Financial assets at fair value through profit or loss (a)**	**Receivables**	**Total**
Cash and cash equivalents	**28,237**	**-**	**28,237**	3,817	-	3,817
Restricted short-term investments	**3,650**	**-**	**3,650**	-	-	-
Accounts receivable from third parties	**-**	**73,894**	**73,894**	-	54,987	54,987
Derivative financial instruments	**-**	**24**	**24**	-	-	-
	31,887	**73,918**	**105,805**	3,817	54,987	58,804

(a) Company and consolidated, except for cash and cash equivalents balance, in which Company recorded balances of R$27,941 and R$3,814 at December 31, 2015 and 2014, respectively.

In 2015 and 2014, the Company did not record investments held to maturity or financial assets available for sale. The fair value of receivables does not significantly differ from book balances, since their monetary restatement is consistent with market rates.

(In thousands of reais)

27. Financial instruments (Continued)

The Company recorded derivative transactions for the year ended December 31, 2015, as described in Note 9.

The Company's main financial liabilities are classified and measured at amortized cost, as follows:

Financial liabilities	2015	2014
Trade accounts payable	**74,699**	34,747
Loans and financing	**213,501**	199,237
	288,200	233,984

28. Insurance coverage

The Company's policy is to take out insurance coverage for its assets subject to risks. The insurance policies effective at December 31, 2015 for plants cover the global amount of R$188,000.

The insured amounts (maximum guarantee limits) at December 31, 2015, are broken down as follows:

	12/31/2015
Basic – fire, lightning, explosion	**150,000**
Windstorm and smoke	**5,000**
Goods, raw material	**20,000**
Breakage of machinery	**10,000**
Electrical damages	**2,000**
Leaking from tanks and pipes	**1,000**
	188,000

The Company considers that its insurance coverage is consistent with that of other companies of same size and operating in the same industry.

The scope of our auditors' work does not include reviewing and issuing an opinion on the sufficiency of the insurance coverage, which was determined and assessed by the Company's management.